Title:
Annuity Basics

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485

Summary:
Annuities can be very good things for some of us and a disaster for those of us who have not been made aware of the pitfalls and traps that in turn can easily befall them.

Keywords:
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Article Body:
Annuities can be very good things for some of us and a disaster for those of us who have not been made aware of the pitfalls and traps that in turn can easily befall them.
Since most people have or are going to look into annuities as a retirement or and an investment vehicle, make sure it fits into today's needs and parameters. It has to be right for the times we are in and it needs to be periodically revaluated for tomorrow's world.

Precautions to be taken when buying annuities:

1. One should not Buy Annuities With Long Surrender Periods:

People are talked into buying an annuity that locks up their money for an excessive period of time with a surrender period that is longer than another comparable annuity with similar interest rates.

2. Do not fall for First Year Bonus Interest Rates:

Some annuity companies offer you a 'bonus' or 'bonus interest rate' on your first year deposit into an annuity.

3. Understand exclusion rations and the value of a partial 1035 exchange.

This is a rather complicated subject because there are enormous variables in determining how to properly structure your annuity contract from day one so as to maximize the taxable exclusion ratios when and if you decide to take an annuitization income from your annuities in the future.

4. Do not use small companies with questionable financial ratings

An annuity by definition is a contract guaranteed by an insurance company. Annuity consumers sometimes forget this and buy and annuity without factoring the claims paying ability of the insuring company. This does not only apply to the questions of solvency or bankruptcy but to the more subtle effect it might have ones contract. If an annuity company has financial trouble it most likely will not go bankrupt (even though it is a possibility) because of the various government regulatory groups that monitor annuity companies. But what can happen is the annuity company will lower the rates at which it credits interest to your account in order to make up its losses in other areas of its business.

5. Know the guaranteed cover per person per insurance company

One needs to know if an insurance company goes broke what is the guaranteed cover per person per insurance company is available .One should not invest more than that in the fixed or guaranteed annuities and the variable annuities are not covered. Because if they broke then one may get stuck or spread the amount between different insurance companies.

6. Consider the shortest penalty free surrender date

The next thing you have to consider is getting the shortest possible penalty free surrender date term as possible so long as the interest rate is better than any CD.

Lastly and most importantly get the best professional help, one who will always tell you "like it is" even if its sometimes hard to listen too and even harder sometimes to act upon.