

**Title:**

Annuities for Retirees: What to Consider Before You Invest

**Word Count:**

718

**Summary:**

Investments called annuities are similar to traditional Individual Retirement Accounts and employer-sponsored 401(k) plans in that your money can grow tax-deferred until you withdraw it from your account. However, annuities are complex products and are not appropriate for everyone near or in retirement. Here's an overview, including things to consider and questions to ask before you invest.

**Keywords:**

annuity, annuities, sales, representative, sales representative, investment, payments, securities, variable, income

**Article Body:**

Annuities can be purchased directly from an insurance company or from other financial institutions (including banks) that act on behalf of the insurance company. In exchange for your investment, the insurer agrees to make periodic payments for a set time period. It's important to remember that some annuities may lose value. These products are not insured by the FDIC or the FDIC-insured bank or savings institution that may offer them.

There are different types of annuities. A "fixed annuity" provides a fixed payment, often monthly, until the investor dies. It typically guarantees no loss of principal (the amount invested). A "variable annuity" also guarantees payment for a set period, but the payment amounts will fluctuate based on the market performance of the investment option you choose. With a variable annuity, you also risk losing principal as well as earnings, although some variable annuities guarantee the return of your initial investment for an additional fee.

If the income payments are deferred to some later date, the annuity is typically described as a "deferred annuity." If the payments begin immediately and continue for life, the annuity may be referred to as an "immediate life annuity."

On the plus side, annuities provide another investment option if you've reached your contribution limit on your other retirement accounts, such as 401(k) plans. And, at retirement, the guaranteed payments can provide extra income. But, as

with any investment, be aware of the potential pitfalls and make an informed decision.

Know the key features and costs of the product and make sure they fit your needs. Read the literature to understand the most important facts and risks, including the potential for loss, if any.

"A sales representative who talks to you about purchasing an annuity is required by federal law to ask you questions about your investment goals, current finances and future retirement plans," said Kara Ritchie, an FDIC Policy Analyst who specializes in consumer issues. "If the representative doesn't discuss whether the product is suitable for your needs and goals, take your business elsewhere."

Experts generally say that annuities with guaranteed principal and income are more suitable for older investors than annuities that may, through market performance, lose value. The latter include variable-rate, deferred-payment annuities and equity-indexed annuities (those tied to the stock market), which might not make sense for many investors close to or in retirement.

Also, before you sign a contract, make sure you understand the cost of getting your money back early. Many investors with variable annuities are surprised to learn that they must pay hefty "surrender charges" if they try to withdraw money early, cancel their contract, or replace an existing annuity with a new one.

Deal only with a competent, reputable sales representative. Most annuity sales representatives are trained professionals. However, there have been reports of sales representatives who have been poorly informed or have used false or misleading tactics to sell annuities. How can you improve your chances of getting good advice?

Work with a sales representative licensed by your state government's insurance regulator. If the sales representative offers variable annuities, he or she also must be licensed to sell securities. For information on whether a sales representative is properly licensed or has a history of disciplinary problems, contact your state securities regulator and the National Association of Securities Dealers, a self-regulatory group for the securities industry.

"Annuities are generally sold on a commission basis, so it's important to find a sales representative who puts your interests ahead of his or her own," added Ritchie.

Proceed carefully before replacing an existing annuity with a new one. A sales

representative may suggest investing in a new annuity paying a higher return or replacing a deferred annuity with an immediate life annuity to provide monthly income now instead of later. These actions may make sense for some people. However, it can be expensive to change annuities. Make sure you consider the contract terms as well as early withdrawal penalties and other charges prior to making a change.

What if, soon after purchasing an annuity, you have "buyer's remorse" or find another annuity with better terms? Your annuity may have a "free look" period during which you can cancel without penalty. If yours doesn't and you still want to cancel, determine all the surrender charges and penalties and proceed with caution.