EDITION 1 - **FRAUD**

NAFA®

National Association for Fixed Annuities

Securing the Future!

FACTS ABOUT ANNUITIES

Consumer Education Series

How Can I Protect Against Fraud When Buying a Fixed Annuity?

Fixed annuities are wonderful financial products designed to provide consumers with a reliable way to accumulate and use their retirement savings on a tax-deferred basis with guarantees to help protect them against various risks. Every day, fixed annuities offered by financially solid insurance companies are sold by reputable insurance agents, investment advisors, and securities brokers to consumers who will benefit from their annuity purchases.

But from the Bernie Madoff scandal, we learned that not everyone can be trusted and those that are not trustworthy are capable of duping and victimizing well-meaning and intelligent people.

It is fairly easy for consumers to take a few simple steps to protect themselves and ensure that they are not being scammed and the annuity they purchase is suitable for their financial needs. Please consider the following tips to ensure your financial well-being.

How Fixed Annuities Work

A fixed annuity is a contract with an insurance company that a consumer purchases with a sum of money. The insurance company credits interest to the contract value and provides options for the customer to receive cash from the contract. A particular strength of annuities is that they can provide for customers to receive payments that can be guaranteed to last as long as they live.

Annuities differ in four key ways:

1. **How many premiums you pay –** The money you use to purchase a contract is call the "premium," and annuities can accept a single premium or a series of ongoing premiums.
2. **When the company makes payments to you –** Payments can start immediately or be deferred to some future date you choose.
3. **How the money in the annuity earns additional interest –** By declaring a rate in advance or by crediting interest to your policy based on the positive performance of a market-based index such as the Standard & Poor's 500 index or the Dow Jones Industrial Average.

4. **Penalties associated with early withdrawals –** Although you can earn interest in an annuity, it is not a savings account. If you buy an annuity, it should be to reach long-term financial goals. All annuities have surrender charges (also known as withdrawal charges). These charges are meant to discourage you from ending the contract early and from taking out more money (withdrawals) than the contract allows.

The length of time that you will be subject to a surrender charge for withdrawals and the amount of the surrender charge varies depending on the annuity purchased. Most annuities offer you an option to access some portion of your money each annuity's value without paying a surrender charge. However, if you withdraw more than the penalty-free amount during the surrender charge period, you most likely will pay a surrender charge.

How Fixed Annuities are Purchased

With fixed annuities, customers make checks payable to insurance companies and receive periodic account statements from insurance companies. The agent or advisor who is proposing the annuity purchase is facilitating a transaction between the customer and the insurance company. Thanks to the availability of information on the internet, it is easy to check on the existence, location, regulatory license, and financial strength of the insurance company being discussed with you by the agent who is proposing the annuity purchase.

Fixed annuities are sold by individuals who must be licensed as insurance agents. As part of their business, they may also be registered investment advisors or registered representatives in a securities firm. For ease of discussion, we will simply refer to annuity salespeople as agents. Agents are typically paid commissions by the issuing insurance company for the annuity sales they make, thus agents do not charge you fees for the service they provide to you. Agents are compensated by the insurance company. This compensation (also called commission) is a part of the company's overall expenses. These expenses are built into the annuity's benefits and limitations - similar to many other services and products you routinely purchase. The full premium you pay is applied to your policy.

Tips Before You Purchase

When you meet with an agent or attend an educational seminar given by an agent, be on the lookout for a few warning signals. For example, there should be no sense of urgency around an annuity purchase. It is relatively unusual for there to be offers or specials with limited time availability in the annuity business. Also, your agents should not disparage insurers, regulators, or other agents, as the vast majority of people and entities that operate in the annuity business are reputable.

The annuity business is regulated by state governments, so your state of residence has a Department of Insurance. You can easily find its website via a search engine or on www.naic.org, the website of the National Association of Insurance Commissioners. Your agent must be licensed as an insurance agent, and on most state insurance department websites, you can verify that your agent is licensed. If you cannot do it online, call your state insurance department to verify your agent's license. Also every agent must be appointed by the insurance company whose product is recommended. NAFA suggests you also call the insurance company and ensure your agent is appropriately licensed and appointed by them.

If your agent also represents that he is a registered investment advisor or a registered representative of a securities firm, you can check his regulatory record by going to the FINRA BrokerCheck website at http://www.finra.org/Investors/ToolsCalculators/BrokerCheck/.

Also, don't be afraid to bring a trusted friend or family member when you meet with the agent. A friend or family member can often help spot issues or concerns that you may not have considered and help keep you from feeling pressured.

Tips When You Purchase

Check to make sure that the insurance company from which you are purchasing actually exists. You can often verify that an insurance company is licensed in your state from your state insurance department website, and you can find the company's own website online. Verify that the company's address matches the information on any forms you are signing.

Make sure that any check you write or authorization you sign is made out to the issuing insurance company and not to your agent or their agency. Keep a copy of any forms and paperwork that your agent or you have filled out or signed. For an extra level of protection, you can even mail your check and application paperwork yourself to the issuing insurance company.

You can also check on the financial strength of the insurance company in a couple of ways. Many insurance companies receive a financial strength rating from a ratings company such as A.M. Best, Standard & Poor's, Moody's, or Fitch. For example, you can find most companies' financial strength ratings on www.ambest.com. Also, many insurance companies have their stock publicly traded, and if so, you can find out information on the company by going to any major financial website, such as finance.yahoo.com.

Make sure the annuity that you are purchasing is suitable for you. That means you should understand how the annuity works and you should feel that it meets your needs. Because annuities are intended for your long-term financial needs, consider that most annuities have significant penalties for early withdrawals, and these penalties can last for a different number of years depending on the policy and issuing company. While most products allow for some access to your money early without penalty, make sure that you have other savings available if you develop a significant financial hardship. It is not advisable to have all of your money in an annuity. Consider also that while annuities have the advantage of tax deferral, they also have a penalty tax associated with any withdrawals that occur before age 59½. Thus, you want to make sure that you are extremely unlikely to need to withdraw any money you put in annuities before that age.

If a concern arises regarding any of the matters mentioned above, simply stop the purchase transaction. Remember what we mentioned earlier about having no sense of urgency.

Shortly after you purchase an annuity, you will receive an annuity contract from the issuing insurance company. In most cases, this will be delivered to you by your agent. If you feel you are not receiving it in a timely manner, don't hesitate to call the insurance company and ask about it. Once you receive the contract, you will have a period of at least ten days (and possibly longer) to examine the contract and, if you are dissatisfied, notify the agent and the issuing insurance company that you want a full refund.

How to Report a Suspected Scam

As we have mentioned, annuity sales are regulated by state insurance departments. The major goal of state insurance departments is to protect the public by ensuring that insurance companies remain solvent, that they deliver on their contractual guarantees, and that the sales process they use has integrity.

Regardless of whether or not the insurance company is actually located in your home state, your state's insurance department has jurisdiction over the carrier's activities in your state.

Thus, if you have any concern at all about the insurance company or your agent, you should not hesitate to contact your state insurance department to discuss your concerns.

For simple access to all of this helpful information and more, go to the following websites:

- Fixed Annuity Facts
  www.fixedannuityfacts.org
- FINRA's Broker Check
  www.finra.org/Investors/ToolsCalculators/BrokerCheck/
- The National Association of Insurance Commissioners
  www.naic.org/
- A.M. Best Company Ratings
  www.ambest.com/
- Standard & Poor's
  www.standardandpoors.com/SPComIPResolver
- Indexed Annuity Leadership Council
  www.indexedannuityinsights.org

The National Association for Fixed Annuities (NAFA) was created to promote the awareness and understanding of fixed annuities. It is the only independent, nonprofit organization dedicated exclusively to these unique products.

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