

Buying an Annuity

What to know



Consumers 1-800-686-1526 • Medicare 1-800-686-1578 • Fraud & Enforcement 1-800-686-1527

What is an annuity?

An annuity is an investment held by a life insurance company that allows the company to put your money in various investments, including stocks and bonds. Various types of annuities can provide you with income after you retire and/or to pay out to your designated beneficiaries if you die.

Does an annuity work like other investments, such as my retirement account?

No. An annuity works a little differently from other types of investments; annuity income payments are made to you, after a fixed number of years, at regular intervals in return for premiums you have paid. These income payments come from your contract with a life insurance company and are funded by principal (the premiums you pay) and earnings (which accumulate on the invested principal).

What should I know before buying an annuity?

- You are not taxed until you withdraw the money.
- The contract guarantees an income you can receive for life.
- You can often choose a lump sum payment instead of periodic payments.
- Your contract may allow you to borrow from the annuity.
- You may withdraw up to 10 percent of the account's value after you've held the annuity certificate for one year. Then you can make one withdrawal each year after that. If you withdraw more than 10 percent of the account's value, you may have to pay withdrawal charges.

Does an annuity provide life insurance?

No. Although annuity contracts are usually sold by life insurance companies, it is not life insurance. An annuity helps you accumulate money for future income needs, but will not necessarily make payments to your beneficiaries after you die.

Can I use an annuity to save for a car I'd like to buy in a couple of years?

It would not be wise to buy an annuity as a savings account or for any short-term purpose. Annuity income payments work best to fund your retirement.

If I decide to buy an annuity, how can I know which type best fits my needs?

Ask yourself and a licensed insurance agent these important questions:

- Does this annuity suit my overall financial plan?
- How much retirement income will I need in addition to my Social Security, pension, savings and any other income or investment sources?
- Will I need income for someone in addition to myself?
- How much can I afford to pay in premiums?

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- How long can I leave money in the annuity?
- When will I need to start receiving income payments?
- Will I have to pay surrender fees and penalties if I withdraw money from the annuity before it reaches maturity?
- Does the annuity suit my age and future income needs?
- Is my agent qualified and licensed in Ohio?

What other questions I should ask before buying an annuity?

Ask these questions:

- Do I pay my premium in a single lump sum or in installments?
- If I pay the premium in a lump sum, what could happen if I make other contributions to the annuity?
- Are any administrative charges deducted from my premium or contract value?
- How is the interest rate determined?
- Is there a guaranteed minimum interest rate?
- How long is the interest rate on the annuity guaranteed?
- How often does the company change the annuity interest rate?
- What is the company's history regarding renewal of my interest rate?
- Are there surrender charges or other penalties if I want to end the contract early?
- Can I get a partial withdrawal without paying fees or losing interest?
- Are charges waived for larger withdrawals if I am confined to a nursing home or diagnosed with a terminal illness?
- Is there a death benefit and how does it work?
- What are the options for benefit payments?

How can I avoid being “taken” by someone selling annuities?

If you decide an annuity is right for you, do the following:

- Carefully review the annuity with a trusted advisor or family member, or contact the Ohio Department of Insurance at **1-800-686-1526**.
- Remember, if it seems too good to be true, it probably is!
- Ask to see your agent's Ohio licensure certificate.
- Review the contract before buying an annuity.
- Compare information for similar contracts from several companies.
- Ask your agent and/or the company to explain anything you don't understand.
- Check with the Ohio Department of Insurance to verify that the company and agent are licensed in Ohio.
- Keep detailed records.

Report a violation, get information:

If you suspect you've been a victim of deceptive sales practices, please contact the Ohio Department of Insurance at **1-800-686-1527** with detailed information about the agent and product. Please call the Department at **1-800-686-1526** with any questions you may have about annuities.