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Seniors Investors Should be Wary of Annuity Sales Presentations

Have you ever returned to your car from your church or a shopping trip to find a flyer on your windshield advertising a free lunch and a free estate-planning seminar? The Alameda County District Attorney has learned that such tactics are used by annuity sales representatives to lure seniors into sales presentations. Once at the seminars, seniors are led to believe that their finances are a mess and the best way to promote economic independence is to purchase an annuity. The sales pitch is always for an annuity investment regardless of the economic concern of the individual investor. Why do these sales people recommend annuities? Most commissions on annuities range from 6-8%, so the sales representative who can convince a senior to move $50,000 from a bank certificate or individual retirement account into an annuity stands to earn $3,000 - $4,000. Not a bad commission for an afternoon's work, but is the investment in the best interest of the senior?

Annuities are complicated investment vehicles that can bear qualities of both insurance and securities products. Annuities can be structured as variable annuities, fixed annuities, deferred annuities, etc. A deferred annuity means that the invested money is not available to the investor for a fixed period of years without paying a hefty surrender penalty. Surrender penalties may be as high as 25% and the terms can run as long as 15 years. A few basic facts about annuities: higher fees associated with annuities frequently cancel out their tax advantages; most annuities lock in investors for years and annuities saddle heirs with higher taxes unlike mutual funds or most other investment vehicles. For these reasons, many investment experts say annuities are usually unsuitable for older investors.

The District Attorney has investigated cases where a retired investor purchased a 10 year fixed annuity basically locking up his retirement income until he was 85 years old. The sale of the annuity was not illegal per se, although it is difficult to understand how this investment made any sense for the consumer. To learn some common sense dos and don'ts about purchasing an annuity continue here ….

Seniors should consider the following tips before investing in an annuity:

Know what kind of annuity you are purchasing. Is it fixed, variable or deferred?

What is the term if you are purchasing a deferred annuity? Deferred annuities can run as long as 15 years. Know the length of the term before you buy otherwise you may pay a surrender fee that may cancel any earned income from your investment.

What is the surrender penalty? If the surrender penalty is relatively low and the term is not that long than a deferred annuity may make sense for affluent seniors who can afford to lock away part of their retirement income. On the other hand, for most seniors investing in a deferred term annuity may make no sense if they need ready access to their investment funds.

Beware of high-pressure sales tactics and seminars: Beware of “cold calls”, limited offerings, free gifts and free lunches. The District Attorney has learned that when seniors are invited to the free lunch seminars, the sales representatives will station spotters in the parking lot to take note of who arrives at the lunch driving expensive cars. Those people are marked as potential “clients” and frequently the sales representative will show up uninvited at their homes for a follow up consultation. Don’t invest your money with anyone who will not discuss the investment in front of other family members or your friends.

Don’t take out a reverse mortgage to finance an annuity: A reverse mortgage is basically a loan you take out against the equity you have accumulated in your home. The loan will have to be paid back with interest at the time the home is sold or by the estate of the borrower. The annuities value will never catch up to increased mortgage debt attributable to the reverse mortgage. If someone borrowed $100,000 with a reverse mortgage at 7.5% that person would owe $206,100 after ten years. It is very unlikely that an annuity would return $106,000 in profit over this same time period.

Don’t purchase an annuity based on the representation that it will protect your assets under Medi-Cal nursing home rules: Seniors are understandably fearful of ending up in a nursing home and losing the assets they have built up over a lifetime. Med-Cal pays the bills for hospital and skilled nursing home treatment for seniors. Medi-Cal will only seek reimbursement from funds that are considered non-exempt. Examples of exempt funds include: the equity in you house, retirement income and all your personal property. For the vast majority of California seniors, paying back Medi-Cal for long-term care will not be an issue.

Beware of scare tactics that appeal to your emotions: Annuity salespeople are trained to exploit your fears. To quote an instructor at a annuity training conference, “They thrive on fear, anger and greed … Show them their finances are all screwed up so that they think, ‘Oh no, I have done it all wrong.’ This will make you money.”

Get a second opinion: Do not make a significant financial investment without talking to different financial advisors and consulting with friends and family members you trust.

More information on the potential risk of investing in annuities can be found at the following websites. Note these websites discuss the downside of investing in annuities for seniors and is not meant to be a balanced or comprehensive. Proponents of annuities can also be found on the Internet.

http://www.fundpolice.com/annuity.asp
http://www.canhr.org/abuse/index.html
http://www.annuitytruth.org/