

Before Committing Money to an Annuity, Make Sure it Fits

DAN SERRA • Updated: October 2, 2007 at 12:00 am

Seniors across Colorado and the nation have learned the hard way that promises of guaranteed income can come with a painful price. They found themselves facing hefty penalties trying to get their money out of annuities pushed on them by aggressive sales agents.

The annuities subjected them to fees if they canceled during a period of as long as 15 years, despite buying them in their 70s or 80s. Critics and regulators argue that most seniors' life expectancies are shorter than the penalty periods, making the annuities unsuitable for seniors. Annuities allow investors to convert deposits or a lump sum of money into annual retirement income, likely for life. One company that got in trouble with Colorado regulators over these sales, as an example, was Allianz Life Insurance Co., an international financial powerhouse with U.S. headquarters in Minneapolis. It was ordered to refund more than \$2 million to Colorado annuity buyers after the state's Division of Insurance received almost 50 complaints from 2005 to March 2007. Regulators found 10 violations, including the company's having ambiguous or confusing wording in ads, not providing required disclosures and failing to maintain an adequate anti-fraud plan. The state alleged the company failed to detect and prevent fraud by some agents who didn't ensure an annuity was suitable for seniors. The state fined Allianz \$34,800 in addition to ordering the refunds. Federal regulators have hit the company with \$5 million in fines. Allianz denied allegations of duping seniors into buying unsuitable annuities. The insurer responded by saying last month that it will call new annuity customers 75 or older to review the contract and make sure they understand the terms. If a customer is not comfortable, Allianz will offer a refund. The company said it also intends to hire a "chief suitability officer" and require agents to participate in a "best practices" training program. "Our procedures exceed the requirements of any state's suitability law or regulation, and we believe it is a best practice in the industry," CEO Gary Bhojwani said in a news release. Annuity sales continue to grow nationwide, up 3 percent the first six months of this year, in part from salespeople hyping guarantees in times of volatile markets, said Craig Carnick, a certified financial planner with Carnick & Co. in Colorado Springs. The annuities can pay a guaranteed return of 3 percent to 12 percent according to movement of a stock index such as the S&P 500, Carnick said. "Any time you say 'guarantee,' people get excited," he said. That excitement for investors and the attraction of commissions often 10 percent or more for salespeople have helped annuity sales, he said. Carnick said problems erupt because both the salesperson and investor fail to understand the complexity of the annuity contract. "Salespeople are often ignorant more than deceptive," he said. "They're selling a product that sounds like an equity, and they have no idea what they are selling." The ease of getting an insurance license and lack of regulation such as for stock brokers and investment advisors fails to weed out poor or deceitful salespeople, he said. Often seniors glance over the risks, Carnick said, the biggest being the lack of flexibility. If a senior needs money, such as for an unexpected medical bill, and needs to cancel the annuity to get it, they can be subject to penalties of almost 10 percent or more of their balance from an early cancellation. Annuity buyers may also overlook the fees and how financially strong the company is. (If the company fails, the money is gone.) An alternative would be government bonds, high-grade corporate bonds or Certificates of Deposit, which don't have those risks and could have higher returns than annuity minimums, Carnick said.

CONTACT THE WRITER: dan.serra@gazette.com GET HELP If you feel you were sold an unsuitable annuity, file a complaint with the Colorado Division of Insurance online at www.dora.state.co.us/Insurance/consumer/consumer.htm or call 1-800-930-3745.

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