Addressing the Top Misconceptions About Annuities

You may encounter several myths and misunderstandings when having a conversation with your clients about retirement planning and annuities. This guide is to help you dispel some of the most common misconceptions in the marketplace and reveal the reality and advantages of these products.

MISCONCEPTION: Annuities are very complicated and difficult to understand.

Truth: While the mechanics behind annuity products have several moving parts, as a concept, annuities are pretty straightforward. In exchange for a payment of premium, an insurance company will provide a series of income payments.

An annuity can help provide financial protection against the risk of living too long and running out of money. Annuities offer protection of clients' principal, tax deferral, guaranteed lifetime income and estate advantages. You can be very valuable in helping with the understanding of the basics of an annuity and how it might be a good addition to your clients' retirement plan.

MISCONCEPTION: Annuities are not safe.

Truth: Since annuities are insurance products, they are backed by the financial strength and claims-paying ability of the issuing insurance carrier. With fixed annuities, there is no loss of principal due to market downturns and can be a solution that provides guaranteed credited interest and lifetime income.

As with any contract, it is important your clients abide by the terms of the contract. You will want to speak to each person about early withdrawals and how they may result in loss of principal and credited interest due to surrender charges. With the purchase of any additional-cost riders, the contract's values will be reduced by the cost of the rider. This may result in a loss of principal and interest in any year in which the contract does not earn interest or earns interest in an amount less than the rider charge.

MISCONCEPTION: Annuities are full of hidden charges

Truth: Fees associated with an annuity should never be hidden and are fully outlined in the contract. If the client chooses to add a rider to the policy, there is often a charge and it will be outlined in the contract as well. It's also important to explain to your clients about surrender charges if they choose to withdraw money beyond what the contract allows both in amount and time.

MISCONCEPTION: Fixed indexed annuities are investments

Truth: Fixed indexed annuities are insurance products which have the ability to guarantee an income stream throughout retirement. They are linked to a percentage change in an external index, but do not directly participate in any stock or equity investments. The interest credited, if any, is based on the crediting method chosen in association with the underlying index(es) during a certain timeframe.

MISCONCEPTION: Annuities lock up your money so you can't access it.

Truth: Annuities are designed to be long-term products, but do offer various ways for the client to access the money should something happen. It is important for clients to have access to other sources of liquid funds for daily expenses and emergencies, however, most annuities give a client access to at least a portion of the money each year. Some annuities may specify a commitment period before they can access the money from the annuity, but they can still withdraw money if needed, although certain fees and penalties may apply including surrender charges, income tax and potential tax penalties. Typically there is a charge for early withdrawals and some annuities may allow 10% or less of the account value to be withdrawn each year free of charge.

Keep in mind, the longer a client owns an annuity, the more time they give it the opportunity to earn credited interest. Many of today's annuities are even more flexible than those in the past and with proper consideration, can be a valuable part of your client's assets and retirement planning.

MISCONCEPTION: Annuities are not tax efficient.

Truth: In all types of annuities, earnings will compound on a tax-deferred basis until your client begins taking out money. That means they have the potential to build more retirement savings than they would have been able to if some of their earnings went toward income taxes every year. While IRAs and 401(k)s also offer tax deferral, contributions made to these usually have a yearly cap. Annuities commonly have no government-imposed annual contribution limit. Annuities are long-term, tax-deferred products and can be a valuable solution for clients looking to earn interest on their retirement savings while preparing for retirement income.

MISCONCEPTION: If you die while receiving income from your annuity, the insurance company keeps the rest of your money.

Truth: Many of today's annuities provide death benefits. For annuities that offer an immediate income stream, if you pass away before the full contract value is paid out, your clients' beneficiaries will receive any remaining principal in the account. A client may also have the option of purchasing riders at an additional cost that increase the death benefit of the annuity. It is important to understand each client's financial goals and set-up the annuity accordingly.

As a financial or insurance professional, an important part of your job is to help each client understand what annuities are and how they work, especially when there are misconceptions they may have heard and believe to be true. Many times people are fearful of something they do not understand and providing your clients with the knowledge and information they need, can allow you to work together to find the appropriate solution to help achieve their financial goals.

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