

H.E.L.P.

Shopping For Insurance

H.E.L.P. is working with two other non-profit service groups to provide consumers with even-handed information about shopping for health, Medicare supplemental and long-term care insurance. That effort has produced the following information items:

- Tips on Shopping for Insurance
- Information and Complaints
- Checking the Ratings

The effort has also produced what we believe to be a first-of-its-kind Pledge of Conduct for insurance professionals. We'd like your feedback on any of these efforts - e-mail us at: mail@help4srs.org

Tips on Shopping for Insurance	
DO	<ul style="list-style-type: none"> • Know that you are the customer. You can select the time, place and length of your meeting with an insurance professional. • Check the financial ratings of the insurance companies you are considering (see "Checking the Ratings" below). • Shop carefully; obtain comparables and take your time. • Obtain and review a summary plan description / outline of coverage. • Check references and experience of the professional. How many claims has the professional has handled? <i>Note:</i> some professionals represent multiple insurance companies, others represent only one. • Contact the California Department of Insurance to check the current status of the professional's license and complaint history. • Fully divulge your medical history and medications to the professional, and complete the application carefully.
DON'T	<ul style="list-style-type: none"> • Don't buy strictly on lowest premium cost. Terms of coverage and credit-worthiness of the insurance company are very important. • Don't replace an existing policy with another

	<p>unless: you can't afford the existing policy, or the existing policy no longer meets your needs, or the new policy improves your coverage in a meaningful way.</p> <ul style="list-style-type: none"> • Don't buy a policy until you are comfortable that your questions have been answered.
ALMOST READY TO BUY, BUT...	<ul style="list-style-type: none"> • Before committing, review the summary plan description / outline of coverage thoroughly. • Be clear about possible future premium increases. • Get a second opinion from HICAP (see below) or other knowledgeable resource. • Find out about any "free look" (cancel your purchase) period. • Don't pay with cash -- make your check or money order for the first month's premium only -- payable to the insurance company.
NOW THAT YOU'VE BOUGHT A POLICY	<ul style="list-style-type: none"> • Double check the policy you receive (check the exclusions and limitations, make sure the policy agrees with the information you received earlier). • Raise questions promptly -- resolve within any "free look" period.

Information and Complaints

The *California Department of Insurance* produces brochures on many types of insurance, and provides information to consumers. The Department also handles inquiries and complaints about insurance agents and companies. Telephone hotline hours are 8 to 5, Monday through Friday.

Telephone hotline: 800-927-4357

General telephone: 213-897-8921

Fax: 213-897-5961

Internet web site: <http://www.insurance.ca.gov/>

In Los Angeles County, *Health Insurance Counseling and Advocacy Program (HICAP)* of the Center for Health Care Rights provides answers to questions on Medicare, HMO's, supplemental (Medi-gap) insurance and long-term care insurance.

Telephone: 800-824-0780

The *National Insurance Consumer Helpline* represents insurance companies, and provides information on policies and technical language.

Telephone: 800-942-4242

Complaints may also be made directly to the management of an *insurance professional's employer*, and to any *insurance company* involved in the situation.

Checking the Ratings

Several rating agencies grade the ability of insurance companies to meet their financial obligations. Agencies vary in the rating scales and methods they use to rate insurers, and agencies may not rate the same insurers. Although the same letter ratings may be used by several agencies, they do not necessarily have the same meanings. Most agencies classify the letter ratings of insurers (from A+ to F) under the broader designations of "secure" or "vulnerable." Agencies may rate insurers according to both their claims-paying ability and financial solvency.

Rating Agencies		
Name	Phone	Charges
A.M. Best Company	(900) 420-0400	Based on phone time
Demotech, Inc.	(614) 761-8602	Selected companies
Duff & Phelps, Inc.	(312) 368-3157	Five free ratings
Fitch Investors Service, Inc.	(212) 908-0500	Five free ratings
Moody's Investor Service	(212) 553-1653	Five free ratings
Standard & Poor's Corp.	(212) 208-1527	Five free ratings
Weiss Research, Inc.	(800) 289-9222	\$15 per rating

* A copy of the 1994 report *Comparison of Private Agency Ratings for Life / Health Insurers* can be obtained by writing the U.S. General Accounting Office, P.O. Box 6015, Gaithersburg, MD 20884-6015. Request Report #GAOGGD-94-204BR.

Pledge of Conduct (Insurance Professionals)

Loyalty

My first duty is to the Client. I will always provide service based on the Client's best interest, even if this conflicts with my interests or the interest of others.

Confidentiality

I will disclose Client information to others only with the Client's prior permission or if I am required by law to make that disclosure.

Honesty

I will deal with all in an honest manner, and will avoid exaggeration, misrepresentation or concealment of pertinent facts relating to the transaction. I will present a true picture in my advertising and representations to the public.

"Ask First!"

I will provide to each new Client a fully and accurately completed copy of the

"Ask First!" form, at the beginning of the relationship with that Client.

Referrals to Others

I will refer my Clients only to services and organizations I believe to be appropriate. I will not accept (directly or indirectly) referral fees or similar compensation in any transaction, even if permitted by law, without prior disclosure to the Client.

Comparables

Before selling any product to a Client, I will provide to the Client a written description of what I consider to be the best products or approaches for the Client's needs, together with the advantages and disadvantages of each.

Compensation

If requested by the Client, I will include in the written description of products and approaches the amount of compensation I would receive under each product or approach.

Qualifications and Competency

I will maintain full certification, qualification and licensing in my profession to provide each of the services I undertake to provide. The services I provide will conform to the standards of practice and competence which are reasonably expected in the disciplines in which I engage.

Non-Discrimination

I will not deny equal professional services to any person for reasons of race, color, religion, sex, handicap, familial status, or national origin.

This page and H.E.L.P.'s newsletter give general information, not specific advice on individual matters. Persons wanting specific legal advice on matters discussed should contact an attorney experienced in those matters. Information given is based on law and programs in effect in California at the time the newsletter was issued.

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Annuity Basics

Parties to an Annuity Contract

When you invest in an annuity, you enter a contract with an insurance company under which, in return for your investment, the insurer promises you (and/or your heirs) a stream of payments starting now or in the future.

Fixed vs. Variable

The focus is on the underlying investments. Fixed annuities are invested primarily in bonds, bond funds or the insurer's general account. Variable annuities are invested primarily in stocks, stock funds or stock index funds.

Immediate vs. Deferred Annuities

The focus is on when payouts begin. With an immediate annuity, the insurer agrees to start making payments soon after the contract is signed. With a deferred annuity, payments by the insurer are postponed until a later time.

The Four Basic Types of Annuities

Combining the immediate, deferred, fixed and variable options creates the four basic types of annuities:

- Immediate Annuity - Fixed: You lock in an earnings rate, and receive monthly payments that include a return of your investment plus taxable earnings. The amount of the monthly payment will depend on the options you choose and your age. Comments: In some cases, these are effectively used by people who want the assurance of payments that they cannot outlive.
- Immediate Annuity - Variable: Monthly payments will vary according to how investments in the stock market perform. There is no guaranteed monthly payment amount. Comment: Has greater risk than an Immediate Annuity - Fixed.
- Deferred Annuity - Fixed: Locks in a fixed rate investment approach (although guarantee periods vary), with delayed pay-out. Comments: In addition to the underlying investment risk, the risk is that the return will not beat inflation.
- Deferred Annuity - Variable: Provides tax-deferral and potential for growth in value. Comments: Can be suitable for those who have "maxed out" their annual contributions to other tax-deferral tools [e.g., IRAs and 401(k)s] and can wait for stocks to outperform other types of

investments over the long-term.

The Underlying Investment

An annuity is an investment product that has an insurance policy packaged with it. The investment portion allows you to spread your money among one or more funds (called sub-accounts); or, in the case of a fixed annuity, your money may be invested by the insurer through its general account.

Payout Options

Many different payout options are offered by insurers. Common structures provide for payments either for (1) the rest of your life, or (2) as long as you or your spouse is alive, or (3) a set period such as 10 years. The annuity payments are usually monthly.

Surrender Charges

Most deferred annuities have surrender charges (a penalty you must pay to withdraw principal before a specified date). Surrender charge provisions often allow annual withdrawals of 10% of principal per year without a penalty.

Annuitizing a Deferred Annuity

When you begin taking payments from an annuity, you have "annuitized" it. The vast majority of deferred annuities are never annuitized. As a result, the earnings are not paid out during the owner's lifetime, and the income tax liability passes to the heirs (who may be in a different income tax bracket).

The Insurance Feature

The insurance feature in a variable annuity promises that if you die, your heirs will receive at least the premiums you've paid into the account (or in some cases an enhanced death benefit). A part of the expense built into the variable annuity is the cost of the insurance feature. Note: Independent studies report that this insurance coverage is often either worthless (because the account value is high enough that the insurance doesn't apply) or much more expensive than if it were purchased separately.

Advantages

The chief benefit of a deferred annuity is its tax-deferral. Funds left in the annuity are not taxed until they are withdrawn. When withdrawn, they will be taxed at ordinary tax rates. The chief benefit of an immediate annuity is locking in a monthly income stream.

Drawbacks

Among the disadvantages of deferred annuities can be high expenses (almost 1% more a year than mutual funds), high surrender charges during the initial years of a contract, and the tax burden they can impose on heirs. With fixed annuities (deferred or immediate) inflation can eat away at the value of the locked-in fixed payments.

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Words from the Wise

Set forth below are a few cautionary opinions and comments, from financial writers and regulators.

About buying annuities only for the long-term

"The registered representative should inquire about whether a customer has a long-term investment objective and typically should recommend a variable annuity only if the answer to that question, with consideration of other product attributes, is affirmative."

- *National Association of Securities Dealers Notice to Members 99-35.*

"Variable annuities' costs and complexity make them best suited for long-term investors, but some products were sold to people with short-term financial needs or to elderly people unlikely to live long enough for the tax benefit to outweigh the extra costs."

- *Los Angeles Times, August 19, 2001, "Boom Fades for Variable Annuities," by Liz Pulliam Weston.*

". . . many experts say that you need to own a variable deferred annuity for at least 15 years to make it a more worthwhile investment than doing so on your own with, say, a mutual fund. That number is somewhat less for fixed annuities, but it's still something to consider."

- *MSN Money, "Annuities Offer Tax-Deferred Growth, But at What Price?" by Ginger Applegarth.*

About fixed annuities

". . . there is not much that is fixed with most fixed annuities. Normally, the rate is guaranteed for one year; the seller then sets a new one. In doing so, many vendors say they intend to pay the attractive rate they are then offering new customers, but they are not required to do so and some do not. Their only duty is to pay a low statutory rate - now about three percent in most states."

- *New York Times, March 8, 1998. "Investing It; Fixed Annuities: New Twists and Old Gnarls," by Linda Corman.*

About over-selling of variable annuities

"Variable annuities are sold more aggressively than fake Prada handbags on the streets of New York City. . . . But popularity is no indicator of practicality.

- *Smartmoney.com (a joint venture with Dow Jones Company), Retirement Section, "What's Wrong with Variable Annuities?"*

About the expenses of annuities

"You will pay for each benefit provided by your variable annuity. Be sure you understand the charges. Carefully consider whether you need the benefit. If you do, consider whether you can buy the benefit more cheaply as part of the variable annuity or separately (e.g., through a long-term care insurance policy)."

- *Securities and Exchange Commission investor brochure, "Variable Annuities: What You Should Know."*

"Variable annuities offer beefy commissions, as much as 8%. Sales agents typically receive between 50% and 90% of that.

- *Wall Street Journal, February 16, 2001, "Shifting Annuities May Help Brokers More than Investors," by Jeff Opdyke.*

"If you choose to select a variable annuity look at low-cost annuity providers . . . which have low expenses and no redemption/surrender fees."

- *Investing for Women web site, April 23, 2001, "Variables to Consider for Variable Annuities," by Gary Schatsky.*

About including an annuity in your IRA

"In addition, if you are investing in a variable annuity through a tax-advantaged retirement plan (such as a 401(k) plan or IRA), you will get no additional tax advantage from the variable annuity."

- *Securities and Exchange Commission investor brochure, "Variable Annuities: What You Should Know."*

About switching or exchanging annuities

"Generally, the exchange or replacement of . . . annuity contracts is not a good idea. The concern is that many switches may be little more than 'churning,' the practice of excessive trading that typically generates a commission for the broker while providing little benefit for the investor."

- *Wall Street Journal, February 16, 2001. "Shifting Annuities May Help Brokers More than Investors," by Jeff Opdyke.*

"If you are thinking about [an] exchange, you should compare both annuities carefully. Unless you plan to hold the new annuity for a significant amount of time, you may be better off keeping the old annuity because the new annuity will impose a new surrender charge period."

- *Securities and Exchange Commission investor brochure, "Variable Annuities: What You Should Know."*

Posted June 22, 2002

Don't forget to [Ask First!](#)

To request that we mail you a printed copy of our "Special Report: Annuities and Older Adults" [click here](#).

This article and this site give general information, not specific advice on

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Annuity Shopping Tips

Let's say that you've decided that buying an annuity (immediate or deferred) makes sense for you, in your situation. We have a few tips for you:

- Take your time. Don't purchase the first annuity you are offered.
 - The underlying terms of annuities can vary greatly, so you need to investigate and compare.
 - The underlying expenses of annuities can vary greatly, so you need to investigate and compare.
 - Make sure you understand the surrender charges, and that you are unlikely to need principal to which surrender charges will apply.
-
- Even with fixed immediate annuities, the promised monthly payouts can vary based on the options you choose and the insurer. Investigate and compare.
 - You are entitled to know how much compensation the salesperson will earn for each annuity being offered to you.
 - Credit ratings are available from companies like A.M. Best, Fitch, Moody's, Standard & Poor's and Weiss Research. Company profiles can be obtained through the California Department of Insurance at www.insurance.ca.gov/docs/FS-Looking.htm

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WSJ Report

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On July 2, 2002, page C-1 of the Wall Street Journal contained a report by Ellen E. Schultz and Jeff D. Opdyke titled "Annuities 101: How to Sell to Senior Citizens."

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The report described a training session of "Annuity University," self-proclaimed as the "Nation's first and foremost Annuity Sales Training School." The Annuity University instructor educated the attendees about seniors and selling annuities to them. The WSJ report provided quotes from the training session, including these:

- "Treat them like they're blind 12-year-olds"
- "There's the technical answer," . . . and "there's the senior answer: Tell them it's like a CD -- it's safe, it's guaranteed."
- "You're there to solve their problems, but you have to create those problems first. No problem, no sale."
- "Tell them you can protect their life savings from nursing-home and Medicaid seizure of assets. They don't know what that is, but it sounds scary."
- "It's about putting a pitchfork in their chest." (emphasis added)

For more information about Annuity University, go to www.annuityuniversity.com

Already Purchased an Unsuitable Annuity? Go to our new Who Can Help section for information on who to complain to.

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