GOVERNMENT RELATIONS
ISSUE BRIEF

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NAIC
National Association of Insurance Commissioners
& The Center for Insurance Policy and Research

Annuities

- An annuity is an insurance contract typically used in retirement planning and designed to protect an individual from outliving his or her assets. An individual, or annuitant, pays for the annuity and the insurer promises to pay out money from the annuity to the annuitant or a beneficiary in a series of payments.

- An annuity is *not* a savings account. An annuity should be purchased to reach *long-term* financial goals. All annuities have *surrender charges* to discourage people from taking money from an annuity or ending (surrendering) the contract before a certain point in time.

- State insurance regulators monitor the solvency of insurance companies offering annuities and have strict rules in place. The NAIC encourages states to adopt model laws and regulations designed to inform and protect annuity consumers.

Background

There are several types of annuities, including immediate, deferred, fixed and variable. Immediate annuities are income vehicles that provide income payments within a year of paying premiums. Deferred annuities provide income for a specified period of time. For a fixed deferred annuity, the company guarantees the contract will earn no less than a minimum rate of interest set in the contract. In a variable deferred annuity, the insurance company puts the premiums into separate accounts and there is no guarantee that the annuitant will earn any return on the investment and there is a risk of losing money. The person selling variable annuities, in most states, must be a licensed life insurance agent, have passed a securities examination to be a Registered Representative, and be affiliated with a broker/dealer that is a Financial Industry Regulatory Authority (FINRA) member. FINRA, the Securities and Exchange Commission (SEC), State Insurance Departments and state securities regulators all have regulatory responsibilities for variable annuity sales.

The NAIC *Annuity Disclosure Model Regulation* establishes standards for the disclosure of certain information about annuity contracts to protect consumers and foster consumer education. The *Life Insurance and Annuities Replacement Model Regulation* provides regulatory oversight of insurer and producer annuity and life insurance replacement activities. The *Suitability in Annuity Transactions Model Regulation* sets forth standards and procedures for recommendations to consumers that result in a transaction involving annuity products to ensure the insurance needs and financial objectives of consumers are appropriately met at the time of the transaction. The *Model Regulation on the Use of Senior-Specific Certifications and Professional Designations in the Sale of Life Insurance and Annuities* establishes standards for the use of senior-specific certifications and professional designations by insurance producers in the sale of life insurance and annuities to all consumers regardless of age.

Key Points

- An annuity may be an investment option to meet retirement and other long-term financial goals.

- Annuities are insurance products issued by life insurance companies and regulated by state insurance commissioners. Insurance regulators are actively examining and improving annuity regulation.

- Annuities are covered by guaranty funds subject to the amount and limits provided in state law in the event that a company becomes insolvent and is put in receivership.

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