

## **ANNUITIES AND SENIORS- OFTEN A COSTLY MISTAKE**

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(The names in this article have been changed to protect the privacy of the individuals.)

When Margaret needed money to help pay for her needs and her husband's nursing home bill, she planned to use the money in his deferred annuity which they had purchased a few years earlier. When she went to withdraw the funds, she was horrified to learn that she would not receive the full amount in the account and in fact she would lose over \$11,000 if she withdrew the money out of the annuity. "I was never told this could happen! What am I to do now?" said Margaret in tears.

Unfortunately, Margaret and Henry like hundreds, probably thousands of seniors, purchased an annuity without understanding that they could lose thousands of dollars of their investments if they withdrew the funds before the "term" of the annuity had expired. They thought the money they had given to the sales agent would all be available to them when they needed it, they thought the annuity was a good investment for them, and they thought the money in the annuity was safe. They didn't understand the restrictive nature of annuities. Now Margaret wishes they had never agreed to buy the annuity at all.

How did this happen? In Margaret's case, she at age 72 and her husband, age 74, were sold a deferred annuity by a financial sales agent who told them it was a good investment. Margaret and Henry put more than half of their savings into the annuity, a total of \$120,000. At the time, both Margaret and her husband Henry were healthy and living within their income made up of Social Security and Henry's pension. However, two years later Henry had a serious stroke and now is living in a nursing home which is costing nearly \$8000 a month.

Margaret and Henry failed to understand that annuities, unlike most other investments, have very severe withdrawal penalties. If you withdraw your money out of a CD early, you lose the interest, but if you withdraw money out of an annuity early, you can lose interest and principal. That is because when you purchase a deferred annuity you are agreeing to leave the money with the insurance company for "a term" or number of years. In Margaret and Henry's case, the term was 10 years. Margaret needs the money now though, after only two years, and so she falls victim to the high withdrawal penalty of 8% (about \$9000) *plus* she has to pay a surrender fee of \$2,500. Margaret and Henry will lose over \$11,000 from the annuity.

Margaret related that she was told by the sales agent that they could take out some money from the annuity without any penalty if they needed it. Unfortunately the amount they can take out without any penalty is only 10% per year. For Margaret, that is only \$12,349 which is not enough to pay for her needs and her husband's nursing home care costs.

Margaret and many other seniors fell victim to not understanding the severe restrictions of annuities and the penalties associated with not adhering strictly to the terms of the annuity. She also made the mistake of not recognizing how much of their savings they would need if they became ill. What many people do not realize is the costs involved if someone gets sick, especially if they want care in their homes. All too often, people do not anticipate needing the use of their savings as they age and therefore make poor investment choices.

For Margaret, in order for her to keep as much money for her needs as possible and limit her husband's nursing home bills, her only option is to withdrawal the entire annuity and pay the horrendous withdraw penalty and surrender charges. This is an all too often situation. Remember as we age we often have health issues that may not be covered by our insurance, such as Medicare. It is important to have money available to pay for your needs and your care. If someone wants to stay at home, they may need to hire home health aides to help them, if someone wants to move to an assisted living residence, they may need to dip into their savings to pay for that care, and if someone requires nursing home care, they often need to have all their assets available to pay the nursing home bill and take care of the spouse's needs at home.

Don't purchase an annuity without understanding its implications in your life, understanding the terms and penalties involved and discussing the purchase with your family or legal advisor. The commission paid to sales agents who sell annuities are some of the highest commissions paid for financial products. Sometimes that high commission influences the sales agent. Make sure that you completely understand what you are buying and remember you will likely need your money, maybe even all of it, as you age. Don't make the same mistake that Margaret and Henry made. Be very careful and have a complete understanding of annuities before you buy one!