Avoid the Annuity **Hard Sales Pitch**

WHEN A FINANCIAL ADVISER OR INSURANCE AGENT suggests you buy an annuity, is he looking to serve your best interests—or to collect an iPad and a trip to Aruba?

That's the question raised by a recent investigation of annuity sales incentives. The study, by Senator Elizabeth Warren (D-Mass.) and released in October, examined 15 major annuity providers and found that all but two offer perks to reward agents for selling their products. The perks include cruises, luxury car leases, theater tickets and golf outings. None of the companies clearly disclosed the sales incentives to annuity purchasers, the study found.

Although such sales rewards are legal, they may drive an adviser to recommend an annuity because he can pocket a nice vacation, not because it's the best product for his customer, the study says. "Annuities are the Wild, Wild West of sales," says Stan Haithcock, an annuity agent in Ponte Vedra Beach, Fla. "You really have to protect yourself," he says, by understanding how the product works and why you're buying it.

Industry groups say that regulations effectively prevent inappropriate annuity sales. "The current regulatory framework requires these products to benefit the consumer and meet his or her needs," the Insured Retirement Institute said in a statement responding to Warren's report. The institute's members include major annuity providers.

Annuities can offer significant benefits to retirees—including guaranteed lifetime income for those who fear outliving their money. And investors should note that an adviser who discourages an annuity purchase may have his own conflicts of interest. If you keep all your money invested in traditional stocks and bonds, an adviser earning an asset-based fee stands to benefit.

Annuity Sales Rise

ANNUITY TYPE	2014 SALES	% CHANGE SALES FROM 2013
Indexed	$48.2 BILLION	23%
Deferred income	$2.7 BILLION	22
Fixed immediate	$9.7 BILLION	17

Source: LIMRA Secure Retirement Institute

The more complex the annuity, the more likely the consumer will simply throw up his hands and put his trust in the adviser's recommendation, says Scott Witt, a fee-only insurance adviser in New Berlin, Wis. "In a trust situation, you're at the mercy of the person selling the product," he says.

Ask the Agent the Tough Questions

While you can just ask an agent what he stands to gain from selling an annuity, the compensation arrangements aren't always straightforward. A better way to protect yourself, advisers say, is to consider some basic questions before getting mired in an annuity sales pitch.

Ask yourself, "What am I trying to accomplish? And is an annuity the best way to accomplish that?" Witt says. If you're looking for guaranteed income for life, for example, an annuity may well be the solution. If you're considering a variable annuity purchase mainly because of the tax deferral, however, you might consider whether traditional buy-and-hold stock-and-bond investing is a better bet. In a variable annuity, withdrawals of earnings will be taxed at ordinary income rates rather than lower capital-gains rates.

If you've determined that you do need an annuity, Haithcock suggests focusing on two basic questions: What do you want the annuity to guarantee? And when do you want that guarantee to start? That way, you'll avoid being distracted by hypothetical return illustrations or costly bells and whistles—such as stepped-up death benefits—that you may not really need.

Ask your agent to show you annuities from multiple companies offering similar guarantees. If he's only offering products from a single company, or if you're having trouble making comparisons among products, "you could work with multiple agents and pit them against each other," Witt says.

As you narrow your options, ask for a "specimen policy," Haithcock says. This is a copy of the actual contract you'd receive after purchasing the annuity, so it can help ensure that you understand all the guarantees, fees and legalese before diving in.

After purchasing an annuity, you typically have a "free look" period of about 10 to 30 days, depending on your state. You can review all details of the contract—and if you decide you've made a mistake, you can terminate it and get a full refund. **K ELEANOR LAISE**