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Kathleen Martin is an attorney with O'Donnell, Weiss & Mattei, P.C., and a newspaper columnist for The Mercury, which gave permission for this article to be reprinted.

January 20, 2019

Annuity sales and fraud claims climb dramatically

As traditional pensions go the way of the dinosaur, people who are retiring are looking for ways to make their savings last for their lifetimes. One option that works for many people is to purchase an annuity that can provide regular income from an initial investment. However, as Tim Grant of the *Pittsburgh Post-Gazette* details in an article on December 10, 2018, merely relying on the advice of a financial professional without understanding the actual products can be dangerous. (https://www.post-gazette.com/business/money/2018/12/09/As-annuity-sales-soar-fraud-against-seniors-has-increased/stories/201812030143).

An annuity is a contract between an individual and an insurance company that can provide a regular income stream after the payment of an initial premium. Such a product can replace or supplement other income in retirement. It can be sold by the insurance company directly to the consumer but is most often is sold by agents who advise the consumer on the products and costs. However, some consumers, such as the couple in the article, found that relying solely on the advice of the agent can result in big losses on the initial investment.

As more retirees consider annuities, the incidences of fraud have also increased. The Pennsylvania Insurance Department had received 143 complaints about annuities in 2018 as of the last statistics available for the article. In 2017, the Department received 158 complaints from January through November. The complaints mostly related to a practice called churning, where agents convince annuity owners to trade one policy for another. The owners lose money due to additional commissions for the insurance agents, additional premiums, and money/value lost through surrender charges.

The good news for PA consumers is that a new law went into effect on December 25, 2018. The new law increases consumer protections for annuity sales by requiring an agent, or an insurance company in direct sales, to gather more information to see if the annuity is actually suitable for the consumer. Furthermore, the agent or insurance company must inform consumers of surrender charges if there is a plan to replace an existing annuity, any investment advisory fees, tax penalties or other costs, as well as any losses in benefits or changes to riders by replacing the existing annuity contract.

The new law permits the state to impose penalties and sanctions on agents and insurance companies for failing to make sure that the agent or insurance company obtained all of the financial information needed to determine if the annuity is suitable for that particular consumer or for using inappropriate sales practices such as churning. State Insurance Commissioner Jane Altman *[sic]** says that "This new law won't stop every scam artist, but it gives consumers much stronger protections and gives my department the ability to take stronger action against those who break the law."

Another article that could be helpful to those who are considering annuities is a recent *New York Times* article called "The Simplest Annuity Explainer We Could Write." This article can be found at https://www.nytimes.com/2018/12/14/your-money/annuity-explainer.html. Consumers should protect their retirement assets by doing their research on annuities and reaching out if they think that they have been the target of a scam.

**The Insurance Commissioner's correct name is Jessica Altman.*