



Annuities are the object of many lawsuits

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Many investors own annuities to provide them with tax-deferred income and a potential stream of payments either immediate or future.

An annuity is a contract with an insurance company, which then promises either a fixed return ("fixed annuities") or a return that is tied to the performance of some stock market instruments ("variable annuities").

The main attraction of an annuity is that it provides a way to let funds grow without having to pay taxes until the money is withdrawn.

Early withdrawals, however, carry penalties in the form of tax surcharges (if funds are taken out when the owner's age is below 59½ years) and surrender charges of various duration, imposed by the insurance companies. Also, annuities' yearly expenses are typically higher than those for other investment vehicles, such as mutual funds.

In addition to the insurance company, there are three other parties to an annuity contract: the owner, the annuitant and the beneficiary. The annuitant is the person upon whose life the income benefits under the annuity are based. Most of the time, the owner and the annuitant are the same person. Because annuities are packaged within an insurance policy, the beneficiary is the person designated to receive benefits in the event of the owner's or the annuitant's death.

If and when the owner of an annuity elects to receive a stream of income ("annuitization"), there are various options on how the insurance company will make those payments: for life, for a specified amount of time, for life with possible payments to a designated survivor.

While the majority of annuity sales are conducted properly by insurance salesmen and registered representatives of brokerage firms, many abuses have occurred because the instruments are not easy to understand.

Regulatory Agencies have issued rules and guidelines regarding sales of annuities, especially when the customer is a senior (see FINRA Notice to Members 99-35 and State of California Senate Bills 618 and 620).

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Disputes arising from annuities' sales have increased sharply over the last few years and I expect that many more legal cases will come up in the near future.

In my practice as an expert witness in securities and other investment areas I have consulted and testified in various annuities' cases. Please view my CV and decide if I may be able to help you.

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