13 THINGS TO CONSIDER BEFORE BUYING AN ANNUITY (OR INSURANCE)

I am a retiree and annuity contract owner. Listed below are 13 things to consider before buying an annuity. You might also consider these things when buying other insurance, but the details may vary from those listed here for annuities. I hope this information is helpful to you. Peter Gould - 10/02/2026

1. How to choose an insurance agent

Annuities are sold by insurance agents. Choosing an insurance agent helps save time, avoids coverage gaps, and provides a professional advocate during claims. To pick the right agent, evaluate whether they are independent or captive, check their state licenses and credentials, complaint/disciplinary record and ensure they specialize in your specific personal or business needs.

An insurance agent offers:

Expert advice: Agents explain complex policy details and risk management in plain language.

Multiple options**:** Independent agents shop across several competing insurance carriers to find the product that best meets your needs.

Claims support**:** An agent acts as your personal helper and advocate when you file a claim.

Tailored coverage**:** They help to customize policies to fit your needs.

Tips for choosing an insurance agent:

Determine agent type**:** Decide if you want a *captive agent* (who sells for only one company) or an *independent agent* (who compares multiple companies).

Verify credentials**:** Confirm the agent holds a valid license through your state insurance department and look for professional designations like CLU or CFP.

Check specialization**:** Find an agent who specifically focuses on annuities (what you are buying).

Ask the right questions**:**

1. Are you acting as a fiduciary for this specific recommendation, and will you put that commitment in writing?
2. How many carriers do you represent?
3. How do you handle claims processing?
4. Do you charge any extra agency or broker fees.
5. Do you have access to ALIRT reports or comparable deep-dive independent analysis services? Note, Comdex and Cannex services do not provide sufficient deep-dive analysis.
6. What's your process for regular ongoing monitoring of the insurer's financial strength and the performance of the policy?

7. Will you monitor whether the insurer is using "permitted practices" granted by state regulators that allow them to sidestep rules that protect policy owners?
8. Is the product you're recommending invested in a separate account or in the insurer's general account?

Read reviews**:** Check local community feedback, online testimonials, and check with your state regulator's website consumer portal for any formal complaints.

Why this is important: Annuities are complex financial products. Consumers should avoid agents lacking knowledge or experience to provide good advice.

2. How to check an insurance agent's record for licensing status and violations

To check an insurance agent's record for licensing status and violations:

Get the agent's full legal name, business name, and National Producer Number (NPN) directly from them.

Visit the Department of Insurance website in the state where the agent operates and run a public license and enforcement history search. Review disciplinary actions: Look for active license statuses, authorized lines of insurance, and any formal administrative or enforcement actions, fines, or license revocations listed for the agent. It may be easier to call the Department of Insurance and speak with a consumer service representative to gather this information.

Also, you can visit FINRA Broker Check - https://brokercheck.finra.org/. BrokerCheck is a free tool created by the Financial Industry Regulatory Authority (FINRA) to research the background and experience of financial advisers and firms. This may help confirm that the agent is permitted to represent the product under consideration.

Why this is important: Consumers should avoid agents who are unlicensed or who have violations on their record.

3. How to evaluate the financial strength of an insurer and compare it to other insurers

It's important to understand that credit rating agencies are paid by the insurers that they rate and these ratings can be influenced by the insurer or an insurer's threat to sue the rating agency. A knowledgable insurance agent/advisor with access to ALIRT reports for the insurer (or comparable deep-dive independent analysis) is essential in evaluating insurers.

You can look at independent credit ratings from major agencies like A.M. Best, Standard & Poor's, Moody's, and Fitch Ratings - each of these rating agencies has a website. Some websites require registration (free) to check insurer ratings. Your insurance agent should be able to help you with this. However, credit ratings are only one factor to use in evaluating insurers.

Use A.M. Best for insurance-specific grades (look for A- or higher).Check Standard & Poor's for claims-paying and financial risk scores. Read Moody's and Fitch Ratings for broader economic health views.

Compare their financial strength ratings, cash reserves, debt levels, and company history side by side to see which company is safest.

Compare Key Financial Metrics

Surplus to Liabilities Ratio: Check if they hold enough readily liquid assets to pay large waves of unexpected claims.

History: Prefer companies with a long track record (over 50 years) of stable ratings.

Size: Look at the financial size category to ensure they manage large asset pools.

Outlook: Watch for a "negative outlook" warning from any rating agency. To check an insurance agent's record for licensing status and violations.

Counterparty transactions: Look for affiliated/captive reinsurance, offshore non-affiliated reinsurance, and other arrangements with third parties that can reduce the insurer's claims paying ability.

Why this is important: If an insurance company is not financially strong, they may not be able to pay future benefits under your policy.

4. How to check for complaints against an insurer

To check for complaints against an insurer:

Visit the National Association of Insurance Commissioners (NAIC) website Consumer Information Source to look up company complaint indexes at https://content.naic.org/cis_consumer_information.htm. Review the complaint index ratio to see if the company has more or fewer complaints than the national median of 1.00. Look at specific complaint reasons like denials, delays, or premium disputes.

Visit the Department of Insurance website in your state and for enforcement actions or licensing penalties and localized complaint ratios.

Why this is important: Consumers should avoid companies with complaints, penalties and enforcement actions.

5. Who owns the insurance company - the policyholders, a fraternal organization, shareholders via publicly traded stock ownership or shareholders via private equity and why this matters.

The ownership structure of an insurance company directly changes how the company handles your money, claims, and profits. Here are the most common types of insurance company ownership:

Policyholder Owners (Mutual Insurance Companies)
The Owners: The customers who buy the insurance policies.
Profits are returned to policyholders as dividends or reduced premiums instead of going to outside investors. Because there are no Wall Street investors demanding short-term returns, mutual companies often focus on long-term financial stability and customer satisfaction. However, they may have less access to quick capital during major disasters.

Shareholder Owners - Publicly Traded Stock (Stock Insurance Companies)
The Owners: Investors who buy shares on stock exchanges (like the NYSE).
The company is legally obligated to maximize value for its shareholders, creating a potential conflict of interest with policyholders. They may aggressively cut costs or deny claims to boost quarterly profits. On the upside, they can raise massive amounts of capital quickly by selling stock, making them highly resilient against massive financial losses.

Shareholders Owners - Private Equity (PE-Owned Companies)
The Owners: Private investment firms and institutional investors.
Private equity investors typically seeks high returns over a short period (usually 3 to 7 years) before selling the company. This can lead to aggressive cost-cutting, increased premiums, and stricter claims processing to artificially boost the company's valuation. While they often modernize tech and efficiency, the focus is heavily skewed toward short-term investor profit rather than customer loyalty.

Fraternal Organization Owners (Fraternal Benefit Societies)
The Owners: A lodge system or non-profit organization bound by a common religious, ethnic, or vocational bond (e.g., Knights of Columbus, Thrivent).
These are legally classified as non-profits. Profits are reinvested into the membership community through charity, scholarships, and social programs.

They often feature lower overhead costs and a high level of trust, but membership is restricted to individuals who meet their specific criteria.

Why this is important: An insurance company's ownership may cause the company to focus on the maximizing profits for investors rather than protecting the policy owners.

6. Why regular ongoing monitoring of the insurer's financial strength and the performance of the policy is important

Don't "set it and forget it". Regular ongoing monitoring is important because policy guarantees are entirely backed by the insurance company's claims-paying ability, not by the federal government. Because annuities are long-term, often multi-decade contracts, an owner must actively track both the corporate stability of the provider and the underlying asset performance to safeguard their principal, preserve lifetime income streams, and avoid harmful fee structures.

Monitoring Policy Performance - insurance and annuities can be complex financial contracts with moving parts that change over time. Regular performance reviews ensure the policy continues to meet your goals:

Annuity Type	Things to Track	Why It Matters
Variable Annuities	Subaccount fund returns, asset allocation, asset management fees.	High internal fees can quietly erode market gains; underperforming funds require manual rebalancing.
Fixed Indexed Annuities	Participation rates, cap rates, spread charges, index crediting methods.	Insurance companies possess the right to adjust caps and renewal rates annually, potentially stifling growth capacity.
Registered Index-Linked Annuities (RILAs)	Buffer/floor thresholds, renewal cap rates, performance mix strategies, interim value calculations.	Unlike FIAs, you can lose principal. Insurers change renewal caps every term, shifting your upside potential. Exiting mid-term triggers an interim valuation that could slash your credit.
Fixed Deferred Annuities	Renewal interest rates vs. the initial guaranteed rate period.	Once the initial promotional rate period ends, the insurer may drop your yield down to the contract's baseline minimum.

Monitoring Insurer Financial Strength - unlike bank deposits, which are backed by the Federal Deposit Insurance Corporation (FDIC), annuities are regulated strictly at the state level and state backing is limited. Ongoing monitoring is critical due to the following risks:

Default & Claims-Paying Risk: If an insurance company suffers financial distress or insolvency, your guaranteed lifetime income and principal could be reduced or lost.

Credit Rating Shifts: Leading independent credit rating agencies like AM Best, S&P Global, Moody's, and Fitch Ratings alter carrier ratings based on macroeconomic shifts, bad corporate investments, or inadequate reserves.

State Guaranty Fund Caps: If an insurer fails, state guaranty associations step in to absorb contracts, but coverage limits vary by state and frequently fall short of your contract's full value.

Proactive Reallocation: Catching an insurer's negative outlook early allows you to execute a tax-free Section 1035 Exchange to a safer, higher-rated carrier before a state regulator freezes company assets.

Unmasking Hidden Fees and Strategy Shifts: Ongoing monitoring prevents the policy from suffering "economic drag" caused by unrecognized account transformations.

Fixed annuities can appear inexpensive because there may be no conventional fee shown (expense ratio), since the charges are hidden in the net reported return.

Rising Rider Fees: Optional riders—such as Guaranteed Minimum Income Benefits (GMIB) or long-term care enhancements—charge ongoing percentages that deplete your principal in low-return years.

Surrender Charge Expiration: Policies carry strict surrender charge schedules (e.g., 7 to 10 years) where early withdrawals trigger steep penalties. Monitoring lets you know exactly when the money becomes fully liquid.

Opportunity Cost: If prevailing interest rates rise significantly, a locked-in, low-yield fixed annuity may underperform the broader market, prompting the need to review alternative retirement vehicles.

Crucial Monitoring Risks Unique to RILA's - if you own a RILA, your ongoing tracking must account for these complex features:

The Renewal Cap Trap: Insurers entice buyers with high introductory index caps (e.g., 20% to 25%). At the end of your 1-, 3-, or 6-year strategy term, the company can lower renewal caps drastically, hurting your future growth.

Downside Buffer Shifts: If you choose a "10% buffer," you are responsible for any index losses that exceed 10%. If market volatility spikes, you must monitor whether it is safer to reallocate to a strategy with a stricter "floor".

Interim Value Penalties: If you need to make an emergency withdrawal or execute a Section 1035 Exchange before your specific strategy term matures, the insurer calculates an "interim value". This calculation utilizes a formula based on options pricing that can cause unexpected losses, even if the underlying index is currently up.

Why this is important: If an insurance company is not financially strong, they may not be able to pay future benefits under your policy. If the performance of a policy changes, it may no longer meet your needs.

7. Annuities are not covered by FDIC insurance

Annuities are not protected by the US Government or covered by FDIC (Federal Deposit Insurance Corporation) because they are insurance contracts, not bank deposits. Instead, they rely on the financial strength and stability of the issuing company and unfunded state-level protection groups (state guaranty associations). Knowing this helps in evaluating financial safety, insolvency risks, and coverage limits before buying insurance or an annuity.

Company Strength: Your primary safety net is the financial health and cash reserves of the insurance company.

Why this is important: If your insurance company fails, neither the US Government nor FDIC will step in to ensure that your claims are paid.

8. State Guaranty Associations may not restore full policy benefits when an insurer fails and often there are delays in payouts to policy owners.

Every state has a State Guaranty Association that acts as a backup if an insurance company fails. Unlike FDIC insurance coverage of bank accounts, State Guaranty Associations are unfunded and designed as limited safety nets when an insurance company fails - they do not fully guarantee all policy owner

benefits.

State Guaranty Associations step in only after a court declares the insurance company insolvent. Access to policy cash values is often frozen during lengthy court proceedings. Processing benefit claims through State Guaranty Associations takes much longer than normal processing times with a healthy insurance company State Guaranty Associations fund payouts through assessments charged to remaining healthy insurance companies. This can cause further delays and losses if there is a massive, multi-company market crash.

Coverage Caps and Limits: Most states limit coverage of annuities to $250,000 per insurance company, per person. If you plan to invest more than your state's coverage limit cap, you should divide your annuity investment between multiple insurance companies, so that your investment through any single company doesn't exceed the coverage limit.

Excess Losses: When an insurance company fails, policy values exceeding the state-limit are usually lost.

State Guaranty Association additional coverage exclusions:

If the insurance company was not licensed in your state, it is not covered.

Variable annuities are frequently not covered.

Annuities issued by fraternal benefit societies are frequently not covered.

Why this is important: If your insurance company fails, your benefit payments or claims may be delayed, reduced or lost. It is important that no single annuity value exceeds the State Guaranty Coverage limit.

9. The dangers of insurance company failure and its effect on "guaranteed" benefits

Insurance and annuity benefits are considered "guaranteed," but that guarantee is only as strong as the insurance company backing it. When an insurance company fails, even if your policy is transferred to a healthy insurance company, your guaranteed benefits under the original policy and its benefit riders may be reduced or eliminated.

Why this is important: If your insurance company fails, you may not receive the guaranteed benefits you purchased.

10. State regulators grant "permitted practices" that allow insurance companies to avoid requirements that would otherwise protect policyowners.

Permitted accounting practices are customized regulatory loopholes granted by state insurance commissioners that allow individual insurance companies to side-step standard Statutory Accounting Principles (SAP). While designed to provide flexibility during periods of economic distress, these practices allow insurance companies to hide financial weakness, artificially inflate their reported capital and let the insurance company bypass rules meant to prevent insolvencies and protect policyholders.

Some examples of permitted accounting practices include: overvaluing illiquid assets, delaying the recognition of losses and using shadow reinsurance vehicles. By hiding financial weakness, these practices prevent an insurer from triggering mandatory state regulator intervention. This delays early corrective action and can lead to the unexpected insurance company failure.

States sometimes utilize these permitted accounting practices competitively to attract insurance companies to locate there. This creates a "race to the bottom" that hurts the safety of policy owner.

To see if an insurance company is utilizing a permitted accounting practice, you can contact your state insurance department and request a copy of the company's most recent annual statement. Permitted accounting practices are required to be listed in Note 1 of the insurance company's annual statement. The annual statements are long and complicated documents. Your insurance agent or the consumer service representatives at your state insurance department should be able to help you see if an insurance company has been granted a permitted accounting practice.

Why this is important: If an insurance company has been granted a permitted accounting practice, its true financial strength may be much weaker than that shown on its financial statements or in its credit ratings. This could affect the insurance company's ability to pay benefit claims.

11. When an insurance company fails, the safety of your policy depends entirely on whether your funds are invested in the insurer's General Account or in a Separate Account.

The distinct structural and legal treatments of these two account types radically alter your risk exposure during an insurance company failure

The General Account is found in Fixed & Indexed Annuities and is also found (called the "Guaranteed Account") in Variable Annuities. The General Account holds the collective assets of the insurance company used to pay everyday operating expenses and general obligations.

When you buy a fixed or fixed-indexed annuity (or choose the Guaranteed Account investment option in a Variable Annuity), your money is pooled into this general portfolio, which is primarily invested in conservative, long-term corporate and government bonds.

Because you do not own specific underlying securities, you are technically a general creditor of the insurance company. If the insurer fails, the General Account assets are subject to the claims of the company's broader creditors.

If the insurance company fails, your primary safety net is your State Guaranty Association. These associations typically guarantee general account annuities up to a coverage limit - usually $250,000 per company, per person

A Separate Account is a segregated investment structure established by the insurer specifically to fund variable annuity contracts. Your money is invested in "sub-accounts" that operate similarly to mutual funds. Legally, these sub-accounts (except for the guaranteed sub-account) are strictly insulated from the insurer's core corporate holdings. It is important to note that the guaranteed sub-account is treated like the General Account.

By law, Separate Account assets cannot be seized by the insurance company's general creditors during a bankruptcy. Even if the carrier collapses completely, your sub-account investments remain yours. However, you bear 100% of the market risk—if the stock market crashes, your account value drops accordingly. Note that many variable annuities include optional features like Guaranteed Minimum Income Benefits (GMIB) or death benefits. These riders are not protected by the separate account structure. They are backed solely by the financial strength (General Account) of the insurer. If the insurer goes bankrupt, those extra guarantees may be lost or limited due to state guaranty association limits.

Why this is important: If an insurance company fails, contracts invested in Separate Accounts (other than the guaranteed account) have greater protection than those invested in the insurer's general account.

12. Only the company named in your annuity contract document is responsible for paying your benefits.

An annuity is a contract with a single specific insurance company. Only that exact company must pay your money. If your insurer is part of a bigger group, the parent company does not have to pay if your insurer fails. Only the exact company named in your contract owes you obligations. Check the exact name on your contract front page - only the financial strength of this company backs up your policy. You cannot rely on the big brand name of a parent company to support your benefits.

Why this is important: If your insurance company fails and it is part of a bigger group, the other companies in the group are not responsible for paying you.

13. Understanding how offshoring, regulatory arbitrage (domicile shopping) and counterparty risk affect the safety of your annuity.

Offshoring occurs when a US insurance company moves its annuity liabilities or reinsurance to an overseas entity. Insurers often use offshore affiliates to hide the true extent of their financial liabilities. Offshore jurisdictions often allow companies to hold less cash in reserve for paying claims. Overseas entities often have lower reporting standards, making it harder for you to assess their true financial health.

Regulatory arbitrage (domicile shopping) is when an insurance company chooses to register its business (domicile) in a specific state or country to take advantage of looser laws and/or less regulation. Companies look for jurisdictions with friendly tax laws and looser accounting rules. Some domiciles allow insurers to invest their money in riskier, higher-yielding assets like private credit. If a company domiciles in a state with weak oversight, your consumer protections and financial safety are compromised.

Counterparty risk in insurance companies directly impacts a consumer's long-term financial security by altering the structural safety net backing up their policy. When an insurance company issues an annuity, it frequently transfers a portion of its financial obligations and investment risks to other companies (counterparties) to free up capital and boost profitability. These transfers are often done through reinsurance, modified coinsurance and excess of loss contracts.

While this backend corporate structuring is largely invisible to consumers, it introduces counterparty risks—the danger that the other party defaults or fails to fulfill its contractual obligations - which then affects the policyholder. Here's

how these arrangements work:

Reinsurance: With standard "asset-intensive" reinsurance, your insurance carrier (your primary insurer) transfers both the policyholder liabilities and the corresponding premium assets directly to the reinsurer's balance sheet. The consumer still holds a contract with the primary insurer, but the money funding their future payouts is managed and held by a separate entity. If that reinsurer faces insolvency due to poor investment decisions (a growing risk with private equity-backed offshore reinsurers), the primary insurer must abruptly take back, or "recapture," those liabilities. If there is a massive recapture event, it can severely deplete the primary insurer's capital reserves. In a worst-case scenario, this triggers a domino effect leading to the primary carrier's bankruptcy, forcing the consumer to rely on state guaranty associations. The risks of reinsurance are increased when the reinsurer is affiliated or wholly owner (captive) with the insurance company.

Modified Coinsurance (Modco): Under a Modified Coinsurance (Modco) agreement, the primary insurer transfers the risk to the reinsurer but legally retains the physical assets and policy reserves on its own balance sheet. On paper, Modco provides a layer of safety for the consumer because their funds do not physically leave the primary insurance company, mitigating immediate asset-default risk, but Modco is frequently used for regulatory and accounting arbitrage. Insurers use it to artificially lower their required Risk-Based Capital (RBC) thresholds, freeing up capital to offer aggressively high crediting rates or caps on Fixed Indexed Annuities to attract customers. However, because the reinsurer often dictates the investment strategy or manages complex, illiquid assets behind the scenes, the consumer's funds may be exposed to riskier, opaque collateralized loans that weaken the insurer's actual financial strength during a market downturn.

Excess of Loss (XoL) Contracts: Excess of Loss (XoL) is a form of reinsurance where the reinsurer agrees to pay losses only for certain reasons and only after they exceed a specific catastrophic threshold (the primary insurer's "retention limit"). You can compare it to narrowly focused cancer insurance - if the illness is not cancer as specified in the policy, no claim is paid.

For annuities, this is often structured to protect against severe "longevity risk "the sudden, systemic risk of policyholders living significantly longer than predicted. XoL contracts act like catastrophic insurance for the insurance company itself, ensuring it won't run out of money if a massive block of lifetime-income annuitants outlives expectations. If a systemic financial adverse event occurs and the XoL reinsurer denies the claim or defaults

exactly when the primary insurer hits its retention limit, the primary insurer is left entirely exposed to the unhedged. This severe under-capitalization endangers the primary carrier's ability to pay claims.

Your insurance agent or the consumer service representatives at your state insurance department should be able to help you see if an insurance company uses offshoring, regulatory arbitrage and risky counterparty arrangements.

Why this is important: Offshoring, regulatory arbitrage (domicile shopping) and counterparty risk affect the safety of your annuity. These factors can be difficult to discover and analyze, but they affect the long-term health of your insurance company.