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Senior Citizens Should Not Surrender to Surrender Charges

Investors Can Recover Purchase Price of Misleading Annuities

By Guy Paredes

Senior citizens in New Jersey who have fallen through a loophole in a New Jersey law intended to protect their investments may be able to recover hundreds of thousands of dollars from insurance companies.

Seniors who in the last two years purchased annuity funds that have lengthy periods restricting early withdrawal without penalty may find that many of these funds violate the spirit of New Jersey's Senior Citizen Investment Protection Act. More importantly, they may find that they are able to recover full reimbursement of their investment in these funds by challenging the selling insurance company.

New Jersey enacted the Senior Citizen Investment Protection Act in June 2005, which limits how long annuity sellers can impose surrender charges – or early termination fees – to a maximum of 10 years.

Following the act's passage, many insurance companies doing business in New Jersey either stopped selling these products to customers over the age of 70 or eliminated the products altogether.

However, other insurers continued selling "group" annuities to individuals, apparently determining that the Senior Citizen Investment Protection Act did not pertain to group sales. New Jersey allows the sale of both individual and group annuities. While group annuities were designed for just that purpose – such as for employers – they may be sold to individuals, as well.

The sale of group annuities with lengthy surrender charges to individuals certainly appears to be in conflict with the intent of the Senior Citizen Investment Protection Act.

However, a review of an investment portfolio by a professional investment advisor combined with a little aggressive perseverance can correct this oversight and help senior citizens recover money invested in a product they never intended to purchase.

For example, when recently reviewing the investment portfolio of a client couple in their seventies, I discovered that the couple had recently purchased an annuity with a surrender period of 14 years. They did not recall any mention of lengthy surrender charges when they bought the annuity.

In addition, I also discovered that the guaranteed rate of return on the annuity dropped considerably after the first year. My clients began to feel like they were trapped in a very low-yielding product.

After contacting the selling insurer on behalf of the customers, I was told by the company that its "interpretation is that the Senior Citizen Investment Protection Act pertains only to individual annuities and not group annuities."

However, although the company admitted no wrongdoing and stated they had violated no New Jersey regulations, the insurer nevertheless agreed to refund the purchase price of the annuity in the interest of customer relations.

At Atlantic Horizon Financial Group we have found that insurers approached about the sale of group annuities with lengthy surrender charges to individuals often are willing to make reimbursement when pressed. We have helped influence several insurance companies to return hundreds of thousands of dollars to senior citizens affected by this apparent loophole in the law.

The N.J. Department of Banking and Insurance defines an annuity as “a contract in which an insurance company makes a series of income payments at regular intervals in return for a premium or premiums you have paid.” Annuities are most often bought for future retirement income and typically offer tax-deferred growth of earnings. A surrender charge is a type of sales charge you must pay if you terminate or withdraw money from an annuity during the surrender period.

It seems that the intent of the Senior Citizen Investment Protection Act was to ensure that the “contract” between the senior citizen investor and the insurer is fair and transparent in order to protect the investor from products that in fact are slanted to benefit the seller more than the buyer.

Trenton should consider taking a second look at the Senior Citizen Investment Protection Act to close this unintended loophole in a very well-intended law. The act should cover the sale of group annuities to individuals to protect senior citizens from this threat to their long-term liquidity and their future options in life.

On their end, senior citizens should have a qualified investment professional review their investment portfolio to determine if they have inadvertently fallen through the “group annuity surrender charge” loophole, and should not surrender.

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