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How Do Surrender Charges Work?

Annuities can be used to provide steady income during your retirement years. But in most cases, you have to wait a certain period of time before you can begin taking withdrawals. If you start early, you may have to pay a fee known as a surrender charge.

If you currently have an annuity or are considering one, understanding surrender charges can help you avoid unexpected costs. Here are answers to some common questions about how they work:

Do All Annuities Have Surrender Charges?

Immediate annuities allow you to start receiving payments immediately. Beyond that, it is typical for most types of annuities to have a surrender charge.

How Much Is a Surrender Charge?

Surrender charges are calculated as a percentage that usually declines as you move through the surrender period. That percentage will vary depending on your annuity.

For example, you may need to pay an 8% surrender charge in the first year of the period. That percentage would then drop by one point each year until the surrender period is over.

How Long Is the Surrender Period?

The surrender period varies depending on the annuity, but six to eight years is common.

What Is the Difference Between a Full Surrender and Partial Surrender?

A full surrender occurs when you decide to cancel your annuity contract, which means you withdraw all of your money. A partial surrender occurs when you withdraw only a portion of your money. The insurance company that holds your annuity may charge a smaller fee for a partial surrender.

How Can You Avoid a Surrender Charge?

A surrender charge will reduce the return on your investment. Consider other ways you could access cash before taking a full or partial surrender. If you can wait until the surrender period is over, you can avoid that penalty.

If you have any questions about your retirement planning strategy, reach out today.

Helping clients get back to the basics of building and maintaining wealth in a tax efficient way.

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