



What are surrender fees?

Financial Planning

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If you take money out of an annuity, there may be a penalty called a surrender fee or a withdrawal charge. This fee is higher if you withdraw funds within the first years of an annuity contract. The penalty, however, drops gradually each year. Since immediate annuities are purchased to provide income, they usually can't be surrendered and will therefore not be subjected to a fee.

A typical surrender fee schedule could be:

- 7 percent if you withdraw funds in the first year,
- 6 percent in the second year,
- 5 percent in the third year,
- 4 percent in the fourth year,
- 3 percent in the fifth year,
- 2 percent in the sixth year,

- 1 percent in the seventh year,
- and zero in the eighth year and beyond.

The purpose of the fee is to allow the insurer enough time to recover its expenses, largely commissions, in setting up the annuity contract. It also serves to discourage annuity buyers from using deferred annuities as short-term investments for quick cash.

Some contracts may permit you to pull out a portion of the funds annually, usually up to 10 percent without a surrender charge. If this option is important to you, ask your insurance agent or company representative about this before deciding to invest your money in a specific annuity. Also, ask if there may be any other fees or charges.

[Back to top](#)