ANNUITY ADVANTAGE

ANNUITIES—Are They Right for You?

The Annuity Demystified

In the last two decades, annuities have evolved. Annuity choices can seem overwhelming, but understanding the basics of these financial products can help you decide if an annuity is right for you. We hope that the following information—segmented into bite-sized pieces—will help take the mystery out of annuity products and respond to some of the annuity myths that have circulated over the years. Use this brochure as your guide to the annuity market and a useful reference for annuity basics to see if an annuity might be suitable for you.

What is an annuity?

While the features and benefits of annuities have expanded significantly over the years, the basic annuity definition has not changed. An annuity is a contract with an insurance company that provides certain benefits in exchange for a deposit of money, known as a premium. Annuities are not life insurance policies.

Unlike life insurance, which is designed to provide a benefit at death, an annuity is designed to provide income during a person's life. Typically, that income can be taken immediately or deferred up to the date specified in the annuity contract for the start of payments, i.e., the annuity's maturity. (A lump sum option is generally also available.) For the purposes of this brochure, we will focus on deferred, rather than immediate, annuities.

Annuity Types

There are four basic types of deferred annuities:

Traditional Fixed Annuities	Multiple-Year Guarantee Annuities
• Earnings are generally based on a stated rate, guaranteed for a period of one year. • The annuity guarantees minimum earnings.	• Earnings are generally based on a stated rate, guaranteed for a set number of years. • The annuity guarantees minimum earnings.
Fixed Indexed Annuities	**Variable Annuities**
• Earnings are generally linked to the performance of external index, such as the Nasdaq-100® or S&P 500® index. • The annuity guarantees minimum earnings.	• Earnings are generally based on investment options, such as stock, bond, or equity markets. • Can lose value when the investment option suffers market losses.

The annuities in the white boxes—traditional fixed annuities, multiple-year guarantee annuities, and fixed indexed annuities—are all considered fixed annuities and contain similar basic features. With fixed annuities, protection of principal and previous gains is a standard part of the contract. With variable annuities, protection may be added for a specific fee. Our focus will be on the features and benefits of deferred, fixed annuities, since variable annuities are often based on the stock market and generally require a prospectus specific to each annuity to adequately address their attributes.

Basic Fixed Annuity Features and Benefits

As mentioned earlier, fixed annuities have several basic features in common.

SAFETY AND SECURITY

Recent history has shown that economic turbulence can happen quickly. It is important that a portion of your money be protected from market fluctuation—especially as you get closer to retirement. Fixed annuities can offer a mix of safety and competitive earnings. Insurance companies are required to have reserves set aside to accommodate the needs of their policyholders. State insurance departments closely regulate insurer solvency and offer consumer protection. Independent rating agencies assess the relative strength of the insurance companies. Fixed annuities can be a viable option for the risk-adverse consumer.

MINIMUM GUARANTEES

This important benefit of fixed annuities protects your principal from loss.* The rate on traditional fixed annuities and multiple-year guarantee annuities may change, but the contract ensures that it will not drop below the minimum. Fixed indexed annuities, in lieu of providing a fixed rate guarantee, protect principal and locked-in gains from loss due to market fluctuations.**

TAX DEFERRAL

No taxes are due on annuity earnings until you access your annuity values.† When earnings are allowed to grow tax deferred, interest on those earnings compound, allowing you to earn interest on your interest, on your principal, and on the money you would have spent on taxes, often referred to as triple compounding. Tax deferral allows for greater earnings potential and—since many annuities are long-term financial vehicles—can typically help you outpace inflation.

* Assuming no withdrawals. Fixed annuities guarantee principal and applicable interest, less early surrender charges, prior withdrawals, and loan debt, as applicable. Refer to the annuity contract for details.

** Assuming no withdrawals. Fixed indexed annuities guarantee principal, less early surrender charges, prior withdrawals, and loan debt, as applicable. Refer to the annuity contract for details.

† Taxes are deferred until withdrawals are taken. Tax deferral is available only to individuals. Earnings withdrawn from an annuity before age 59½ are subject to an additional IRS penalty. Under current tax law, tax deferral is a basic feature of qualified plans. Placing qualified money into an annuity does not provide any additional benefit.

The Power of Triple Compounding

- Your principal earns interest.
- Your interest earns interest (through compounding).
- The interest that you would otherwise have paid in taxes earns interest.

DEATH AND PROBATE BENEFITS

Annuities generally allow owners to name a beneficiary or multiple beneficiaries and provide a death benefit, usually defined in the annuity contract, to those named. When an individual (or individuals), instead of an estate, is the beneficiary, the death benefit is typically paid directly to the individual and bypasses the lengthy, public, and often costly probate* process. Many annuities allow for contingent beneficiaries, who can receive the benefit of primary beneficiaries if the primary beneficiary is deceased.

WITHDRAWAL PROVISIONS AND CHARGES

Another important, but often overlooked, fixed annuity benefit is the ability to withdraw proceeds from the annuity prior to maturity. Called a withdrawal provision, this feature allows owners to withdraw all or a percentage of assets held in the annuity without penalty. Many provisions allow for annual withdrawals of up to 10% of the annuity value. Annuity contracts often specify when the penalty-free withdrawals can be taken, e.g., immediately or after the first year. Should you withdraw more than the penalty-free percentage, charges are usually assessed. All charges are disclosed in the annuity contract. These could be called surrender charges, fees, or adjustments. Some charges tend to

* The beneficiary must be living at the time the benefit is payable, subject to the terms of the annuity contract. Avoidance of probate can also be a benefit of some non-annuity financial products, such as a paid-on-death account, where a beneficiary is named.

be higher earlier in the life of the annuity contract. Once a surrender charge period has ended, typically fees are nominal, if at all applicable, should you wish to completely withdraw your assets. Additionally, many contracts include provisions that waive all or part of the charges for specific hardships, such as confinement to a hospital or nursing home.

ANNUITIZATION

Payment of the assets held in the annuity over a specified period of time is referred to as annuitization. As mentioned, an annuity is designed to provide income. Income payments can be made over a fixed number of years and/or throughout a person's lifetime, depending on the options provided in the contract. The amount received is generally set when payments start and cannot be changed. The payments distribute all of the assets in the annuity over a number of years. Annuitization payments represent a portion of principal and interest. This feature is especially helpful when a portion of the annuity proceeds have already been taxed, because it distributes the taxable amount over a number of years. Most annuities begin the annuitization process at the maturity date. Several annuities allow the contract owner to change the maturity date, within the limitations of the contract, to begin income payments sooner. The maturity date is often the date the owner reaches a certain age and is different from the date when surrender charges expire. This feature can be used as protection against outliving your income.

ADDITIONAL PREMIUMS

Some annuities allow money, in excess of the initial premium, to be added into the annuity. These contracts can be flexible premium annuities, which allow for as many premium payments as you want, within set limits, or scheduled premium annuities, which specify the premium amount and due dates. (Annuities that allow only one initial outlay of premium are called single premium annuities.)

GUARANTY ASSOCIATION

In these trying financial times, it is important to have a safety net. Most states have a guaranty association that protects consumers in the unlikely event an insurer becomes insolvent and is unable to honor its commitments. There are generally limits to the amounts the guaranty association will cover, and certain residency criteria must be met. Your state's department of insurance can provide additional information about its guaranty association. The National Organization of Life & Health Insurance Guaranty Associations (www.nolhga.org) can help you contact the appropriate association.

ADDITIONAL BENEFITS OR OPTIONS

While most fixed annuities have similar features and benefits, some also include:

BONUSES—Often, annuities include an additional amount of money, generally either a percentage of the initial premium, i.e., the amount used to purchase the annuity, or an increased first-year interest rate.

Requirements for the bonus to vest, and become part of the annuity, differ by annuity contract. Bonuses are usually used to either enhance a first-year rate or offset charges or losses incurred by the owner when repositioning assets to meet changing retirement goals.

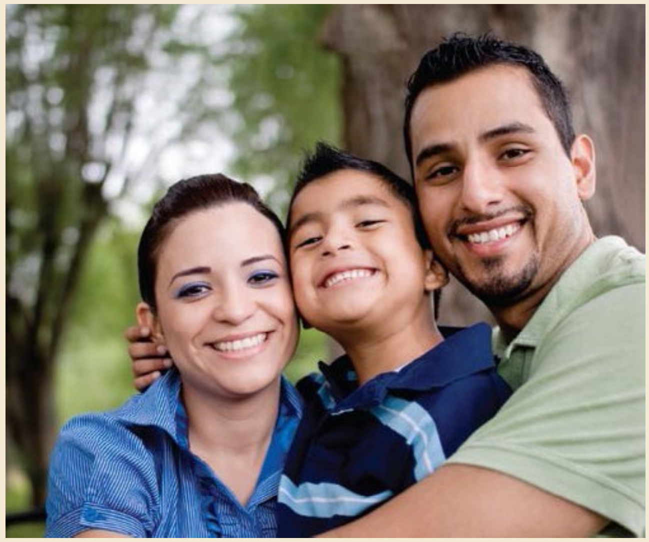
RIDERS—Some insurance companies allow additional annuity benefits to be purchased, generally through a monthly fee that is deducted from the annuity value or crediting rate. These additional benefits, called riders, differ from annuity to annuity. Some examples are riders designed to provide monetary assistance if long-term care is needed, an income source in lieu of annuitization, or an increased death benefit to help offset your beneficiaries' tax liability. Riders generally must be elected at the time the annuity is purchased, so it is important to ask your insurance professional about them before your annuity transaction is finalized.

INTEREST CREDITING METHODS—One distinct way annuities differentiate themselves is by providing a variety of options for determining how interest earnings will be credited. These options can include a fixed rate or a rate that is linked to a different financial vehicle, such as a bond or treasury or a financial index, such as the Dow Jones Industrial Average or the S&P 500®. Often, interest crediting methods have different ways of calculating earnings, such as by identifying the monthly average rate over the term versus the actual earnings at the end of the term. Many annuities allow owners to diversify their monies within the annuity contract by electing multiple strategies and to rediversify as financial objectives and the economic environment changes. By using multiple crediting methods, you can position your annuity for growth in a wide variety of market conditions. An insurance professional can help explain the different crediting method combinations available to you and how they can best meet your financial objectives.

Annuities can be purchased with nonqualified funds, on which taxes have already been paid, or with pretax money, also known as tax-qualified money, examples of which include Individual Retirement Arrangements (IRA), 401(k) plans, or other retirement plans.

More About Fixed Indexed Annuities

When you purchase a fixed *indexed* annuity, you get the features and benefits of a fixed annuity plus the ability to link your earnings to the performance of an established market index, such as the Nasdaq-100® or S&P 500®. While your earnings are based on an index, buying a fixed indexed annuity does not give you an ownership interest in any stock, commodity, or index.



These key definitions can help you better understand fixed indexed annuities:

ALLOCATION DATE—This is the date the insurance company begins tracking the performance of the index in relation to your annuity. The allocation date usually is not the same date the money is received. In between receipt of the money and the allocation date, the insurance company usually pays a flat rate of interest. Allocation to the index generally occurs within a month of receipt of the premium.

TERM—This is the length of time, typically a year or more, that the company tracks the index in relation to your annuity. There may be several of these terms during the life of your annuity. This is also known as a reset period.

ANNIVERSARY DATE—This is the anniversary of the allocation date and marks the end of the current term and beginning of a new term. Earnings generally are not credited until the anniversary date. With many annuities, the anniversary date also marks the start of a new penalty-free withdrawal period. Some annuities allow penalty-free withdrawals only within a set number of days of the anniversary date.

Fixed indexed annuities may provide greater upside potential than traditional fixed annuities or multiple-year guarantee annuities, without the downside of a variable annuity. In exchange for upside potential and protection from loss, the insurance company generally limits the amount of interest credited to the annuity through the use of one or more of the following methods:

CAP—A cap is the maximum rate of interest that can be credited to a fixed indexed annuity during a term. This rate is set by the insurance company for each term. Index earnings, up to the cap, are credited directly to the owner. If the index performance exceeds the cap, owners will receive the maximum cap rate. If the index performance is less than the cap, owners will receive the amount the index earned. If the index loses value during the term, those losses are not passed on to the owners, and the owners' annuity value remains the same or increases according to the contract's lifetime minimum contractual guarantees. A minimum guaranteed cap is declared when the contract is purchased and is often included in the annuity contract.

PARTICIPATION RATE—The participation rate is the percentage of index earnings that the owner receives. It is set by the insurance company for each term and can change at the end of the term, depending on the contract provisions and economic conditions. A minimum participation rate is declared when the contract is purchased.

SPREAD—A spread is a percentage that is deducted from the rate prior to it being credited to the annuity value. A maximum spread is declared when the annuity contract is purchased.

The insurance company can use one or more of these methods to determine interest earnings. Each contract is different. Ask your insurance professional to explain how earnings are credited to your fixed indexed annuity.

Other factors—called index crediting methods—measure the amount of change, if any, in the index. Common crediting methods include:

HIGH-WATER MARK—The index value is reviewed at various points during the term, usually at each allocation anniversary, and compared with the index value at the start of the term. The highest value is used to determine interest credited at the end of the term. Interest credited is subject to a cap, participation rate, and/or spread.

POINT-TO-POINT—The index value at the end of the term is compared with the index value at the start of the term, and the positive difference is credited as interest, subject to a cap, participation rate, and/or spread. At the end of each term, the value starts over, or resets.

AVERAGING—Interest credited is determined by using the average of the index's value over the term, rather than the actual value of the index on a specific date. Averaging may occur at the beginning, middle, or end of the term.

Why would I want an annuity?

Before purchasing a fixed annuity, you'll want to consider what is important to you based on your personal needs. People purchase fixed annuities for a variety of reasons.

SECURITY

When considering an annuity, take into account the strength of the insurance company backing the annuity. The Life Insurance Council reports that life insurance is one of America's strongest business sectors, and the industry has an unparalleled record of honoring its obligations to policyholders. Additionally, insurance companies are heavily regulated in each state for the protection of consumers. Your state insurance department can validate that the insurance company is licensed and may be able to tell you additional information about the company. Other companies, such as A.M. Best, Standard and Poor's, and Moody's, all independently assess the relative strength of insurance companies and rate them for easy consumer reference.

Stocks, bonds, mutual funds, variable annuities, and limited partnerships can fluctuate daily and put your principal at risk. Fixed annuities provide guarantees of principal and, often, minimum interest guarantees.

Levels of Financial Risk*

Risk Level	Financial Vehicle
Higher	Speculative Stocks Junk Bonds
	Real Estate Mutual Funds Variable Annuities
Lower	Money Market Funds Fixed Annuities Bank CDs

* As a general rule, there is less risk associated with buying a mutual fund than buying individual stocks. In general, fixed annuities carry less market risk than mutual funds.

Most financial professionals will tell you that asset diversification is critical to financial planning. Diversification allows you to avoid exposing all of your money to the same types and levels of risk. A fixed annuity can offer an alternative to high-risk investments.

GUARANTEED INCOME

People nearing or at retirement age are often concerned about outliving their income. By including a fixed annuity as part of their retirement plan, they can be assured of guaranteed income. Typical income options include receiving payments over a specified period or over the life of an individual. The selection of an income option, i.e. annuitization, can be postponed until payments are needed, up to the maturity date. In the meantime, earnings grow tax-deferred, based on the owner's needs and risk tolerance, further augmenting the person's savings. When annuitization is selected, payments generally represent a portion of principal and a portion of interest. For nonqualified annuities, this allows you to continue tax deferral and pay taxes only on the interest withdrawn.

CONTROL

Fixed annuity owners can retain control of:

- How the annuity grows, through a choice of crediting methods.
- How conservative or aggressive the approach to earnings will be, depending on their risk tolerance.
- When to annuitize and receive payments; the length of time those payments will continue; and, to a certain degree, how much those payments will be.
- When they pay taxes, with tax deferral.

FLEXIBLE PENALTY-FREE ACCESS

The methods by which owners may take penalty-free withdrawals from their annuity are often diverse. Though options vary among annuities, they typically include:

- Submitting a written request for a particular amount, or percentage, up to the penalty-free amount.
- Using the annuity "checkbook" to facilitate a transfer from your annuity to your financial or banking institution.
- Electing to receive penalty-free withdrawals on a systematic basis, e.g., monthly, quarterly, semiannually, or annually. (This option can generally be stopped or started at any point in the life of the annuity.)
- Choosing to begin annuitization payments. (There may be limits on when annuitization payments can begin and whether or not they can be stopped.)
- A waiver of penalties in case of confinement to a hospital or nursing home. (There are generally requirements to qualify for this waiver.)
- A waiver of penalties for required minimum distributions (RMDs or MRDs). Companies sometimes allow MRDs to be withdrawn even if the annuity would not generally allow distributions of that amount.

Should the owners' financial situation change and they need to access more than the penalty-free amount, they will never be assessed hidden or undisclosed charges. Charges for withdrawals over the penalty-free amount are disclosed in the annuity contract.

Questions for Your Insurance Professional

A fixed annuity is not right for everyone. It is important to consider whether you will need more liquidity than provided in the annuity and how much emergency reserve you will need. Fixed annuities can be a way to diversify assets, as part of an overall financial plan. An insurance agent licensed in your state can provide you with information about annuities and the different types available to you. The questions below provide a starting point for discussions with your insurance professional, so you can decide which annuity, if any, is right for you.

- What types of annuities do you offer?
- How are earnings credited on the annuity? Are multiple strategies offered?
- Tell me about the insurance company. What is its financial strength rating?
- What are the minimum guarantees?
- How long is the term/reset period (for fixed indexed annuities)?

- Are earnings subject to a cap, participation rate, and/or spread, and if so, what are they (for fixed indexed annuities)?
- Is there a bonus? How is it calculated? Are there any limitations before it vests?
- What riders are available, and how much do they cost?
- What is the death benefit?
- How much can I withdraw without penalty? (Share your income needs with your agent to ensure he or she can properly advise you.)
- How much are the penalties if I withdraw more than the penalty-free amount? Will I lose my bonus? How long do the penalties apply?
- Can I take my money out during the term/reset period?
- Are there any other charges or fees associated with the annuity?
- How early can I annuitize? How long can I postpone annuitization? Is annuitization required?
- Why is an annuity right for me?

When meeting with your insurance professional, be prepared to share your financial objectives, tax status, and how much money you expect to need for daily living and emergencies. Seriously consider whether you have the money to pay for the annuity. If you are thinking about exchanging one annuity for another, it is important to carefully compare the old annuity with the new one to determine what will be gained or lost in the switch. The topics covered in this brochure can help with that comparison.

Resources

There are many places to find more information about annuities, including the federal government's Consumer Information Center (www.pueblo.gsa.gov), the National Association of Insurance Commissioners (ww.naic.org), the American Council of Life Insurers (www.acli.com).

Annuity Glossary

Definitions of the terminology used in this brochure are provided below. These are simplified definitions, so be sure to contact your insurance professional for additional information.

Accumulation Period: The period during which earnings grow tax-deferred on the premiums you paid.

Allocation Date: The date on which premiums are applied to an index strategy.

Anniversary Date: The anniversary of the allocation date; generally, the end of the term.

Annuitize/Annuitization: The process of receiving the annuity proceeds in a fixed amount over a fixed period, the lifetime of a designated person, or a combination of both.

Averaging: The process of calculating the average earnings of an index in a term.

Cap: The maximum interest rate that can be credited to an index strategy for the term. The minimum cap is declared at purchase.

Death Benefit: The amount payable to your designated beneficiaries in the event of your passing.

Deferred Annuity: An annuity that allows annuitization to be postponed up to the annuity's maturity. The deferral period is often referred to as an accumulation period, when earnings grow tax deferred.

Fixed Annuity: An annuity that provides minimum guarantees. The owner does not assume any market risk for this type of annuity.

High-Water Mark: A method of measuring an index that identifies the highest point in the index's growth on specific points during the term. Interest credited to a high-water mark strategy is subject to a cap, participation rate, and/or spread.

Immediate Annuity: An annuity that requires annuitization soon after premium payments are received.

Maturity: The date, defined in the annuity contract, on which annuity payments must begin.

Nonqualified: Monies on which taxes have already been paid.

Participation Rate: The percentage of increase in the index that is used to determine interest earnings. The minimum rate is declared at the purchase of the annuity.

Point-to-Point: Measuring of an index from an absolute starting point to an absolute ending point. The difference is credited to the annuity, subject to a cap, participation rate, and/or spread.

Premium: The monies used to purchase the annuity.

Qualified: Monies on which taxes have not yet been paid.

Riders: Additional benefits added to the annuity, available for purchase from the insurer.

Spread: A percentage deducted from the rate prior to it being credited to the annuity value. A maximum spread is declared when the annuity contract is purchased.

Crediting Methods: The means by which earnings are determined.

Surrender Charge: A charge incurred for withdrawing more than the penalty-free portion, including terminating the annuity. Charges are disclosed in the annuity contract.

Tax Deferral: The postponement of income taxes on earnings, usually until a withdrawal is taken.

Term: Also known as annual reset. The period of time, generally one to 10 years, that an index is measured for purposes of fixed indexed annuities. The term usually extends from the allocation date to the allocation date's anniversary.

Withdrawal Provision: The portion of the annuity contract that defines how much can be withdrawn without penalty and any withdrawal limitations.

This brochure is not intended as an invitation to purchase any particular insurance product or fixed annuity, nor is it intended as an endorsement of any particular product or company. It is merely intended to provide you with general information about fixed annuities, to assist you in making an informed choice about financial service products currently available to you and what products may be best suited for you.

Fixed annuities may be useful retirement tools for some people. However, fixed annuities may not be suitable for all. Please consult a licensed insurance agent regarding your age, financial objectives, short- and long-term financial goals, liquidity needs, risk tolerance, and overall financial situation to determine if a fixed annuity is right for you. You should thoroughly review all brochures, specimen contracts, buyer's guides, and disclosure forms before purchasing any fixed annuity or any other financial services product.

Fixed annuity earnings are tax-deferred until withdrawn. Use of annuities with qualified-type plans [401(k), IRA, 403(b)] may not provide any additional tax benefits above those you already receive in such a plan. Withdrawals may be subject to income tax and a 10% federal income tax penalty if taken before age 59½. Surrender charges may apply if you withdraw more than the penalty-free amount in a year. Fixed annuities generally guarantee a minimum interest rate on all or a percentage of each contribution over the life of the contract, less any withdrawals and/or deductions and early surrender charges. Guarantees are based on the claims-paying ability of the insurer.

Insurance agents do not give legal, investment, or tax advice. Please consult your attorney, accountant, or other qualified professional regarding annuity taxation as it applies to you.

Please contact me for more information.

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