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ANNUITY DISCLOSURE MODEL REGULATION

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APPENDIX A -- BUYER'S GUIDE TO FIXED INDEXED ANNUITIES

Drafting Note: The language of the Fixed Indexed Annuity Buyer's Guide is limited to that contained in the following pages, or to language approved by the commissioner. Companies may purchase personalized brochures from the NAIC or may request permission to reproduce the Buyer's Guide in their own type style and format.

[The face page of the Fixed Indexed Annuity Buyer's Guide shall read as follows:]

Prepared by the National Association of Insurance Commissioners

The National Association of Insurance Commissioners is an association of state insurance regulatory officials. This association helps the various insurance departments to coordinate insurance laws for the benefit of all consumers.

This guide does not endorse any company or policy.

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It's important that you understand the differences among various annuities so you can choose the kind that best fits your needs. Annuities can be deferred or immediate but this Guide focuses on *fixed indexed deferred* annuity contracts. There is, however, a brief description of two other types of deferred annuities, fixed and variable, as well as immediate annuities.

This Guide isn't meant to offer legal, financial or tax advice. You may want to consult independent advisors.

This Guide includes questions you should ask the company, your agent (a producer, broker, advisor or any other person or entity selling you the annuity). Make sure you're satisfied with the answers before you buy. If you don't understand the answers, ask again, ask the company or ask your state insurance department.

A list of common terms used with annuities and what each means starts on page ___. You may refer to that list as you read this Guide, the disclosure and your contract.

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This Guide refers to the disclosure you'll receive with your annuity contract. The disclosure summarizes the terms of your contract and defines some of the words used in the contract. It will explain how your annuity increases in value and what charges are taken from your contract. Your agent should go through the disclosure with you so you understand it.

This Guide provides information that applies to all annuities on pages ____ to ____. Information about fixed indexed annuities begins on page ____.

BASIC INFORMATION ABOUT ANNUITIES

What Is an Annuity?

An annuity is a contract with an insurance company. You pay for the annuity (in a single payment or multiple payments) and the insurer promises to pay out money from the annuity to you in a series payments. Only an annuity can pay an income that can be guaranteed to last as long as you live. In some annuities, you don't receive income payments right away.

An annuity is *not* a savings account. If you buy an annuity, it should be to reach *long-term* financial goals.

All annuities have a *surrender charge* (also known as a withdrawal charge) which discourages you from taking money from your annuity or ending (surrendering) the contract before a certain point in time The number of years you'll pay a surrender charge when you take money from your annuity and the amount of each year's surrender charge vary from one annuity to the next. The charge is usually a percentage of the premiums you've paid or of the value of the account when you make the withdrawal. The charge can be much more than the interest earned on the annuity in the first few years so it's possible to lose not only the interest, but also some of your principal (the amount of the premiums you've paid) if you make a withdrawal or surrender the annuity. Every indexed annuity offers you a way to access some of your money each year without paying a surrender charge. You can find this specific information in the annuity contract and it's summarized in the disclosure.

What Are the Different Types of Annuities?

This Guide explains major differences among annuities to help you understand how each might meet your needs.

This Buyer's Guide focuses on fixed indexed deferred annuities. If you're interested in a different type of annuity, ask your agent about that buyer's guide.

Annuities differ in several ways:

- How many premiums you pay
- When the company makes income payments to you
- How the money in the annuity earns interest

How Many Premiums You Pay: Single Premium or Flexible Premium Annuities

You pay the insurance company only one payment for a *single premium* annuity. You make a series of payments for a *multiple premium* annuity; for one type of multiple premium annuity, a *flexible premium* annuity, you pay whenever you want, within set limits.

When the Company Makes Income Payments to You: Immediate or Deferred Annuities

In an *immediate* annuity, income payments start no later than one year after you pay the premium. You usually pay for an immediate annuity with one premium.

The income payments from a *deferred annuity* often start many years later. Deferred annuities have an *accumulation period* and a *payment period*. During the *accumulation period*, the money you put into the annuity, less any charges,

earns interest. The earnings grow tax deferred as long as you leave them in the annuity. After the *accumulation period* ends, the *payment period* (or the *annuitization period*) begins; in the *payment period*, the company pays income to you or to someone you choose.

How the Money in an Annuity Earns Interest: Fixed, Variable, and Indexed Annuities

Fixed

During the *accumulation period* of a *fixed deferred* annuity, your money earns interest at rates set by the insurance company or in a way spelled out in the annuity contract. The company guarantees the contract will earn no less than a minimum rate of interest. During the *payment period*, the amount of each income payment to you is set when the payments start and won't change. If you want to consider a fixed deferred annuity, please ask for that guide.

Variable

During the *accumulation period* of a *variable deferred* annuity, the insurance company puts your premiums into separate accounts. You choose the accounts depending on how much risk you want to take. You may choose accounts with no guaranteed returns that are invested in bonds, money market funds or stocks or other equities. You also may have the option to put part of your premiums into a fixed account, with a minimum guaranteed interest rate. During the *payment period* of a *variable annuity*, the amount of each income payment to you may be fixed (set at the beginning) or variable (changing with the value of the separate accounts). If you want to consider a variable deferred annuity, please ask for that guide.

Indexed

During the *accumulation period* of a *fixed indexed deferred* annuity, the return on your money depends on a market index. The index is a number that goes up and down as the market the index represents moves up and down. The company credits earnings to your annuity based on changes in the market index you select but guarantees the value of your annuity won't decrease as long as you don't withdraw the money. You also may have the option to put part of your premiums into a fixed account with a minimum guaranteed interest rate. Generally, during the *payment period* of an *indexed annuity,* the amount of each income payment to you is fixed. This Guide describes fixed indexed deferred annuities.

How Do I Decide Which Annuity Is Best for Me?

Your agent's recommendation of an annuity should be based on his/her knowledge of your current financial situation, tax status, investment objectives and needs. It's important that you discuss with your agent your total financial and life situation, so you can decide whether an annuity is a good choice for you. You should ask your agent for a disclosure that's specific to the product you're considering.

The agent will suggest annuities that are suitable for your situation. If you aren't comfortable with the agent's suggestions, explain your concerns. It's important that any annuity you choose be consistent with the amount of risk that you're willing to accept.

Annuity contracts may be broadly categorized by the amount of risk involved. The types of annuities and the level of overall risk for each are:

- Fixed Annuity — Least Risk
- Fixed Indexed Annuity — Moderate Risk
- Variable Annuity — Most Risk

As you think about the risk involved with each annuity type, ask yourself:

- Am I interested in a variable annuity with the potential for higher earnings that aren't guaranteed and willing to risk losing the premiums I've paid?

- Is the guaranteed interest rate of a fixed annuity more important to me, with little or no risk of losing my premiums, in exchange for less potential to earn interest?

- Or, am I somewhere between these two extremes and willing to take more risk in exchange for the opportunity to earn a higher rate with an indexed annuity?

You may choose to add benefits known as *riders* to your annuity. Some riders offset some of the risks of owning certain annuities. There usually is an additional cost for riders. Also, some annuities have built-in features that may offset some of the risks of an annuity.

How Can I Access My Money?

Each annuity offers more than one way to access your money: 1) by annuitizing the contract to receive income payments over time, 2) by taking a lump sum payment and *surrendering* your annuity, 3) by taking withdrawals and 4) as a death benefit to your *beneficiaries* if you die during the accumulation period. If you take money by making a withdrawal or surrendering your annuity, you'll likely pay fees and may not get back all of the premiums you've paid. The contract and the disclosure tell you how much you can take out without paying a charge and when the charges no longer apply.

One of the most important benefits of deferred annuities is your ability to use the value built up during the accumulation period to receive multiple income payments. After you *annuitize,* you receive income payments for life. Payments are usually made monthly but you may choose to receive them less often. The size of the income payments is based on the *accumulation value* of your annuity and the *benefit rate* when income payments begin. The benefit rate usually depends on your age and sex as well as the annuity payment option you choose. Payment options usually include payments that continue as long as you live, as long as you and your spouse live or for a set number of years.

There's a table of guaranteed benefit rates in each annuity contract. Most companies have current benefit rates which are greater than the guaranteed benefit rates. A company can change the current benefit rates *at any time*, but the current benefit rates can never be less than the guaranteed benefit rates. When income payments start, the insurance company uses the benefit rate in effect at that time to figure the amount of your income payment.

Another option may be to take a *lump sum payment* from your annuity and surrender or terminate it. If a lump sum payment is a choice, ask when it would be available and how much the payment would be. If it's an option, think about whether a lump sum payment may be a better choice than payouts over time. In some annuities, there's no charge if you surrender your contract when the company's current interest rate falls below a certain level. This may be called a *bailout option*.

You can make *withdrawals* from your annuity before income payments begin, but you may pay a fee (often a surrender charge). The contract and the disclosure tell you how much you can take out without paying a charge and when the charges no longer apply. Most annuities let you withdraw a percentage of your annuity's value annually (typically 10%) without paying a fee. You may lose any interest on the amount withdrawn, and you may lose part of your principal. After you've owned an annuity for a certain length of time (typically 7 to 14 years), the surrender charge period may end and you'll be able to take money out without paying a surrender charge. Many annuities let you withdraw part of the accumulation value without paying a surrender charge if certain events, such as nursing home confinement or terminal illness, occur.

Annuities have stated maturity dates. When an annuity reaches its maturity date, the contract may automatically expire or renew. You're usually given a short period of time, called a *window*, to decide if you want to renew or surrender the annuity. If you surrender during the window, you won't have to pay surrender charges. If you renew, the surrender or withdrawal charges may start over.

Some annuity contracts have a Market Value Adjustment (MVA) feature. An MVA could increase or reduce your annuity's value if you withdraw more than the penalty-free amount. In general, if interest rates are lower at the time of withdrawal than at the time the contract was issued, your annuity's value will be increased. If interest rates are higher at the time of withdrawal than at the time of issue, your annuity's value will be reduced. Every MVA calculation is different, however, so check your contract and disclosure for details.

In some flexible premium annuities, a new surrender charge may apply to each premium paid. This may be called a rolling surrender charge.

Finally, if you die during the accumulation period, your *beneficiaries* will receive some or all of the money in your annuity. In some annuities, there's a charge that reduces what your beneficiaries receive. Check your contract and disclosure.

Will I Pay Income Tax on My Annuity?

Below is a general discussion about taxes and annuities. You should consult a professional tax advisor to discuss your individual tax situation.

Under current federal law, annuities receive special tax treatment. Income tax on annuities is deferred, which means you aren't taxed on the interest your money earns while it stays in the annuity. The interest isn't tax free, however, so you pay taxes when you withdraw money. You also may have to pay a 10% tax penalty if you withdraw money before age 59 1/2. Most states' tax laws on annuities follow the federal law.

You also can use annuities to fund traditional and Roth IRAs. If you buy an annuity to fund an IRA, you'll receive a disclosure statement describing the tax treatment. You're unlikely to gain any tax advantage by funding an IRA or a qualified retirement plan with an annuity, as an IRA and a qualified retirement plan are both tax deferred regardless of how they're funded.

What Is a "Free Look" Provision?

Many states have laws which give you a set number of days to look at the annuity contract after you buy it. If you decide during that time that you don't want the annuity, you can contact the company, return the contract and get all of your money back. This is often referred to as a *free look* or *right to return* period. The free look period should be prominently stated in your contract and disclosure. Be sure to read your contract carefully during the free look period.

FIXED INDEXED DEFERRED ANNUITIES

With this basic information about annuities in mind, this section describes the type of annuity you're considering, a fixed indexed deferred annuity. First, here's a reminder about what a fixed indexed annuity is. During the *accumulation period* of an *indexed deferred* annuity, the return on your money depends on the market index you choose. The index is a number that goes up and down as the market the index represents moves up and down. The value of any index varies from day to day and isn't predictable. One of the equity indices most commonly used in indexed annuities is Standard & Poor's 500 Composite Stock Price Index (the S&P 500)[1]. You aren't directly invested in the market or the index. The company credits earnings to your annuity based on changes in the market index but guarantees the value of your annuity won't decrease as long as you don't withdraw the money. You also may have the option to put part of your premiums into a fixed account, with a minimum guaranteed interest rate. Generally, during the *payment period* of an *indexed annuity,* the amount of each income payment to you is fixed. While immediate indexed annuities may be available, this Guide describes fixed indexed deferred annuities.

How Are Indexed Annuities Different from Other Fixed Annuities?

[1] S&P 500 is a registered trademark of the McGraw-Hill Companies, Inc., used with permission.

An indexed annuity *is* different from other fixed annuities. Other fixed annuities credit a *fixed rate of interest*, which the insurance company guarantees. Indexed annuities credit interest using a formula based on changes in the performance of an equity, bond or commodity index. This formula determines how the interest, if any, is calculated and credited to your annuity's value. How much interest you get, and when you get it, depends on the features of your particular indexed annuity.

However, an indexed annuity does offer a guarantee. The guarantee for an indexed annuity is that a declared minimum interest rate will be credited on part of your initial premium if you surrender the annuity or if the index your annuity is linked to performs poorly. This guarantee is *not* credited annually. It's important to note that if there's a negative change in the index your annuity is linked to, your indexed annuity will be credited with 0% interest (not negative interest) for that particular index term.

For example, some indexed annuities guarantee the minimum value of your annuity will never be less than 87.5% of the premiums you've paid, plus at least 3% interest (less any partial withdrawals). Even if you surrender your annuity, withdraw the full amount and pay surrender charges, you won't receive less than the guaranteed minimum value. An indexed annuity with a minimum guaranteed surrender value of 87.5% of premiums credited with 3% interest would provide a return of 101.43% at the end of a six-year term [(87.5% x 1.03%) x 5)] and more for longer term periods. However, if you decided to surrender such an annuity before the fifth year, you would receive less than the premiums paid for the contract.

Floor on Index-Linked Interest

The floor is the minimum interest rate you'll earn on an annuity. All indexed annuities have a floor of at least 0%. A 0% floor assures that even if the index decreases in value, the index-linked interest that you earn will be zero and not a negative adjustment to your annuity's account value.

What Indexed Annuity Contract Features Affect Interest Credited to My Annuity?

The index used for crediting, the indexing method, the index term and the participation, cap and/or spread rates have the greatest effect on the amount of interest credited to an indexed annuity. It's important to understand the features and how they work together in an index-linked formula.

The Index

Indexed annuities credit interest using a formula based on changes in the performance of an equity, bond or commodity index. The index is an external benchmark. The annuity isn't invested directly in the investment that's the basis for the index. For example, if the annuity is linked to a stock fund you aren't buying shares of stock and dividends paid on stocks don't increase your annuity earnings. The company credits earnings to your annuity based on the index you select, but guarantees the value of your annuity won't decrease because the index goes down. Note that the past performance of an index doesn't indicate future results. Some annuities may be linked to more than one index.

Indexing Method

The indexing method is the way the amount of positive change, if any, in the index is measured. Some of the most common indexing methods, which are explained more fully later on, include annual point-to-point, term end point and monthly and daily averaging.

Index Term

The index term is the period over which index-linked interest is calculated; the interest is credited to your annuity at the end of a term. Terms are generally from one to ten years, with one year being the most common. Some annuities offer a single term while others offer multiple, consecutive terms because of multiple crediting strategy options. For flexible premium annuities, the payment of each premium may begin a new term for that premium. An annuity that credits index-

linked interest less often than annually may credit none of the index-linked interest, or only part of it, if you take out money before the end of the term. It's important to understand how this will affect you if you'll be making a full or partial withdrawal before the term ends.

Participation Rate

The participation rate determines how much of the increase in the index will be used to calculate index-linked interest. For example, if the calculated change in the index is 9% and the participation rate is 70%, the index-linked interest rate for your annuity will be 6.3% (9% x 70% = 6.3%).

The company usually offers a participation rate for a specific period (from one year to the entire term). When that period is over, the company can set a new participation rate for the next period. Some annuities guarantee that the participation rate will never be lower than a set minimum or higher than a set maximum. It's common for companies to offer participation rates of less than 100%, particularly when there's no cap rate.

Cap Rate

Many annuities may put an upper limit, or cap, on the index-linked interest rate. This is the maximum rate of interest the annuity will earn. In the example given above, if a contract had a 6% cap rate, then 6% would be credited, not 6.3%. Some annuities guarantee that the cap rate will never be lower than a set minimum or higher than a set maximum. It's common for companies to use a cap rate, especially if the participation rate is 100%.

Spread Rate

In some annuities, the index-linked interest rate is computed by subtracting a specific percentage from any calculated change in the index. This spread rate, sometimes referred to as the "margin" or "asset fee," might be instead of, or in addition to, a cap or participation rate. In the example given above, if the calculated change in the index is 9% and the spread rate is 2.25%, the credited rate would be 6.75% (9% - 2.25% = 6.75%). In this example, the company subtracts the percentage only if the change in the index is positive.

Bonuses

Some indexed annuities offer a bonus. The most common type of bonus is a *premium bonus*. This type of bonus immediately increases the value of the annuity and is usually credited as a percentage of the premiums paid into the contract. In some annuities, there's a separate charge for the premium bonus. This lets the insurance company keep the surrender charges lower, relative to other annuities with a bonus. However, if you withdraw more than your penalty-free amount on such an annuity, you may lose part of your premium bonus. This type of bonus is accessible to you if you decide to surrender your contract.

Another type of bonus is a *Guaranteed Lifetime Withdrawal Benefit (GLWB) bonus*. A GLWB bonus is like a premium bonus in that it's usually a percentage of the premiums paid into the contract. However, a GLWB bonus is different in that you can't access the bonus if you surrender your annuity for cash. A GLWB bonus is credited to the benefit base value, not the accumulation value. For this reason, this type of bonus is only accessible if you take lifetime income payments through your GLWB.

The last type of bonus available on some annuities is an *annuitization bonus*. This type of bonus is very similar to a GLWB bonus but is only accessible if you take lifetime income payments through annuitization. Many two-tiered annuities offer this type of bonus.

Although bonuses can help to boost to your annuity's value, it's important to understand how they work. In general, annuities with bonuses have higher surrender charges and the surrender charges apply longer than in annuities without bonuses. In addition, all things being equal, an annuity with a bonus has less potential for gains than a non-bonus annuity. Make sure you understand the terms and conditions of any bonuses you're considering.

What Are the Features and Trade-offs of Different Indexing Methods?

Generally, indexed annuities offer preset combinations of features. It's important to understand how each works.

Features	***Trade-Offs***
Annual Point-to-Point	
The value of the index is reviewed on each policy anniversary. The change in the index is measured in this way from one year to the next. Interest, if any, is credited to your annuity each year, subject to any participation, cap or spread rates. Since the interest earned is "locked in" annually and the index value is "reset" at the end of each year, future decreases in the index won't affect the interest you've already earned.	Only the beginning and end points are considered. Since potential interest is credited annually, your annuity's participation, cap and spread rates may change each year and generally will be lower than that of other indexing methods.
Term End Point (also called Multi-Year Point to Point)	
The index-linked interest, if any, is based on the difference between the index value at the end of the index term and the index value at the start of the term. Index terms may range from 3 to 10 years. Potential interest is added to your annuity at the end of the index term as opposed to each year, subject to any participation, cap or spread rates.	Only the beginning and end points are considered. Since interest isn't credited until the term ends, you may not receive index-linked interest until the end of the term. There may be a lower spread rate or higher participation or cap rate than with some other indexing methods. Partial or full surrenders may not receive any index-linked interest if taken before the term ends.
Monthly or Daily Averaging	
Index-linked interest, if any, is determined by recording the index's value on specific dates (every month for monthly averaging, every day the market is open for daily averaging) and comparing the average of these values with the index value at the start of the term. Potential interest is added to your annuity at the end of the year, subject to any participation, cap or spread rates.	In a steady-rising market, point-to-point methods may perform better. Since potential interest is credited annually, your annuity's participation, cap and spread rates may change each year. Most products that use this indexing method lock in interest annually and reset the index value at the end of each year. This protects interest earned from being affected by future decreases. Participation and cap rates may be higher (and any spread rates may be lower) than with other indexing methods.
Monthly Point-to-Point	
Similar to monthly averaging, index-linked interest, if any, is determined by comparing the change in an index's value from one monthly anniversary to the next monthly anniversary. Each month, positive changes are subject to the cap rate but negative changes are not. At the end of the term, the monthly changes are added and any positive index-linked interest is credited. If the sum is negative, zero interest is credited.	Contracts with this design have a lower cap rate than other designs because the cap rate is applied monthly, although interest is credited at the end of the term. Monthly decreases in the index will reduce any interest credited at the end of the term. Since this indexing method considers downward movements of the index, annuities using this indexing method may earn higher index-linked interest than many other indexing methods in a steadily-rising market, due to cumulative increases in the index.

What Charges May Be Subtracted from My Annuity? *{Note from B. Cude: The group hasn't written this section yet but it's likely to be needed to make this buyer's guide parallel to the others. Thus, some information here may not apply to indexed annuities.}*

Annuities have charges related to the cost of selling and management. These charges may be subtracted directly from the contract value or they may be reflected in lower interest rates. See the disclosure and ask your agent or the company to describe the charges that apply to your annuity.

Indexed annuities do not have up-front charges. There may be a charge based on the annuity's accumulation value to cover the cost of a benefit rider. A few indexed annuities charge (based on the annuity's accumulation value) to cover the cost of the crediting strategy rather than using a cap, participation or spread rates. See the disclosure and ask your agent or the company to describe the charges that apply to your annuity.

Some examples of annuity charges, fees and taxes are:

- A *contract fee* is a flat dollar amount charged either once or annually.
- A *transaction fee* is a charge for each premium payment or other transaction.
- A *percentage of premium charge* is a charge deducted from each premium paid. The percentage may vary over time.
- Some states charge a *premium tax* on annuities. The insurance company pays this tax to the state. The company may subtract the amount of the tax when you pay your premium, when you withdraw your contract value, when you start to receive income payments or when it pays a death benefit to your beneficiary.

Surrender Charges

A surrender charge is usually a percentage of the premiums you've paid or of the value of the account when you make the withdrawal. You may pay this charge to take all or part of your money out at any time during your annuity's accumulation period. The contract and the disclosure tell you how much you can take out without paying a charge and if the charge no longer applies after you've had the annuity a while.

Your annuity may have a *limited withdrawal* feature. This feature lets you make one or more withdrawals without a charge, up to a total percentage of your annuity's accumulation value. If you make a larger withdrawal, you pay a withdrawal charge called a *partial surrender charge*. You may lose any interest above the minimum guaranteed rate on the amount withdrawn, and you may lose part of your principal.

For more information about surrender charges, review the *How Can I Access My Money?* section of this publication.

What Optional Benefits Can I Choose? *{Note from B. Cude: The group hasn't written this section yet but it's likely to be needed to make this buyer's guide parallel to the others. Thus, some information here may not apply to indexed annuities.}*

Insurance companies offer many optional benefits that you can add to your variable annuity by buying riders. Some commonly offered riders are described below. Each rider will increase the cost of your annuity. Ask your agent or the insurance company for the information you need to decide if a rider is worth the cost.

A *Guaranteed Minimum Death Benefit rider* guarantees the minimum amount of the death benefit the insurer will pay your beneficiary if you die before the insurer starts to make monthly payments to you. The insurer will make this payment regardless of the return on the investments in your subaccounts. For example, suppose you've paid $50,000 in premiums for a variable annuity and buy a rider that guarantees a death benefit that will be at least as much as the premiums you've paid. If the investments in your subaccounts have done so poorly that the contract is only worth $10,000 after five years, the rider guarantees a death benefit of at least $50,000. Some Guaranteed Minimum Death Benefit riders may also "step up" this guaranteed death benefit amount or add interest to it from time to time.

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Some annuity benefits are called as *living benefits*. These benefits all provide some guarantee for the annuity owner – a guaranteed income from the annuity, guaranteed withdrawal amounts, and/or guaranteed protection of the premiums you've paid. There's an additional cost for each rider – and the cost can be significant.

A *Guaranteed Minimum Income Benefit* rider guarantees a minimum return on the investments in your subaccounts. Based on this return, you're guaranteed a minimum income. You usually must buy this rider when you buy your annuity and must annuitize to use the rider. For example, this rider might guarantee that your monthly payment will never be less than 75% of your first payment. If the first payment to you was $1,200, this rider guarantees that your monthly payment will never be less than $900, regardless of how the investments in your subaccounts do. You couldn't use this rider if you took the money from your annuity in a lump sum payment. And there may be a waiting period before you can use this rider to receive payments.

A *Guaranteed Minimum Accumulation Benefit* rider guarantees that your annuity will be worth a minimum amount by a set date, even if the investments in your subaccounts do poorly. For example, this rider might guarantee that your annuity will earn at least 8% a year by the end of ten years. If at the end of ten years your annuity has only earned 4% a year, your insurer will add the difference.

A *Guaranteed Minimum Withdrawal Benefit* rider guarantees a return of all of the premiums you've paid, regardless of how the investments in your subaccounts do. You must make annual withdrawals, with each limited to a certain percentage of the premiums you've paid. This rider does **not** return the premiums you've paid as a lump sum payment. How does it work? For example, suppose you pay $100,000 in premiums for a variable annuity and buy a rider that guarantees a 6% withdrawal rate. The rider guarantees you can withdraw $6,000 (or 6% of the $100,000 you've paid in premiums) annually without penalty even if the investments in your subaccounts have done so poorly that your annuity is only worth $70,000. The total amount of withdrawals is limited to the premiums you've paid or $100,000 in this example.

A *Guaranteed Lifetime Withdrawal Benefit* rider protects you against losses in the investments in your subaccounts. It guarantees that you can withdraw a percentage of your original principal each year without penalty *for life,* regardless of how the investments in your subaccounts do. For example, suppose you pay $100,000 in premiums for a variable annuity and buy a rider that guarantees a 6% withdrawal rate. The rider guarantees you can withdraw $6,000 (or 6% of your original $100,000 investment) annually without penalty even if your annuity's account value goes to zero. The percentage you can withdraw is usually based on your age and your annuity's benefit base value.

What Are Two-Tiered Annuities?

Most annuities are single-tiered; the annuity's account value and cash values become closer together over time. In a *two-tiered* annuity, the annuitization value and the cash value are two separate and independent values. These values are calculated separately and frequently become further apart over time in a two-tiered annuity.

The cash value of a two-tier annuity is the amount that you can withdraw in cash. The cash value balance usually earns a minimal interest rate – one set by the insurer. The annuitization value is a notional account which can only be used to buy an immediate annuity from the insurer at a price the company sets (there's a stated maximum price in the contract). Generally, on a two-tiered annuity only the annuitization value will be credited with any bonuses and index gain that you receive. Since most deferred annuities are surrendered rather than annuitized, it's very important to understand that if you buy a two-tiered annuity, you *cannot* access the annuitization value directly as cash. If you withdraw money from the cash value, it will affect your annuitization value and, during the surrender charge period, surrender charges will apply.

HOW DO I KNOW IF A FIXED INDEXED ANNUITY IS RIGHT FOR ME?

The questions listed below may help you decide. You should think about what your goals are for the money you put into the annuity. You also need to think about how much risk you're willing to take.

These are the questions you should ask yourself.

How comfortable am I with risk?

After I buy the annuity, how much money do I need to have available to cover major expenses and emergencies? How much will I have for these expected expenses?

If I had to surrender the annuity, am I comfortable with the minimum guaranteed surrender value on the contract?

Am I comfortable with the length of time that I'll pay surrender charges if I withdraw money from the annuity?

How long can I leave my money in the annuity?

Does the annuity let me get money when I need it?

How soon will I need income payments? How much retirement income will I need in addition to what I'll get elsewhere?

Will I need income payments only for myself or for myself and someone else?

If the annuity loses money, will I still have enough income to meet my needs?

These are questions you should ask the agent or the insurance company.

When is the earliest I can get money out of the annuity and how much can I get?

To which index is the annuity linked? Do I have a choice? Will I have the option in the future to change the index the annuity is linked to ?

What is the minimum guaranteed surrender value?

When is the indexed interest credited?

Does my annuity have an interest rate cap? What is it and how long is it guaranteed? Is there a minimum cap? Is the cap in addition to, or instead of, a spread or participation rate?

Does my contract have a participation rate? What is it and how long is it guaranteed? Is there a minimum participation rate? Is the participation rate in addition to, or instead of, a spread or cap rate?

Does my contract have a spread? What is it and how long is it guaranteed? Is there a maximum spread? Is the spread in addition to, or instead of, a participation rate or cap rate?

If there is a bonus, when it is credited and on what amount?

Is there a recapture provision or vesting schedule which could cause me to lose my bonus?

Do I lose any bonus if I take a lump sum rather than annuitize my accumulation value? Are there other ways I could lose the bonus?

If I take a lump sum and surrender the annuity, will the accumulated value or the way interest is credited change before I do this?

Is this a single premium or flexible premium contract?

Is there a Market Value Adjustment (MVA) feature in my annuity?

How long is the free look or right to return period?

How long is the contract term?

How much are the withdrawal charges, surrender charges and other penalties? How long do they apply?

How much can I withdraw without paying surrender charges or losing interest?

What other charges may be deducted from my premium or contract value?

How much will the total charges and fees be each year?

What happens to the money in my annuity if I die?

FINAL POINTS TO CONSIDER

Before you decide to buy an annuity, you should review the contract. Terms and conditions of each annuity contract will vary.

Ask yourself if, depending on your needs or age, and annuity and *this type* of annuity are right for you. Taking money out of an annuity may mean you'll pay income taxes and/or penalties. If you're exchanging an annuity, the new annuity may have new expenses you must pay directly or indirectly. Also, you may pay surrender charges on the old annuity. If you're selling another asset, are there penalties associated with that sale? Will you have to pay taxes on the sale?

An annuity is intended to be a long-term product. Generally, you should keep it long enough to avoid penalties.

If you're buying an annuity to fund an IRA or other tax-deferred retirement program, ask what the advantages are of this approach.

When you receive your annuity contract, **READ IT CAREFULLY!!** Also, read the disclosure the company provides. Ask the agent and company for an explanation of anything you don't understand. Do this **before** any free look period ends.

If you can't get the answers you need from the agent or company, contact your state insurance department.

ANNUITY TERMS

Accumulation Period: The time when the money you put into the annuity, less any applicable charges, earns interest.

Accumulation Value: The sum of your premiums plus any interest credited less any charges deducted.

Annuitize: Converting the lump sum of the accumulated value of your annuity to a series of payments.

Annuity: A contract with an insurance company that pays income to you, usually over time.

Bailout Option: A feature in some annuities where there's no charge if you surrender your contract when the company's current interest rate falls below a certain level.

Beneficiary: A person who receives part or all of the money in the annuity if the annuitant dies. May also be an organization such as a charity.

Benefit Base Value: A value on an annuity that features a Guaranteed Lifetime Withdrawal Benefit (GLWB); only used to calculate your lifetime income payments. The Benefit Base Value can't be taken if you cash surrender the annuity.

Benefit Rate: The rate used to determine the size of the income payments you'll receive when the accumulation period ends. Varies by age, gender, and the payment option chosen.

Bonus Interest Rate: An interest rate that's higher than the current interest rate and is credited to your accumulation value as an incentive for you to buy an annuity and to keep it. The company may only pay the bonus interest rate if you meet certain conditions, such as annuitizing the accumulated value or not taking money out.

Cap Rate: The maximum interest rate that will be used to calculate the interest to credit on an indexed annuity.

Contract Fee: A flat dollar amount that's charged either once at purchase or annually during the annuity.

Crediting Strategy: The method used to calculate your return on an indexed annuity; depends on the index used, the indexing method, the index term and the participation, cap and/or spread rates

Death Benefit: The annuity benefits paid to the beneficiary upon the death of the contract owner or annuitant.

Deferred Annuity: An annuity where your money earns interest for a period of time before it's converted into a series of payments back to you.

Disclosure: A document the insurance company is required to give you when it delivers the annuity contract; summarizes the annuity contract and specifies how interest is earned and how all charges are calculated and summarizes what happens if you take money out before it's scheduled to be paid and how much money you will lose if you do this.

Dow Jones Euro Stoxx 50: A market capitalization-weighted index of 50 blue-chip stocks from the countries that participate in the European Monetary Union.

Fixed Annuity: An annuity where your money earns interest at rates set by the insurance company or in a way spelled out in the annuity contract. The company guarantees that it will pay no less than a minimum rate of interest.

Fixed Indexed Annuity: An annuity in which the return on your money depends on the market index you choose. The company guarantees the value of your annuity won't decrease as long as you don't withdraw the money.

Flexible Premium Contract: A type of multiple premium annuity where, within set limits, you pay as much premium as you want, whenever you want.

Free Look or Right to Return Period: A set number of days to look at the annuity contract after you buy it and return the contract to get all of your money back. The number of days is set by state law.

FTSE 100: A market-weighted index of the 100 leading companies traded in Great Britain on the London Stock Exchange. The full name is Financial Times-Stock Exchange 100 Share Index.

Hang-Seng: A market-weighted index of 33 stocks making up approximately 70% of the market value of all stocks traded on the Stock Exchange of Hong Kong.

Guaranteed Lifetime Withdrawal Benefit: A fixed annuity contract feature that guarantees, at an additional cost, that an annuity owner can take annual withdrawals for life at a stated percentage, based on his/her age, even if the annuity's account value goes to zero.

Immediate Annuity: An annuity where income payments start no later than one year after you pay the premium.

Lehman Brothers Aggregate Bond Index: An index of U.S. Treasury bonds and notes and government-agency bonds (excluding mortgage-backed securities).

Limited Withdrawal: A feature that lets you make one or more withdrawals up to a set amount without paying a charge.

Market Value Adjustment (MVA): A feature in some annuities that adjusts the market value if you withdraw more than the penalty-free amount; the adjustment increases your annuity's market value if interest rates are lower at time of withdrawal than when the contract was issued and decreases the market value if interest rates are higher.

Maturity Date: The date at the end of your accumulation period in a deferred annuity where you must decide to reinvest, withdraw or annuitize the proceeds. Many guarantees in the contract are tied to this date. If you remove your money before this date you may lose money or receive less money than if you had left your money in.

Minimum Guaranteed Surrender Value: The lowest value you can receive from a cash surrender if the index on which interest crediting is based does poorly.

NASDAQ: National Association of Securities Dealers Automated Quotation. The automated quotation system for the Over-the-Counter (OTC) market, showing current bid-ask prices for thousands of stocks.

Nikkei 225: A stock market index for the Tokyo Stock Exchange.

Partial Surrender Charge: A charge paid if you take out part of the annuity value. (See Withdrawal Charge)

Participation Rate: Determines how much of the increase in the index will be used to calculate index-linked interest; may be used with a cap or a spread rate.

Payment Period: The time when the company pays income to you or to someone you choose.

Percentage Of Premium Charge: A charge deducted from each premium you pay; may be lower after the contract has been in force for a certain number of years or after all total premiums paid have reached a certain amount.

Premium Tax: A tax on annuities that some states charge.

Required Minimum Distribution (RMD): IRAs and qualified plans have certain "required" distributions. For IRAs, you must begin to withdraw funds by April 1st of the year following the calendar year you reach age 701/2. For qualified plans, withdrawals must begin by April 1st of the year following the later of (a) the year you reach age 70 1/2 or (b) the year you retire.

Rider: A benefit added to an annuity contract; changes the annuity's terms or conditions.

Rolling Surrender or Withdrawal Charge: A charge in a multiple premium annuity that may apply to each premium paid rather than to the entire accumulated value.

S&P 500 Composite Index (S&P 500): Market value index of stock market activity covering 500 leading stocks in the Standard & Poor's Index.

Single Premium Annuity: An annuity bought with only one payment to the insurance company.

Spread Rate (a.k.a. Asset Fee, Margin): A percentage subtracted from any calculated change in the equity index; may also use a cap or participation rate.

Suitability Review: A review by your agent to recommend the amount of risk you should take if you buy an annuity and if the product you're buying is appropriate.

Surrender: To take all of the money from an annuity and terminate the contract.

Surrender Charge: A charge paid if you take out part or all of the annuity value.

Two-Tiered Annuities. An annuity with two separate and independent values, usually called the annuitization value and the cash value. These values are calculated separately and frequently become further apart over time; over time account value and cash value of a single-tier annuity become closer together.

Variable Deferred Annuity: An annuity where the insurance company puts your money into separate accounts. You decide how the company will invest the money in the accounts, depending on how much risk you want to take.

Window: A short period of time to decide if you want to renew or surrender the annuity. If you surrender during the window, you won't have to pay surrender charges. If you renew, the surrender or withdrawal charges may start over.

Withdrawal Charge: A charge paid if you take out some of the annuity value.