LIGHTBULB PRESS®

GUIDE TO UNDERSTANDING ANNUITIES

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DISB
DC DEPARTMENT OF
INSURANCE, SECURITIES
AND BANKING

GUIDE TO UNDERSTANDING ANNUITIES

CONTENTS

LIGHTBULB PRESS®

Planning for Retirement Income

Retiring means stitching together different sources of income.

When you retire, you'll share a common experience with everyone who has already made the change: You won't get a paycheck anymore.

Without this steady stream of revenue, you'll have to arrange for the income you'll need. Specifically, you'll want to answer the following questions:

- What sources of income are you confident you can count on?
- How much income will they provide each year?
- How and when will the income be paid?
- How will you coordinate payments from different sources to create a steady stream of income, so that there's money in the bank when you need it?

WHAT THE SOURCES ARE

You'll probably count on income from a number of different sources.

Social Security income is paid to people who contribute to the system, and to their surviving spouses.

Defined benefit pensions are designed to provide lifetime income from a plan your employer creates and funds.

Defined contribution plans, such as 401(k) plans, are designed to provide income from contributions and earnings on those contributions, which may be made by you, your employer, or both.

IRAs are individual retirement accounts. You contribute income you've earned to produce tax-deferred investment earnings that you can withdraw after 59½ as retirement income.

Annuities are fixed or variable insurance company products that allow you to convert your premiums and any tax-deferred earnings to lifetime income.

Personal investments in taxable accounts can provide interest, dividends, and capital gains to use as retirement income or reinvest.

Jobs can provide income if you want to work and work is available.

WHEN THE MONEY ARRIVES

Unlike a paycheck, which arrives regularly, retirement income arrives on different schedules. Social Security, annuity, and pension payments usually come monthly. Others, like stock dividends, arrive quarterly. Interest on bonds is paid semi-annually. Few, if any payments, are weekly or biweekly. That means you have to think about balancing the amount coming in to meet your expenses.

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PUTTING IT TOGETHER

Managing your finances during retirement involves juggling your sources of income to make sure you have enough money to live on. It's a lot like making a quilt: No piece by itself is big enough to keep you warm at night. But properly stitched together, the pieces can provide a lot of comfort.

THE BIGGER PICTURE

The regular income you can expect from Social Security and a defined benefit pension depends on your work history. In general, the longer you work and the higher your salary, the more income you can anticipate, up to the annual ceilings.

Realistically, though, neither of these sources is likely to be as important a provider of retirement income in the future as it has been in the past. Social Security faces an imbalance between what it collects and what it pays out. And fewer employers are offering defined benefit plans.

The retirement income you can expect from investments you've made depends on three things: how much is invested, where it's invested, and the long-term return those investments provide. You have much greater control over these choices, so much greater responsibility for the outcome than you may realize. That's why it's critical to put basic investment principles to work, including asset allocation and diversification, across your tax-deferred, Roth, and taxable portfolios. It's also why you want to start thinking seriously about retirement income before you start thinking seriously about retiring.

TURNING INVESTMENTS INTO INCOME

One of the challenges you face in planning retirement income is that net worth doesn't translate directly into income that you can use to pay your bills or make new investments. Stocks may pay dividends, but part of their value is the price per share you could realize only if you sold—and that value could drop in a weak market. You can spend bond interest, but if you liquidate the bond when it matures rather than reinvesting the principal, you won't earn interest in the future.

On the other hand, you must take required regular cash distributions from your tax-deferred retirement accounts once you reach 72. To meet that requirement—and create a cash flow—you might establish a systematic withdrawal schedule, or, in the case of an annuity contract, choose annuitization. That means converting your account value to a lifetime income stream.

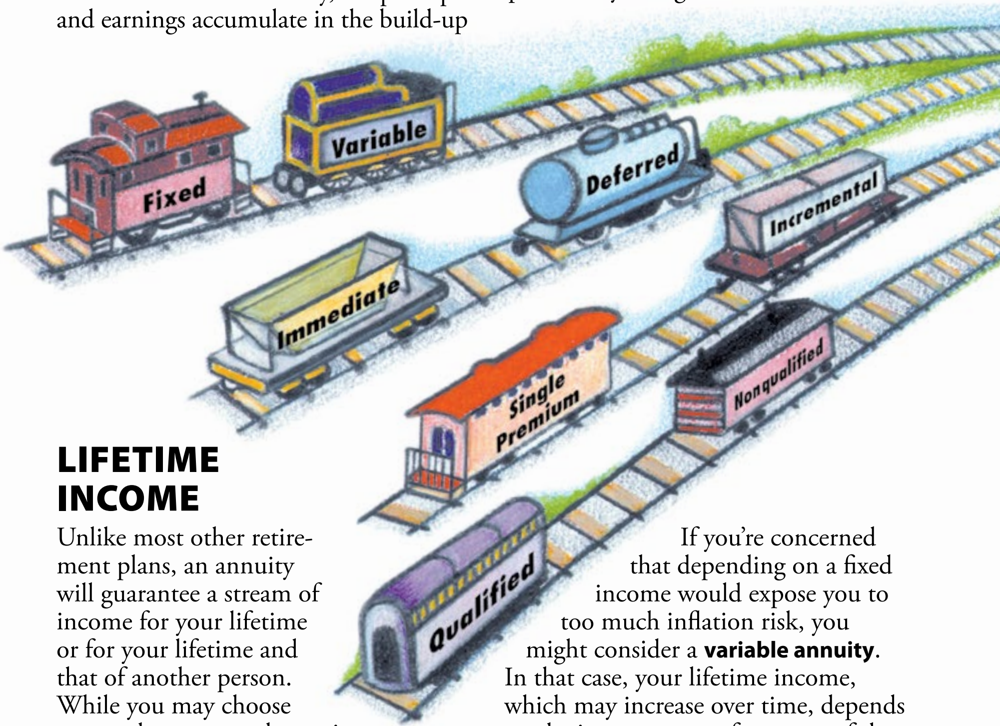
One approach is to spread your retirement savings around among a number of products and accounts, each designed to fill a different role. That might mean putting some money in stocks, some in bonds, some in mutual funds, some in real estate, and some in fixed or variable annuities or both.

The Possibilities of Annuities

You decide on the annuity features that put you on the right track.

Annuities are insurance company contracts. The premiums you pay and tax-deferred earnings on those premiums are designed to be a source of retirement income, either in the future if you choose a **deferred annuity** or right away with an **immediate annuity**.

With a deferred annuity, the principal and earnings accumulate in the build-up period. Eventually you can **annuitize**, which means you convert your account value to a stream of lifetime income, or you can take the money some other way. With an immediate annuity, the lifetime income you receive is based on several factors including the amount of your purchase, your age, and the interest rate.

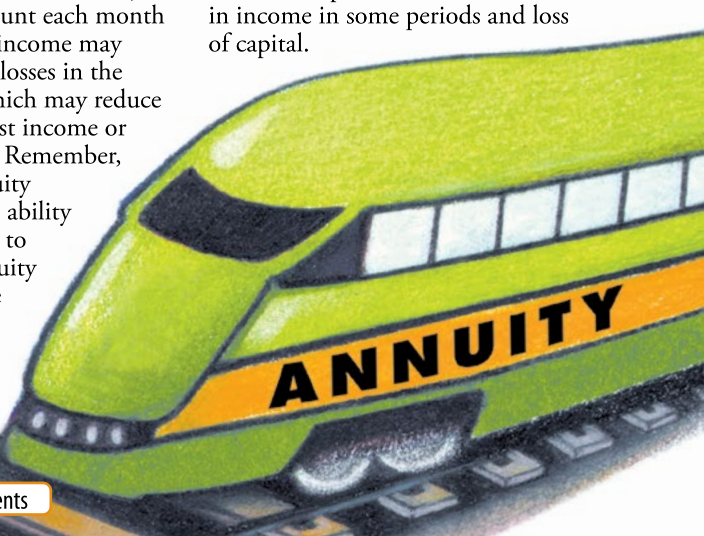


LIFETIME INCOME

Unlike most other retirement plans, an annuity will guarantee a stream of income for your lifetime or for your lifetime and that of another person. While you may choose some other payout alternative if it's a better fit with your long-term financial plan, the assurance of income for life can help make your retirement more secure.

For example, if your **fixed annuity** pays you a specific amount each month for your lifetime, your income may not be as vulnerable to losses in the investment markets, which may reduce your dividend or interest income or eat into your principal. Remember, though, that fixed annuity income depends on the ability of the issuing company to pay, so researching annuity company ratings before buying is crucial.

If you're concerned that depending on a fixed income would expose you to too much inflation risk, you might consider a **variable annuity**. In that case, your lifetime income, which may increase over time, depends on the investment performance of the subaccounts, or investment funds, you select from among those offered in the contract as well as the company's ability to pay claims. The risks in this case include the potential for a decrease in income in some periods and loss of capital.



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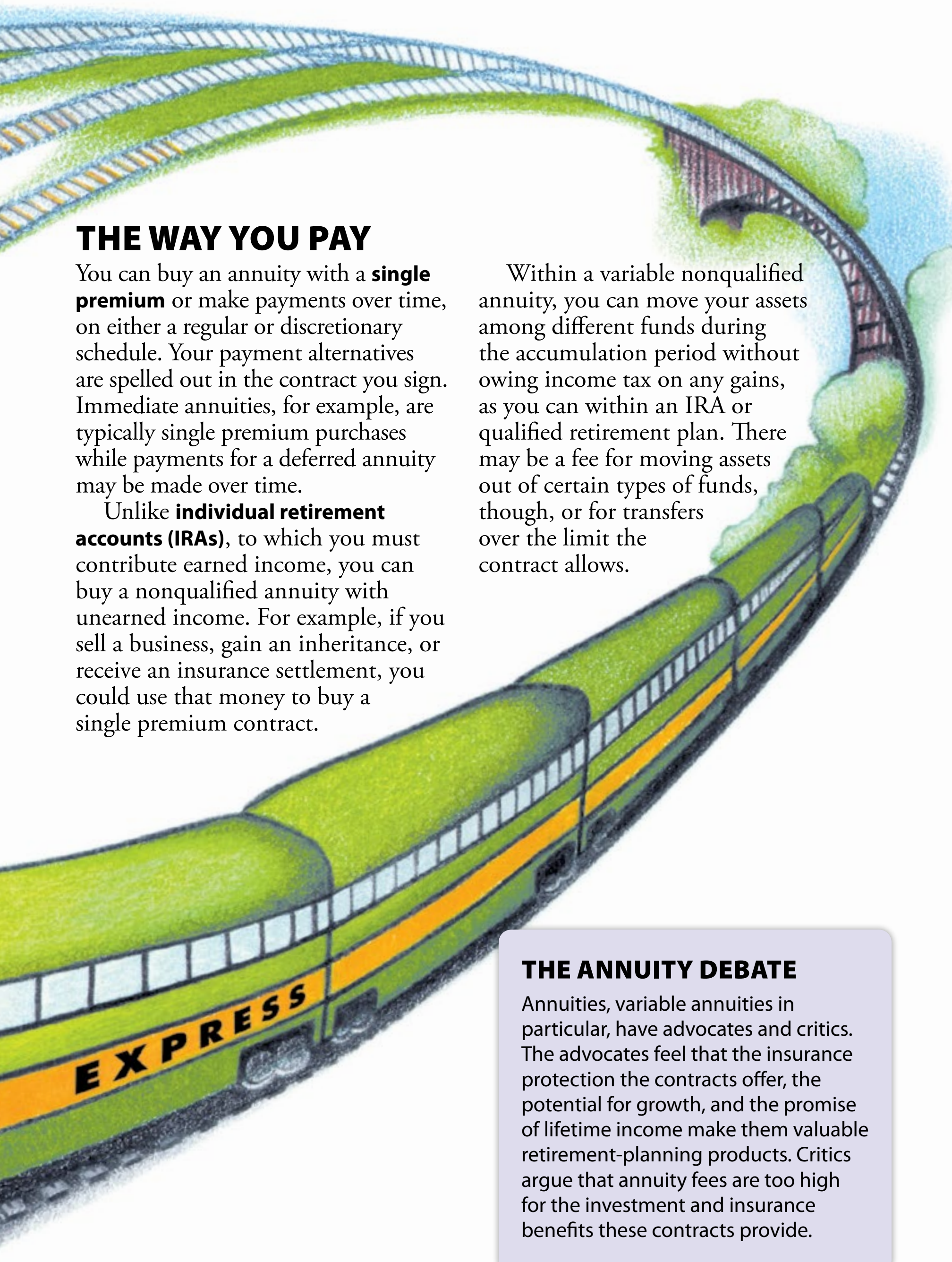
QUALIFIED OR NONQUALIFIED

If you participate in a retirement plan where you work, you may find that your employer includes a fixed or variable annuity, or both, in the menu of plan choices. When annuity contracts are offered through a **qualified plan** they are considered **qualified annuities**. In this case, qualified means subject to the federal rules that govern how the plans are operated.

Money you contribute to a qualified annuity reduces your current taxable salary in addition to accumulating tax-deferred earnings. But you must begin taking required withdrawals no later than 72 and take at least the required minimum each year.

Alternatively—or in addition—you can buy an annuity that's not offered through a qualified plan. In this case, the contract is a **nonqualified annuity**. Among the key differences are that you pay the premiums with after-tax dollars, you can contribute more than the federal limit for qualified plans, and you can postpone taking income until much later in your life if you wish.



THE WAY YOU PAY

You can buy an annuity with a **single premium** or make payments over time, on either a regular or discretionary schedule. Your payment alternatives are spelled out in the contract you sign. Immediate annuities, for example, are typically single premium purchases while payments for a deferred annuity may be made over time.

Unlike **individual retirement accounts (IRAs)**, to which you must contribute earned income, you can buy a nonqualified annuity with unearned income. For example, if you sell a business, gain an inheritance, or receive an insurance settlement, you could use that money to buy a single premium contract.

Within a variable nonqualified annuity, you can move your assets among different funds during the accumulation period without owing income tax on any gains, as you can within an IRA or qualified retirement plan. There may be a fee for moving assets out of certain types of funds, though, or for transfers over the limit the contract allows.

THE ANNUITY DEBATE

Annuities, variable annuities in particular, have advocates and critics. The advocates feel that the insurance protection the contracts offer, the potential for growth, and the promise of lifetime income make them valuable retirement-planning products. Critics argue that annuity fees are too high for the investment and insurance benefits these contracts provide.

Choosing Annuities

You may want to add annuities to your retirement portfolios.

If you participate in a retirement savings plan where you work, you may find that your employer includes a fixed or variable annuity, or both, in the menu of plan choices. When annuity contracts are offered through a **qualified plan**, such as a 401(k), they are considered **qualified annuities**. In this case, qualified means subject to the federal rules that govern how the plans operate. Among these rules are limits on the amount you can defer to your account annually.

Participating reduces your current taxable salary while allowing you to accumulate tax-deferred earnings on your account balance. But, as with other qualified plans, you must begin taking distributions when you turn 73 and take at least the required minimum each year.

NONQUALIFIED ANNUITIES

If your employer plan doesn't offer an annuity, you're not enrolled in a plan, or you want to save more than you can with a qualified plan, you can buy what's known as a **nonqualified annuity** from the insurance company that issues the contract, a brokerage firm, or a financial adviser.

Among the key ways that nonqualified annuities differ from their qualified siblings are that you pay the premiums with after-tax income, you can save more than the federal limit for qualified plans, and you can postpone taking income until much later in your life if you wish. In addition, while you must purchase qualified annuities with earned income, you can use income from any source to buy nonqualified annuities.

Despite these differences, though, qualified and nonqualified annuities function in very much the same way—accumulating earnings that can be converted to income.

ANOTHER APPROACH

In addition to the annuities available through employer plans and those you can purchase directly from their providers, you can buy an annuity within an individual retirement account (IRA) you hold at a bank, brokerage firm, or investment company. Or, you can open an IRA with an annuity provider. In that case, IRA stands for individual retirement annuity.

With these IRAs, the annual contribution limit that applies to all IRAs applies to the annuity, and you must purchase it with earned income. In addition, you must begin to take required minimum distributions (RMDs) at 73 unless you have selected a Roth IRA, from which distributions are not required.

There are potential limitations to using annuities in an IRA. You are adding a layer of additional fees to your account. That could make it harder to achieve the same return as you realize if you allocated your account similarly using low-cost mutual funds. On the other hand, some of the fees pay for a guaranteed death benefit, the option of a guaranteed lifetime income, and locked-in minimum earnings.

NONQUALIFIED *VS.*

Post-tax, or after-tax, dollars are what's left of your earnings after taxes are taken out. Contributions to nonqualified annuities are made with after-tax dollars. When you eventually take money out of nonqualified annuities, you don't owe tax on the portion of the withdrawal that's considered return of principal. It has already been paid.

WAYS THEY'RE ALIKE

Tax-deferred earnings
Early withdrawal penalty

WAYS THEY'RE DIFFERENT

Invest after-tax dollars
No contribution limits
Income from any source
Flexible withdrawal rules

An annuity contract purchased to fund an IRA or employer sponsored plan will not provide tax-deferral benefits beyond those provided by the IRA or plan itself. Investors should consider whether an annuity's features and benefits, in addition to those provided by tax deferral, are appropriate for their retirement needs.

QUALIFIED ANNUITIES

Pretax dollars are what you earn before federal and state taxes are deducted. When contributions to qualified annuities are made with pretax dollars, it reduces the current income tax you owe because your taxable income is reduced by the amount you invest. Eventually, though, you owe taxes both on the investment and the earnings when you take money out of the plan.

Tax-deferred earnings
Early withdrawal penalty

Invest pretax dollars
Contribution limits
Earned income only
Required withdrawal rules

THE USES THEY SERVE

Because nonqualified annuity contracts may offer greater flexibility than investments offered in some employer plans, using them may allow you to add diversification to your overall portfolio.

For example, if you're part of a plan that makes matching contributions in company stock, you might select a fixed annuity for the regular income it promises to provide. Or, if your defined benefit plan will pay you a fixed amount after you retire, you might choose a variable annuity or a fixed index annuity to take advantage of an opportunity for your annuity gains to outpace inflation.

One approach to using annuities in this way is to invest the maximum allowed in your employer's plan before contributing to a nonqualified annuity. Among the reasons this may make sense are that the annuity premiums you pay are never deductible, so that the amount you save doesn't reduce your current taxable income.

MAKING CHANGES

If you want to exchange your nonqualified annuity for another annuity with a different insurance company, you can do that with a tax-free transfer known as a 1035 exchange. The new contract may offer features that you find attractive, including new investment options and different ways to access lifetime income. Some annuity providers may also offer contracts that are less expensive than the one you currently own or provide a more generous death benefit.

You don't owe tax on any account earnings at the time of the transfer, but you may owe surrender charges on the contract you're leaving if you're still in the surrender period. You may also be subject to a new surrender period under the new contract.

There are other factors to consider as well, which is why you may be required to sign a form acknowledging that you understand the differences in features and cost between the two contracts and are clear about the ways in which the transfer will benefit you. It may be the case that features you'll be giving up in the transfer are more valuable overall than the ones you'll be gaining.

With a qualified variable annuity, you can generally change the way you have allocated the money you've deferred to your account at least once a year without charge and, in some contracts, more frequently. Again, there's no tax on earnings you transfer among investment funds, but there may be fees for moves you want to make, especially from a fixed income fund.

Surrender charges may apply, however, if you wish to move plan assets you hold in an annuity contract to non-annuity investment options within the plan.

Fixed Annuities

Traditional annuities earn a fixed rate of interest and pay a fixed income.

When you buy a **fixed deferred annuity** contract, you get two promises from the issuer: a fixed rate of return during the **accumulation**, or **build-up, period** while your retirement savings compound, and many ways to receive retirement income, including payments that are guaranteed to continue for as long as you live.

The two promises are related. Your money in the annuity grows tax deferred until you're ready to withdraw. The earnings rate paid on your savings, the amount you save, and the length of time your annuity grows all determine the income you'll receive during the payout period.

The insurer sets the **initial rate**, its term, and a **guaranteed rate**, which is the lowest that will be paid on the contract. After the initial term ends, the rate is adjusted on a regular schedule. There's no way to be sure what the new, or current, rate will be, though the guaranteed rate remains fixed.

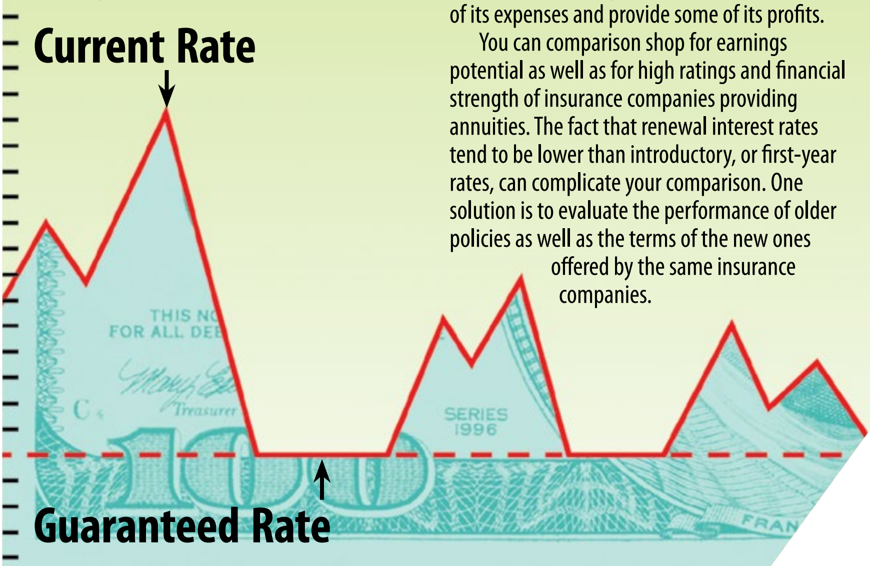
BUILD UP

SETTING THE RATE

The company that issues the annuity sets the **current rate** of interest it will pay on its contract with you and revises it periodically. Rates may be adjusted monthly, annually, or less frequently. When the rate changes, it sometimes increases and sometimes decreases, reflecting what's happening in the economy at large. But it can never go below the **guaranteed rate**, the state-mandated minimum that's set when you buy the annuity.

In general, the new rate is based on the return the company is earning on its own investment portfolio, typically government and corporate bonds and residential mortgages. The **spread**, or difference between what the issuing company expects to earn and what it commits itself to pay out, can help offset some of its expenses and provide some of its profits.

You can comparison shop for earnings potential as well as for high ratings and financial strength of insurance companies providing annuities. The fact that renewal interest rates tend to be lower than introductory, or first-year rates, can complicate your comparison. One solution is to evaluate the performance of older policies as well as the terms of the new ones offered by the same insurance companies.



A SECOND CHANCE

Fixed annuities can have a **bailout clause**, sometimes known as an escape clause, that lets you surrender your policy without penalty if the interest rate that's being offered drops below a certain level, often one percentage point less than the previous rate, even if it's above the guaranteed rate.

There are a couple of catches though: Usually if an annuity's rate drops significantly, interest rates in general have dropped. That means newly issued annuities are likely to be paying at comparable levels to the one you're giving up.

And if you transfer your money to a different type of investment or keep

HOW COMPANIES INVEST

The amount you invest to buy a fixed annuity contract goes into the provider's general account, along with premiums from other investors and other company revenues. Because the company has such large sums to invest, it can diversify its holdings and earn a better return on its investment than you could investing on your own, taking the same investment risk.

A potential downside to buying a fixed annuity may occur if the issuing company gets into financial difficulties, since its creditors have a right to assets in the general account. These situations are relatively rare, however, since insurance companies are regulated and rated regularly, but they can happen.

Be alert: Companies touting fixed annuity returns much higher than the rates offered by the competition may be too good to be true. Sometimes, promises of stellar returns are a red flag that annuity money is going into riskier investments, like junk bonds. Before buying, ask to see the rate that the issuing company has paid over the past ten years and be sure to check the company's ratings.

COMPARATIVE RATES

The more competitive the annuity market, the greater the likelihood that the interest rates on the plans you're considering will be attractive. Typically, the rates are on a par with what you'd earn on a long-term bond, and higher than what CDs and money market funds are paying.

PAY OUT

SAFETY FIRST

Fixed annuities, sometimes called guaranteed annuities, are considered safe because you can count on receiving the specific return you're promised each year.

The guarantee is backed by the insurance company issuing the annuity, not the government. But if you buy your contract from a highly rated company, its financial strength and reputation stand behind your contract.

Rating services such as Standard & Poor's, Moody's, A.M. Best, and Fitch rank annuity providers on their overall financial condition, which underlies their ability to meet their obligations. These reports are available online, from your financial adviser, and from the insurance company if you request them.

INCOME ISSUE

When you convert your account value to income, the amount you receive is fixed when the payout period begins. It does not increase with inflation the way that Social Security payments do. The major risk of any fixed-income source is that your costs will increase over time, but the income you receive will not.

If inflation should increase rapidly, as it sometimes does, an income that was once adequate may leave you short of cash. And the longer you live and continue to collect, the less far your income is likely to stretch even if inflation increases only modestly.

the cash, and you're younger than 59½, you may have to pay a 10% premature withdrawal penalty on your taxable earnings, plus whatever taxes are due. If you withdraw only part of the accumulated contract value, the federal government's rules say that you withdraw earnings first, not the principal. That means you could pay tax on the entire withdrawal amount.

PROTECTING OTHERS

While you usually buy a fixed annuity to provide retirement income for yourself, or for yourself and your spouse, you can also purchase an annuity to provide lifetime income for another person whom you support, such as an elderly relative or a disabled child.

Variable Annuities

Variable annuities offer investors more choices.

Variable annuities have many of the same features as fixed annuities—including tax-deferred earnings and a choice of payouts, plus the opportunity to make unlimited contributions if the annuity is nonqualified. In addition, they offer the potential for greater returns and the opportunity to make your own decisions about how to allocate your assets among investment funds offered through your contract.

A potential downside of variable annuities, though, is that the return is not guaranteed. You may have only small gains—or no gains—in some periods and you could lose principal.

CREATING A PORTFOLIO

With variable annuities, lots of things can vary, or change: the rate of return you earn, the amount of income you receive if you **annuitize**, or convert your account value to a stream of income, and how your money is invested.

When you buy a variable annuity, you allocate your premiums among a number of **investment funds**, also called **subaccounts** or **annuity funds**. The accounts may be designed specifically for the annuity company or may be versions of existing mutual funds that are customized for exclusive annuity use. Although the names of the investment funds may be the same or similar to those of retail mutual funds, they are not the same funds.

Your job is to choose among the funds that the issuing company offers, much as you would with a 401(k) or 403(b) retirement plan. Typically, there will be a dozen or more, including stock portfolios, a money market account, a government bond portfolio, a corporate bond portfolio, and a guaranteed account, which is similar to a fixed annuity investment. Sometimes, you have an even wider choice drawn from a number of different investment management companies.

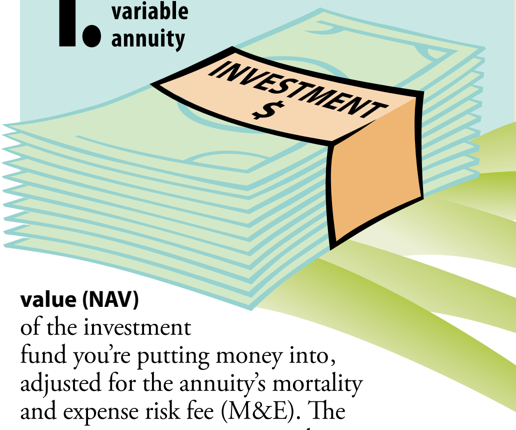
MAKING THE INVESTMENT

You can allocate your premiums however you like, usually on a percentage basis: 50% in a growth stock portfolio, for example, 25% in a balanced portfolio, and 25% in a guaranteed or bond account.

Each time you add money, you buy a specific number of **accumulation units**, or shares, based on the **net asset value (NAV)** of the investment fund you're putting money into, adjusted for the annuity's mortality and expense risk fee (M&E). The **accumulation unit value** is the current value of the investment fund divided by the number of existing accumulation units.

How They Work

1. Choose a variable annuity



GUARANTEED DEATH BENEFIT

Many investors are attracted by the **death benefit** variable annuities provide, which is based on the claims-paying ability of the insurance company that issues the contract. It means that if you die during the accumulation period, your beneficiaries will receive, at the minimum, the amount you put into the annuity. For an added fee, many contracts lock in investment gains regularly so that your beneficiaries receive more than your principal, even if the value has dropped at the time of your death below the amount you put into the account. In contrast, a mutual fund pays your beneficiaries whatever your account is worth at the time of your death, even if it's less than the amount you invested.

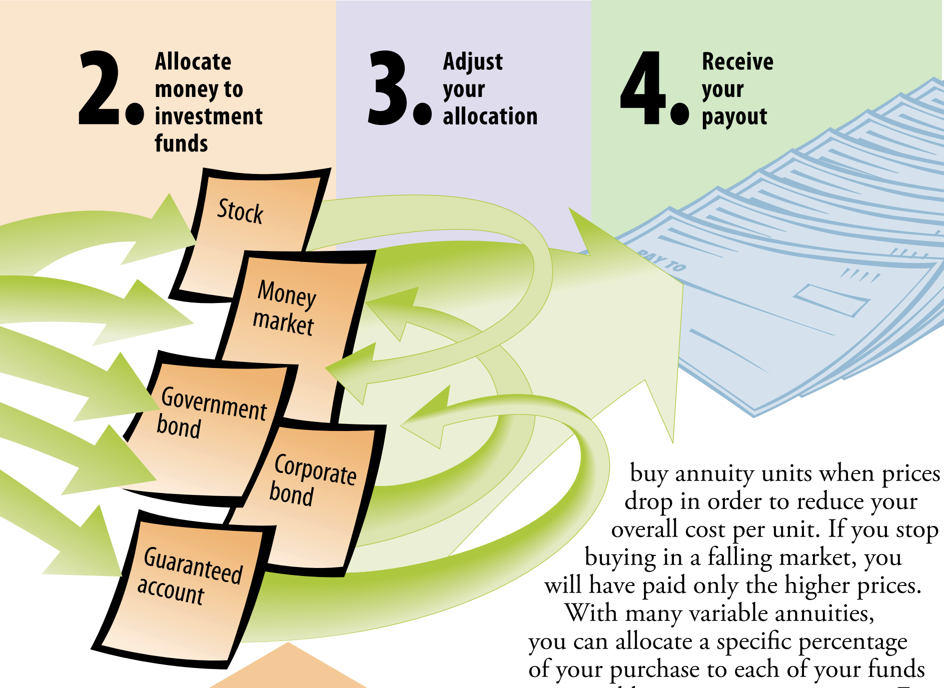
IN THE BALANCE

You can weigh the advantages of fixed and variable annuities.

Variable	Fixed
Various levels of risk	Guaranteed returns
Greater potential rewards	No inflation protection
Choice of investment funds	Fixed return not tied to investment performance
Assets in separate accounts	Assets in general account

THEY'RE YOURS

Variable annuities differ from fixed annuities in another important way. The premiums you allocate to the subaccounts, or investment funds, go into individual accounts held in an issuer's **separate account**, rather than into its general account. (The exception is any money you put in a fixed-income fund.) As a result, this part of your retirement savings may be shielded from the issuing company's creditors.



UNDERLYING INVESTMENTS

The funds you choose in your variable annuity are called your **underlying investments** because the performance of your annuity as a whole is based on how these investment funds perform. And the funds have underlying investments as well: the stocks or bonds they own. It is the collective performance of those stocks or bonds that determines the performance of the fund.

PUTTING MONEY TO WORK

If you purchase a variable annuity by making payments over time, adding a set amount at regular intervals lets you take advantage of **dollar cost averaging (DCA)**. This approach is designed to reduce the risk of trying to choose the best time to buy—though it can't guarantee a profit or protect you against losses.

Because the prices of the underlying investments change regularly, DCA means you purchase a different number of units each time you make a premium payment. Over time, your cost per unit will be less than the average price per unit because you buy more units when the prices are down.

Remember, though, that if you're dollar cost averaging, you must continue to buy annuity units when prices drop in order to reduce your overall cost per unit. If you stop buying in a falling market, you will have paid only the higher prices.

With many variable annuities, you can allocate a specific percentage of your purchase to each of your funds as you add money to your account. For example, if you invest $40,000 and have selected four investment funds, you might put $10,000 into each of the funds. Or, if you invest $400 a month, $100 would go to each of the funds.

Another approach is to put the investment amount in a fixed or money market account within the variable annuity and arrange to have the assets moved gradually into one or more of your investment funds. Transferring small amounts helps you avoid making a large purchase at what might turn out to be the highest price. But it does put your money to work accumulating earnings at a slower pace.

MAKING ADJUSTMENTS

Variable annuities let you diversify by creating asset mixes that you're comfortable with at different stages of your life or in different economic climates. This allows you to share in the performance of a strong stock market or to shift the balance of your annuity from growth to income as you near retirement.

No one mix suits every investor, though the argument for emphasizing equity funds is that they have provided stronger returns over the long term and thus a greater opportunity for growth than fixed-income or stable value funds.

More About Variable Annuities

You call the shots on allocating your assets with a variable annuity.

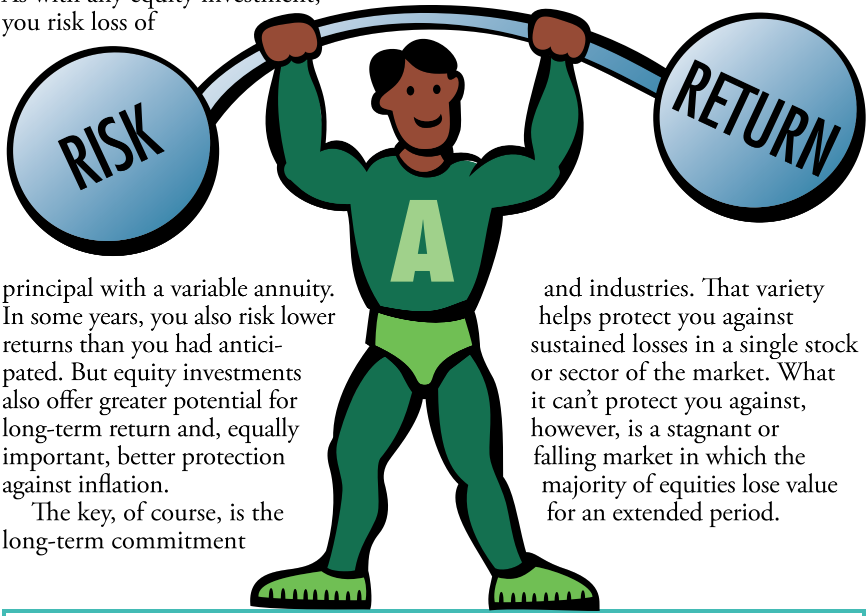
Because they provide more individual control over retirement savings, variable annuity contracts are more flexible and as a result more complex than fixed contracts. In exchange for giving you more options and choices, they require you to make more decisions.

MANAGING RISK AND RETURN

As with any equity investment, you risk loss of principal with a variable annuity. In some years, you also risk lower returns than you had anticipated. But equity investments also offer greater potential for long-term return and, equally important, better protection against inflation.

The key, of course, is the long-term commitment you make. While in some periods the value of a fixed annuity may increase faster than the value of a stock portfolio, historically the longer that money is in equities, the greater the potential for growth.

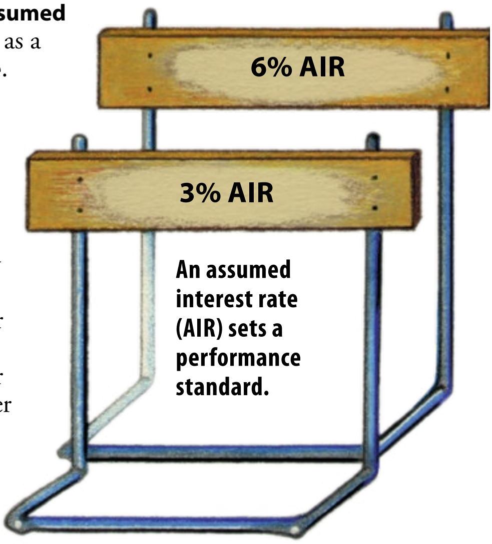
Using a **diversification** strategy, you can select investment funds that are invested in many different companies and industries. That variety helps protect you against sustained losses in a single stock or sector of the market. What it can't protect you against, however, is a stagnant or falling market in which the majority of equities lose value for an extended period.



UNDERSTANDING BENCHMARK RATE

If you choose a variable income option when you annuitize, the amount you'll receive is based on an **AIR**, or **assumed interest rate**. It's also referred to as a **hurdle rate** or a **benchmark rate**.

That rate is used to determine the amount of the first income check you receive and is the standard, or benchmark, that's used to determine whether the checks that follow are more or less than the initial one. You may have the option of picking one of two interest rates. At the lower rate, the initial amount is less, but there's the potential for larger payments over time. At the higher rate, the initial amount is larger and you can expect any increases to be more gradual and drops to be more likely.



An assumed interest rate (AIR) sets a performance standard.

BEATING INFLATION

Traditionally, equity investments in variable annuities have outpaced inflation in two ways.

Over time, equity investments inside and outside annuities have had stronger returns than other asset classes, though they have lost value in some periods. And because any annuity earnings are reinvested and no current taxes are due, annuity funds could gain value more quickly than funds earning a comparable rate if money was withdrawn to pay taxes.

Second, with variable annuities you can leave some or all of your retirement savings in growth accounts even after you begin to take income. That means the payments you receive may increase over time—though of course they may also decrease if investment performance slows.

USING BENCHMARKS

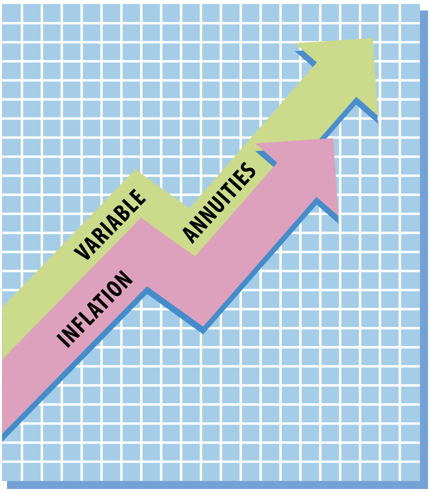
If you have a higher **benchmark rate** when you **annuitize**, and convert your account value to a stream of income, the amount of your first check will be larger than if you have a lower rate. If your investment continues to produce the same return after annuity and investment expenses are subtracted (admittedly an unlikely prospect) your annuity income will stay the same. But any change, up or down, in the performance of your investment funds means you'll receive different amounts of monthly income over the time you collect. In some variable annuitization plans, the amount is adjusted annually, and monthly payments throughout the year remain at the same dollar amount.

A lower benchmark would produce a smaller initial payment. But you can anticipate larger increases in your monthly income when the performance of the investment funds you've chosen is strong, and you have more protection against a drop in income, since the market return may be less likely to drop below the lower rate.

To compare what different annuities offer, you can ask your investment adviser to track what's happened to variable incomes over the past ten years, and what a sustained drop in the underlying investments would mean to your income.

AN ADDED PLUS

Another major appeal of variable annuities is that you can make tax-free transfers among the funds your annuity offers. For example, if you're convinced



it's time to increase the percentage of your retirement savings in more aggressive growth stocks, you can shift money from a balanced or money market fund. Or you might want to readjust your asset allocation from time to time. This flexibility lets you have continuing control over your retirement savings.

No taxes are due on any gains in your investment funds when you reallocate within your variable annuity. But there may be a charge if you exceed the number of transfers your contract permits in a calendar year.

MVAs IN VARIABLE ANNUITIES

Sometimes there may be a **market value adjustment (MVA)** on transfers from the fixed-income account of a variable annuity, to adjust for increases and decreases in interest rates. For example, if you wanted to transfer $10,000 from a fixed account to an equity fund prior to the maturity date and after interest rates had gone up, you could move a portion of that amount but owe a contingent deferred sales charge, or back-end load. The terms of each contract can be different, so make sure you check what such an adjustment would be as part of your buying decision.

INSURANCE GUARANTEES

Part of the cost of owning variable annuities is the insurance protection they provide:

- The guaranteed death benefit to protect beneficiaries against market downturns
- The right to choose a payout option that provides income you can't outlive
- The guarantee that the fee that pays for this insurance will not increase

Fixed Indexed Annuities

Earnings on some deferred annuities are linked to stock market performance.

If you can't decide between a fixed and a variable annuity, or if you're uneasy about investing directly in the stock market, you may want to investigate a **fixed indexed annuity**.

Fixed indexed annuities earn interest at a rate determined in part by the performance of a specific stock market index, often the S&P 500, not including dividends. If the index gains value during the specific time period set in the contract, your indexed account is credited with a return that's linked to that gain. This provides an opportunity for your account value to grow. If, on the other hand, the index loses value in the specified period, as it may do, your indexed account is credited with 0% interest rather than a negative return.

UNDERSTANDING THE APPEAL

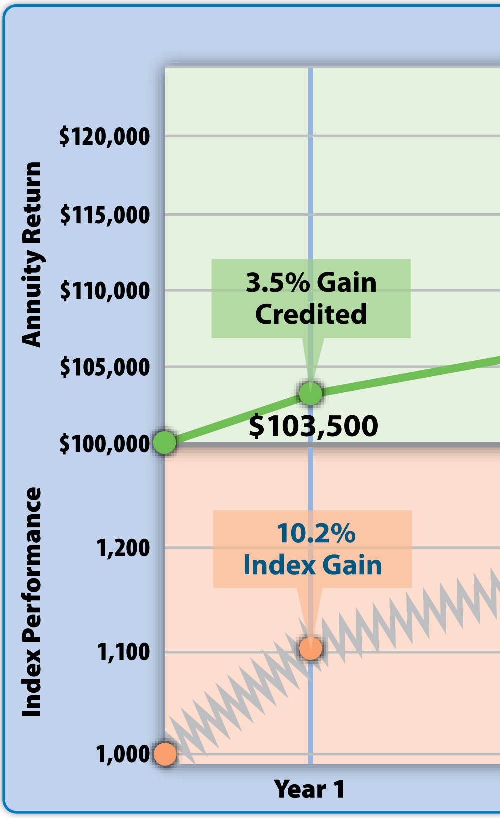
By protecting your principal against market downturns, the issuer of a fixed indexed annuity insulates you against market volatility—provided, however, that you hold your annuity for the index period during which you're accumulating interest. The period is often 10 years from the date you sign the contract though it may be 5 or 15 years.

But if you surrender your contract before the end of the index period, two things happen. You pay a surrender fee, which may be 10% of your premium or higher in the first year and typically drops one percentage point each year until it disappears. In addition, what you're repaid is the guaranteed minimum account value of your account. That's typically 87.5% of your premium plus any interest that has accumulated. Some but not all contracts have a guaranteed minimum rate.

As with other fixed annuities, the contract guarantees are backed by the issuer's ability to meet its financial obligations.

COMPUTING THE INTEREST

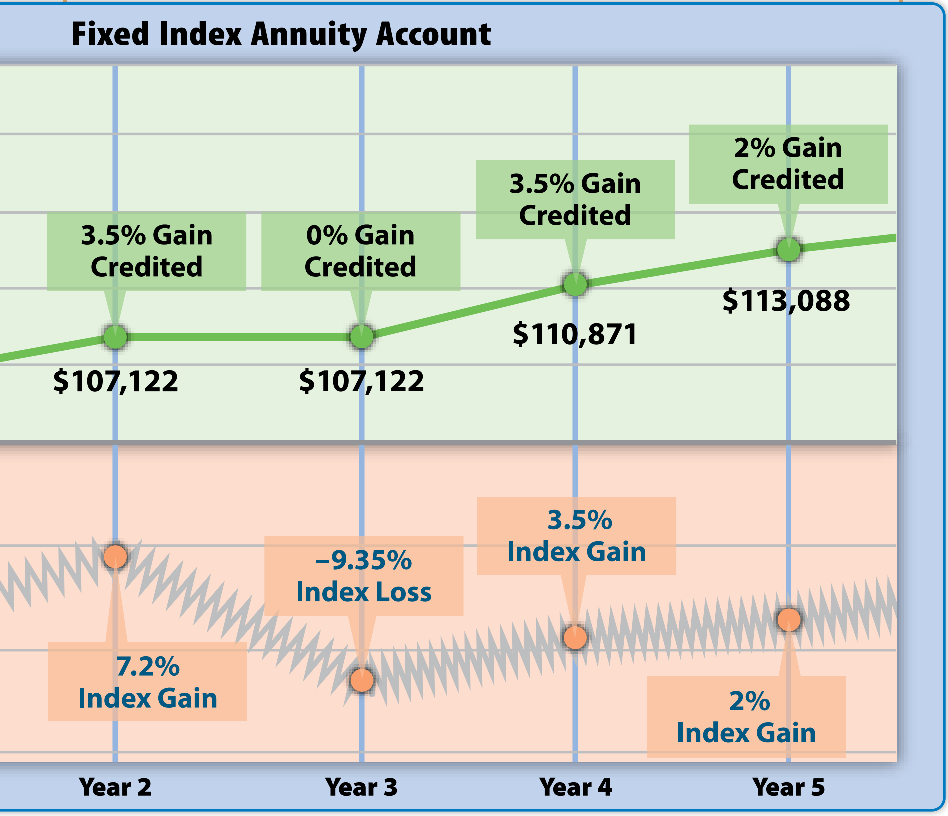
The contract you make with the annuity issuer will explain the indexing features it uses to calculate the interest that's added to your account. In most cases, there's some combination of a **participation rate**, a **spread** or margin, and a **cap**.



- A participation rate determines what percentage of the index gain will be credited, typically in a range from 50% to 100% or sometimes more. So, if the rate was 85% and the index gain was 10%, 8.5% of the gain would be credited.
- A spread or margin is a percentage that is subtracted from the gain to determine what will be credited. So if the margin was 4% and the gain 10%, 6% of the gain would be credited.
- A cap is the maximum rate that will be credited whatever the index gain is. For example, with a 3% cap, you would be credited with a 3% return whether the index return was 3% or 30%. However, if the index rose less than the cap, say 2%, your account would be credited with a 2% gain.

The various rates can be adjusted, up or down, at the issuer's discretion during the accumulation period. If more than one factor is used, as is often the case, the one that results in the

HOW INDEXING WORKS
This simplified hypothetical illustration shows the upside gains and downside protection that a fixed index annuity provides. Index gains are reflected in a rising account value, but index losses do not reduce the account's value. Interest allocated to the contract compounds over time. Contract features, such as signing bonus, reset of crediting method, or locked in gains, may boost value.



lowest credited rate takes precedence.

Issuers can use several methods to identify the change in the index, which is the primary factor in determining the interest to be credited to their contracts. A key difference is where the start and end points that book-end the change are set. Because you choose the crediting strategy for your account and can change strategies annually or bi-annually, it's smart to investigate how each of the approaches works.

The calculation may be done each month or each year, with any potential gain credited to your account. Or the calculation may be done only once, at the end of the annuity's term. In that case, it is the difference between the index levels on the days that start and end the index period that determines your return.

WHAT TO CONSIDER

You may have good reasons to add a tax-deferred fixed indexed annuity to your portfolio, provided you are confident you can hold your contract for the full accumulation period and so avoid surrender charges and potential loss of principal.

Your accumulated contract value can be a source of retirement income, either because you annuitize or you purchase a rider for an additional fee that gives you the right to a guaranteed lifetime income benefit. The amount you receive each year for your lifetime will be fixed at the time the payout period begins.

But you'll also want to remember that indexed annuities are complex products. Among other things, contract terms vary from provider to provider as well as among contracts from the same provider. That can make it difficult to compare contracts to each other or to other approaches to achieving a comparable return at a similar level of market risk.

ANOTHER CHOICE
You might investigate a multiyear guaranteed annuity. It pays a fixed interest rate on your principal for a set term, often three to seven years. The guaranteed rate should apply for the full term.

Immediate Annuities

Single-premium immediate annuities convert your lumpsum to an income stream.

Immediate annuities offer something no other retirement plans do: the opportunity to start receiving income right away. That's why they're sometimes described as income annuities.

Since you buy an immediate annuity by paying a single premium, this type of annuity can be an attractive choice if you collect a one-time pension payout, sell a business, inherit money, or receive an insurance benefit and want to convert these assets to a source of regular future income.

What's more, you can purchase an immediate annuity and convert your cash to income at a time that suits you. That's one way they differ from a deferred annuity, which you should consider a long-term commitment to accumulating retirement assets.

LOOKING AT THE BENEFITS

You can set up your immediate annuity to pay out income monthly, quarterly, semi-annually, or annually. That can be a big advantage over other income-producing investments such as bonds, which typically pay on a fixed, semi-annual schedule.

And remember that immediate annuities provide an additional benefit, since part of each income payment is return of principal on which you owe no tax.

One criticism sometimes leveled at fixed immediate annuities, and annuities in general, is that you lose access to, and control over, your assets. However, some immediate annuities let you commute your contract, which means you can accelerate your payments, or take some or all of the cash value minus expenses in a lump sum at any point.

WHERE THE MONEY GOES

When an annuitant dies sooner than expected, what happens to the assets that have accumulated in the annuity contract? If the payout is for a term certain, the beneficiary continues to receive income for that period. If it is a lifetime payout, the assets revert to the issuing company, where they are used to provide income payments to other annuitants who live longer than expected. In fact, the guarantee of lifetime income based on average life expectancy assumes that just as some people will live longer, others will die sooner.

FIXED INCOME

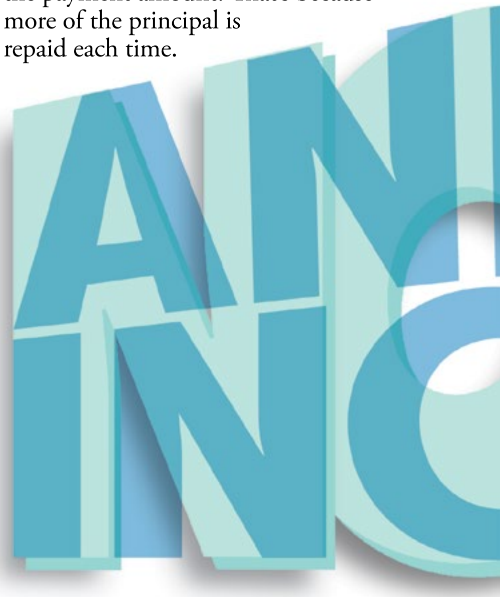
A **fixed immediate annuity** provides a steady, reliable stream of income for your lifetime, for two lifetimes, usually yours and your spouse's, or for a certain term, or period of time.

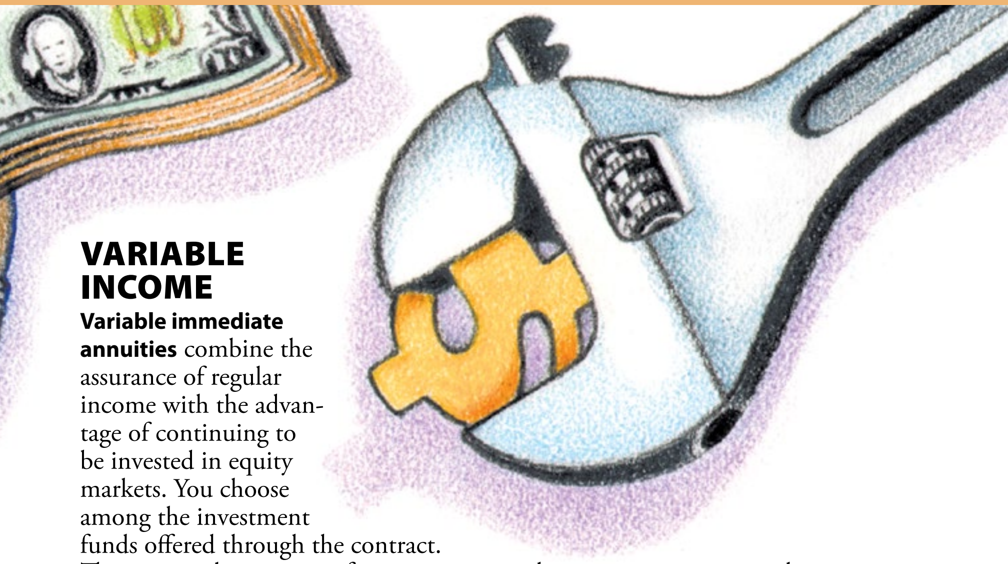
As with other annuities, the income you receive depends on the size of the premium, your age or joint ages, the interest rate, and the number of guarantees that are provided. For example, a payout guaranteed to last as long as you and your spouse are alive will provide a smaller payment than one paid solely for your lifetime.

One issue with this type of annuity is that fixed income is vulnerable to inflation, since the cost of living will most likely increase over your lifetime but the money you get from the annuity will not.

For some people, though, being assured that a specific amount will arrive on a regular basis is more appealing than having to take responsibility for managing their assets or worry about getting smaller payments in some periods. For example, a surviving spouse who inherits a substantial sum can avoid having to make investment decisions by converting the money to a fixed immediate annuity.

Remember that the older you are when the income begins, the higher the payment amount. That's because more of the principal is repaid each time.





VARIABLE INCOME

Variable immediate annuities combine the assurance of regular income with the advantage of continuing to be invested in equity markets. You choose among the investment funds offered through the contract. That means the amount of income you receive may increase over time, so that you're in a better position to keep pace with or exceed the rate of inflation.

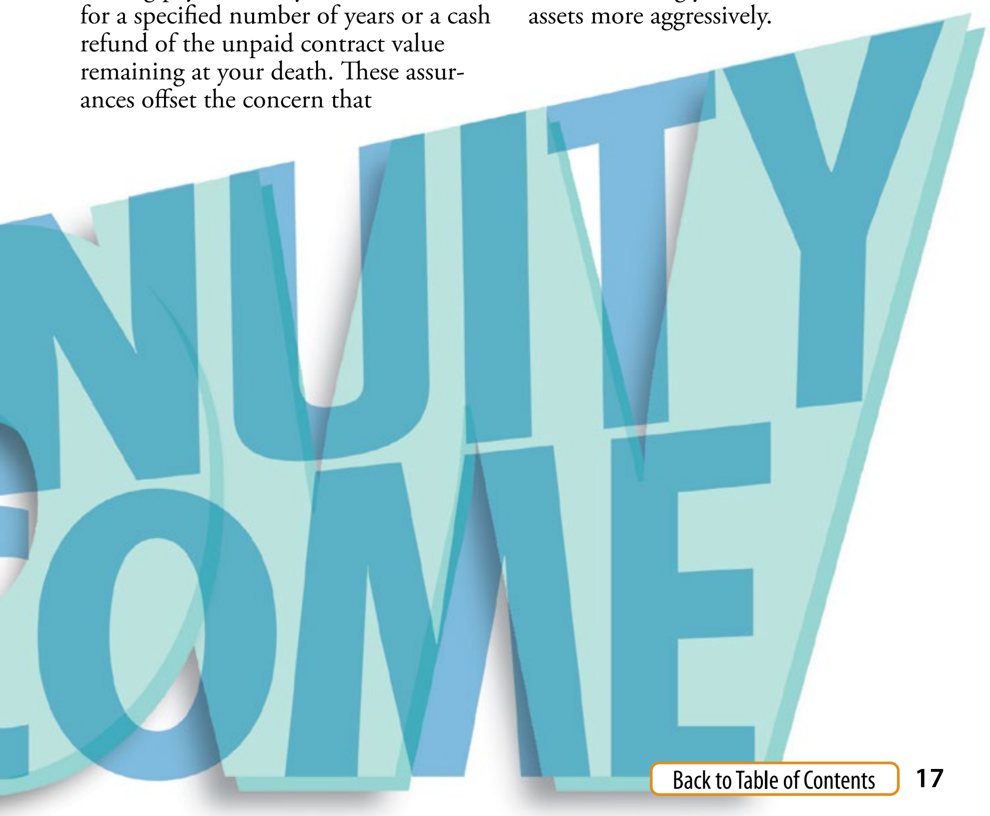
Of course the amount you receive may also decrease at any time if investment performance declines. Historically, however, the equity markets have been a good way to beat inflation over the long term.

Most variable immediate annuities offer the same types and varieties of investment accounts that deferred contracts provide. Most also allow you to choose the benchmark rate by which your portfolio's performance will be measured.

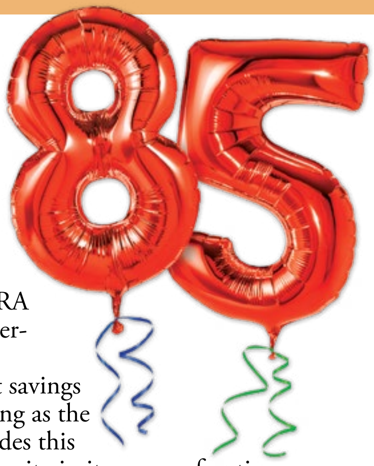
In an immediate annuity, the death benefit protection is in the form of continuing payments to your beneficiaries for a specified number of years or a cash refund of the unpaid contract value remaining at your death. These assurances offset the concern that the issuing company might not pay out all you have invested if you die sooner than you expected. But they do depend on the claims-paying ability of the annuity company.

WHERE ANNUITIES FIT

Generally speaking, an immediate fixed or variable annuity works best as part of a package that includes income from Social Security, your qualified retirement plans, IRAs, and your other investments. The lifetime income that an annuity provides may be an important factor in helping to ensure that you won't outlive your assets. Annuity income may also make you more comfortable about investing your other retirement assets more aggressively.



Longevity Annuities



One challenge in investing for retirement is the possibility that you could outlive your savings.

People over 80 are the fastest growing age group in the United States, a trend that the Bureau of the Census expects to continue for the next 40 years. One consequence of this demographic shift is increased interest in the ways retirement savers may be able to avoid running short of cash as they live into their eighties and nineties.

One relatively new long-term planning tool is an insurance company product known as a **longevity annuity**, also known as a deferred income annuity. These annuities resemble pension annuities from an employer's defined benefit plan or the fixed immediate annuities that you might purchase when you retire. The insurance company, in return for a lump-sum payment, promises to pay income for your lifetime.

The difference is that the income doesn't start right away, or within a year of purchase, as it does with a pension or an immediate annuity. Rather, the starting date is a number of years in the future, based on the age you select. It just can't be older than 85.

BENEFITS OF LONGEVITY

You may purchase a longevity annuity through your investment professional or directly from an insurance company. Or, you may make a lump-sum transfer within a tax-deferred IRA or employer-sponsored retirement savings plan, as long as the plan includes this type of annuity in its menu of options.

One of the key benefits of owning a longevity annuity within a tax-deferred plan is that the US Department of the Treasury has ruled that a longevity annuity's account value is exempt from the required minimum distribution (RMD) provision that applies to tax-deferred IRAs and employer plans once account holders turn 73.

If you choose to transfer a lump sum to a **qualified longevity annuity contract (QLAC)**, you effectively reduce your IRA or defined contribution (DC) plan balance. This, in turns, reduces the amount you would otherwise need to withdraw each year from your tax-deferred accounts until you begin receiving income from the QLAC. This may add to the annuity's appeal, particularly if you have a substantial IRA or DC balance and would be required to take large taxable withdrawals when you don't really need the income to live comfortably.

There is a catch. You can't transfer everything from your IRA or retirement savings account to a QLAC.

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The limit is $200,000 in 2023, with no percentage-of-savings limit. That amount may increase over time to keep pace with inflation.

LONGEVITY INCOME

The annual amount you'll eventually receive from a longevity annuity is based on four factors:

- Purchase amount
- Current interest rate
- Your age when you purchase the annuity
- Age at which you plan to begin receiving income

Obviously, the larger the principal, the higher the rate, and the longer the time between purchase and payout, the more you should expect to receive. However, if you die before the annuity payments begin, many contracts state that no payouts will be made.

Some newer contracts, though, guarantee return of principal to your account, and so to your beneficiaries, if you die before the full amount has been paid out in benefits. The drawback of this protection is that the amount the annuity will pay you, if you do live long enough to collect, is substantially reduced. Other riders, which provide principal protection or inflation protection, may be available as well, though they also significantly reduce your payout.

A GOOD IDEA, OR NOT?

There are some potential advantages to a longevity annuity. If you're in good health and can reasonably expect to live a long time, the expectation of a regular income stream from the longevity annuity may make you more comfortable about how you manage your money earlier in retirement. It may also ease any concerns you may have of becoming a burden on your family or needing income to pay for long-term care.

On the other hand, once you've purchased a longevity annuity, you'll have no access to the money even if you need it for unexpected expenses. Further, since all longevity annuities have a fixed rate of return, the future income that you're promised when you purchase the contract is likely to have more limited buying power when you begin receiving payouts than it does at the present, thanks to the impact of inflation.

OPTIONS TO CONSIDER

If you have $200,000 available to purchase a longevity annuity, you might want to work with your financial adviser to explore alternatives that have the potential to provide a stronger return and so more future income. One example is a Roth IRA, from which no distributions are required. Withdrawals are tax free, while payments from a longevity annuity are not.

Another alternative is a managed account, which can gradually be reallocated to focus less on growth as you grow older and more on income-producing investments. You might also consider a target date or target risk fund. The difference, of course, is that none of these approaches guarantees you lifetime income.

If you do decide that a longevity annuity makes sense for you, you'll discover that each insurer's calculation of future income will vary somewhat from the others. An adviser can help you evaluate whether that's the result of higher fees or a different assessment of future interest rates. You should also evaluate the financial standing of the insurer issuing the product. Any future income will depend on the claims-paying ability of the issuing company.

Annuity Income

Annuities exist to provide income in retirement.

Once you're ready to start receiving income from a deferred annuity, all you have to do is let the annuity company know that you want to convert your contract from accumulation to payout. If you own the annuity in an employer plan or IRA, you must set a date no later than April 1 of the year following the year you must start taking RMDs. If the annuity is nonqualified, your contract will specify a maturity date by which the payout must begin.

The process is even easier with an immediate annuity. When you buy, you choose a start date sometime within the next 13 months.

GROWING MORE FLEXIBLE

The earliest deferred variable annuities offered two choices when you were ready to start receiving income. You could convert your contract to the payout phase, a process called **annuitization**. That generally provided income for as long as you lived but left nothing for your beneficiaries when you died. Or, rather than annuitizing, you could surrender your contract, which meant getting your premiums and earnings back in a lump sum, minus expenses, and owing tax on the earnings. Once you chose, you couldn't change your mind.

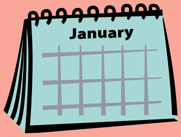
Since then, many different annuity payout options have been added that offer greater liquidity and flexibility, even though the basic purpose continues to be to provide retirement income.

For example, many annuity policies now offer a life annuity with a term certain that guarantees payments until the end of the term even if you die before then. And many contracts offer income that continues for a fixed period rather than as long as you live. With some **commutable** contracts, you may be able to accelerate your payments under certain circumstances. That means you can withdraw a lump-sum amount after annuitization begins rather than continue to receive regular payments. Though changing your mind may be possible only with certain types of payout plans, the flexibility has real advantages if your life situation changes.

INCOME CHOICES

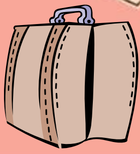
When you're ready to take income, annuity contracts typically offer a number of choices:

- **Lifetime income**



- **Income for a fixed term or period**

- **Systematic withdrawals**



- **Lump-sum withdrawals**

INCOME CHOICES

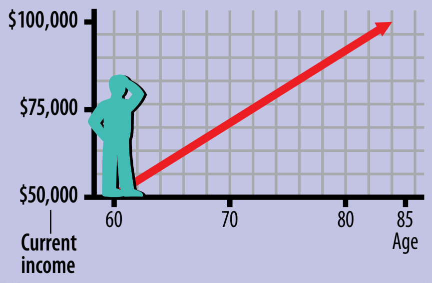
The income you receive from your annuity depends on a number of factors. The most important are the purchase payment for an immediate annuity or the total accumulated value of a deferred annuity, your age when you begin taking income, the payout option you choose, and whether the income is fixed or variable.

If you have a fixed annuity, the payout amount is traditionally fixed as well. Some newer contracts, though, build in the potential for periodic increases of 1%, 2%, or 3% to account for increases in inflation that boost the cost of living.

If you have a variable annuity, you can choose the way you income amount will be figured. You can generally select variable income, which fluctuates depending on the performance of your investment funds.

Or, with many contracts, you can choose fixed income or a combination of fixed and variable to provide a measure of stability as well as the potential for growth.

INFLATION REALITY CHECK



A GUARANTEE AT A PRICE

Some variable contracts offer a guaranteed lifetime withdrawal benefit (GLWB) rider. The rider, which carries an additional fee, promises protection against investment losses and the opportunity to benefit from investment gains, which increase the amount you will be eligible to withdraw. Advocates point to the added financial security a GLWB provides, while critics express concern about the cost and complexity of this protection.

MAKING YOUR MONEY LAST

One of the biggest challenges you'll face in retirement is managing your money so that it will last for the rest of your life. Here are some questions to consider as you make your plans:

1. What effect will taking money out of your various retirement accounts have on their continued ability to grow and provide income for as long as you live?

2. What part of your income can you count on and what part is less predictable?

3. How diversified are your income sources? Are you too vulnerable to major changes in the economy, including declining interest rates?

Converting to Income

You need a plan to insure your income meets your needs.

Making the leap from deciding to take retirement income to putting that decision into action can be nerve-wracking. That's because the choices you make can mean a major difference in the way you live—sometimes for 30 years or more. And putting off decisions often seems easier than making them.

Realistically, though, you improve your chances of achieving the best results when you determine the income you'll need, weigh various ways it can be provided, and select the approach that seems likely to best meet your needs.

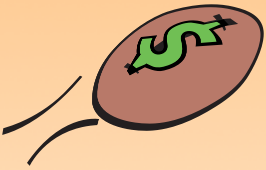
WHAT THE ISSUES ARE

To make a strategic decision about the method you select to take income from your deferred or immediate annuity, it's smart to begin by analyzing what portion of your overall retirement income the annuity will provide. That makes it easier to determine:

- Your plans for the annuity income
- The right time to start taking that income
- The tax consequences of various ways of receiving the income
- How long you want the income to last

You may need more income early in your retirement than you will later on. And you may be more comfortable spending money on travel, for example, if you've deliberately created a stream of income designed to pay for it.

Make a Plan



PLANS FOR THE MONEY

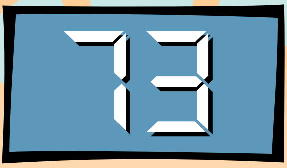
The way you plan to use the money is often the key factor in choosing a payout method. So you should be aware of the advantages and drawbacks of your alternatives.

If you plan to make a large, one-time investment in the short term, you may decide that taking a full or partial **lump sum withdrawal** is preferable to choosing a life payout. You'll want to check your contract to see if there's a penalty or an extra fee if you choose not to convert the account value to a stream of income.

If you expect to use the extra income to supplement your budget or cover extraordinary expenses after you retire, **periodic** or **systematic withdrawals** may be the method you prefer. Systematic withdrawals let you receive income from the accumulated value of your contract on a regular schedule. You can adjust the amount or timing of the payments by notifying the company. Any earnings on amounts that remain in your account continue to accumulate tax deferred. But the income may not last for your lifetime.

Or, you can **annuitize** and convert your account value to a stream of income.

Pick the Right Time



SETTING THE TIME

There are some timing restrictions on withdrawing from a deferred annuity. Usually there's a 10% penalty if you take income before you turn 59½.

If your deferred annuity is part of a qualified plan or an IRA, you generally have to start by the time you reach 73, beginning in 2023. With nonqualified annuities, you've usually got another ten years or more before you must make a decision.

You can make an argument for postponing taking income until the last minute, especially if you seem to be managing without it. Then, when you do start, the amount you receive will be larger. For example, in some circumstances a person who begins taking income at 85 might receive almost twice the amount in the initial payment as someone who began at 62.

But there are often reasons for timing annuity payouts to begin when you retire, or even somewhat earlier. Annuities are designed to provide income for you, not to be left to your beneficiary who may end up paying more in taxes than you would on the same income.

To be sure you have the money you want when you want it, you might ask your annuity provider about personalized payout plans or innovative programs for allocating your income. One strategy is to split your variable annuity payout into two streams, one to be paid out over your and your spouse's lifetimes and the other to be paid over five or ten years. For example, suppose you had a $300,000 annuity and allocated 75% ($225,000) to life income and 25% ($75,000) to a ten-year payout.

The amount you received during the shorter payout—perhaps $7,500 or more annually—could be used toward extended travel or other things you've wanted to do. And since you'd planned the income specifically for that purpose, you could spend it with a clear conscience. At the same time, you'd be guaranteed income for life, based on the balance of the contract value and the insurer's ability to pay.

CREATING A REVENUE STREAM

If you decide that the promise of income for life and the advantages of a regular return of nontaxable premiums as part of each income payment make sense for you, it's time for the next round of choices. The order in which you deal with them may vary, but these are the things you have to consider:

- Is the growth potential of variable income more important to your long-term plan than the predictability of stable fixed income?
- Would you prefer to have some variable income and some fixed income?
- If you choose variable income, which benchmark rate of return should you select, provided your annuity company provides a choice of rates?

Know the Tax Penalties

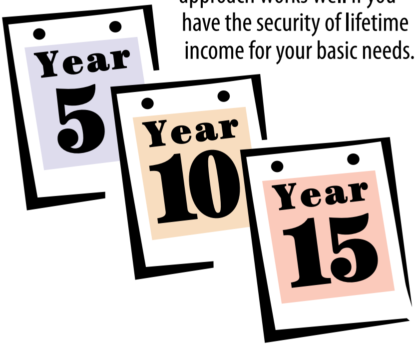
THE TAX CONSEQUENCES

You pay income tax at your regular rate on the taxable portion of your annuity income—on earnings only from a nonqualified annuity and on the entire amount from a qualified annuity or tax-deductible IRA. That's true even on the earnings that may have come from dividends paid on investments in your investment funds or from capital gains from selling those investments.

If you annuitize a nonqualified contract, part of each payment is a tax-free return of principal until your total premium has been repaid. But if you take a partial lump-sum payout or arrange for systematic payments, the tax law assumes that you withdraw all of your earnings first and tap the principal only after you've used up the earnings. What this means is that you will pay more in taxes in the early years with these methods than if you had annuitized.

FIVE YEAR PLANS

Since there's no way to be sure how long you'll live and need income, one approach is to make plans for five-year segments. That's long enough to see the effect of taking income from various sources during changing economic cycles. But it's short enough to catch potential problems and make adjustments in your spending style. This approach works well if you have the security of lifetime income for your basic needs.



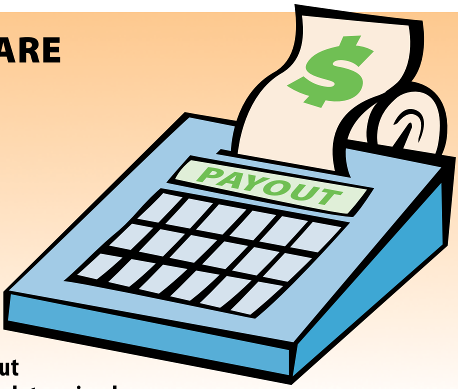
Annuitization Options

You can take annuity income in the way that suits you best.

When you buy an immediate annuity, or when you're ready to convert your deferred annuity into income, you will have to choose the way in which that income will be paid. Every contract offers a range of choices that provide different benefits, pay different amounts of income, and cover different periods of time.

WHAT YOUR OPTIONS ARE

While some contracts offer more income options than others, or use different language to describe your choices, you generally have six or seven alternatives, each with distinctive characteristics. You can get a good sense of how they differ by analyzing the information in the chart.

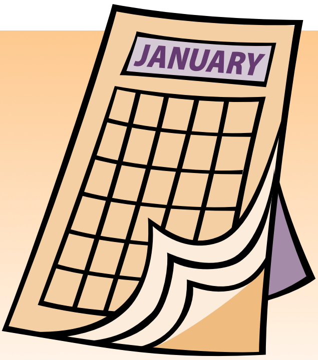


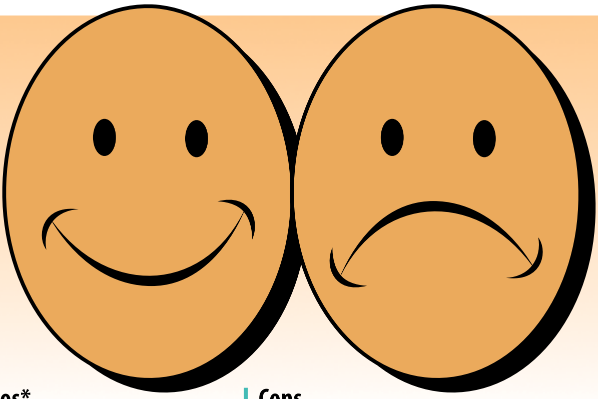
Payout option	How payout amount is determined
LIFE ANNUITY	Based on contract value, your age when payments begin, and interest rate (if fixed income) or investment performance and AIR (if variable income)
LIFE INCOME WITH PERIOD, OR TERM, CERTAIN	Based on contract value, your age when payments begin, interest rate (if fixed income) or investment performance and AIR (if variable income), and the length of the guarantee (typically from 5 to 20 years)
LIFE INCOME WITH REFUND PAYOUT	Based on contract value, your age when payments begin, interest rate (if fixed income) or investment performance and AIR (if variable income), and the refund guarantee
JOINT AND SURVIVOR LIFE ANNUITY	Based on contract value, your age and the age of your joint annuitant when payments begin, and interest rate (if fixed income) or investment performance and AIR (if variable income)
JOINT AND SURVIVOR ANNUITY WITH PERIOD, OR TERM, CERTAIN	Based on contract value, your age and the age of your joint annuitant when payments begin, interest rate (if fixed income) or investment performance and AIR (if variable income), and the length of the guarantee (typically from 5 to 20 years)
FIXED AMOUNT (AVAILABLE ONLY WITH A FIXED INCOME PAYOUT)	You say how much income you want
FIXED PERIOD, OR TERM	Based on contract value, the length of time you choose to receive income, interest rate (if fixed income) or investment performance and AIR (if variable income), and length of term

*Annuity income and insurance features depend on claims-paying ability of contract provider.

ALL IN THE TIMING

The income you receive from a deferred annuity when you annuitize depends on several factors, including the **contract value**, which is premiums plus earnings minus expenses, your age and the age of your joint annuitant if you have one, the current state of the economy, and the issuing company's ability to pay. If interest rates are low, the income from a fixed annuity will be less than it would have been had rates been higher. You may want to consider post-poning annuitization or converting only part of your contract value to income if it's possible.





How long payout lasts	**Pros***	**Cons**
Income lasts for your lifetime	• Income as long as you live • The highest amount of income available in a lifetime payment plan	• When you die, the payments stop, even if that occurs shortly after your payout begins, which means you may not get back the full value of your contract
Income lasts for your lifetime or at least as long as the term you select if you die sooner	• Income as long as you live • Beneficiary continues to get income for remaining term certain if you die before it expires	• Income amount will be less than with life annuity
Income lasts for your lifetime or at least until all of the refund-able value of the contract has been paid to your beneficiary after your death	• Income as long as you live • Your beneficiary continues to get income if you die before the contract value has been paid out	• Income amount will be less than with life annuity and probably less than life with period certain, depending on length of the period certain
Income lasts for your lifetime and the lifetime of your joint annuitant	• Income as long as you and your joint annuitant live • Flexibility in setting amount of second annuitant's income	• Each payment less than with single life alternatives, though payments can last longer • No payment to beneficiary upon death of both annuitants
Income lasts for your lifetime and your joint annuitant's lifetime or at least as long as the term selected if you both die sooner	• Income as long as you and your joint annuitant live • Beneficiary continues to get income for remaining term certain if you and your joint annuitant die	• Income amount will be less than with other joint and survivor annuity
The time the payments will last is set based on the contract value and interest at the time payments begin	• Potentially the highest amount of income, but the larger the payment the shorter the time frame • May be commutable	• No lifetime guarantee, so you may outlive your income since all of your assets will be gone at end of payout
You choose how long you want the payments to last	• You know how long income will be coming in • May be commutable	• No lifetime guarantee, so you may outlive your income since all of your assets will be gone at end of the term

Annuitization Strategies

You can control the flow of retirement income.

If using annuity payments to provide lifetime income is the strategy that seems to make the most sense to you, you can select a payout plan that suits your individual situation. The alternatives you'll want to consider include whether the income should last for one lifetime or two and whether you should include a period certain to guarantee at least a minimum number of payments.

INFLUENCING

Who will receive the money?

JOINT AND SURVIVOR OR **SINGLE LIFE**

Should the payout be life only or joint and survivor? For many people, wanting to provide lifelong income for a spouse or other person is the driving force in choosing a joint and survivor payout. Each individual payment amount is less than with a single life annuity, but the total over two lifetimes can be more, sometimes much more.

When isn't a joint and survivor policy the wiser decision? Among the factors to consider are how much income each of you has from other sources and how healthy you are. For example, if you own an annuity and your spouse has a good defined benefit plan, taking a single life annuity might make sense. It would provide more income than a joint and survivor payout, and your spouse is already guaranteed lifetime income. Similarly, if your spouse is ill, and unlikely to outlive you, a single life annuity might be the wiser choice.

What percentage should the survivor get?

50% OR **100%**

How much income should the survivor receive? The follow-up decision to choosing a joint and survivor payout is what percentage of the income that you receive while you're both alive should be paid to the surviving partner. There are usually several choices, with the least being 50% and the most 100%.

The decision involves trade-offs, as so many things do. If the surviving partner gets 100% of the income, the amount you get while you are both alive will be less. But the goal in choosing that alternative is that the survivor will have as much income as he or she needs.

On the other hand, a variable annuity paying the survivor 50% may provide sufficient income, since the living expenses of one person should be less than for two. Additionally, the variable annuity paying the survivor 50% may be able to provide enough growth to make up the difference over time if the investment funds you've chosen produce strong returns.

In one hypothetical example, a surviving spouse might receive an initial 50% payment of $228 following the annuitant's death. Some years later, the amount might climb back to $414, only $42 less than they had been receiving together. Of course, there is the equivalent potential for payments to decrease if the investment funds you've chosen do not produce strong returns.

THE FIXED ALTERNATIVE

There are circumstances when knowing exactly what you can count on each month may seem more appealing than the potential for growth.

You can get fixed income from your variable annuity by using either part or all of the accumulated value of your contract. The way it works is that the assets in your investment accounts are liquidated and deposited into the annuity provider's general account. The company then takes on the responsibility for making regular income payments.

With some contracts, you may also be able to choose a fixed payout that increases in increments of 1%, 2%, or 3%, reflecting increases in the cost of living. With this feature, your payments may initially be smaller than if you had not chosen increasing payments.

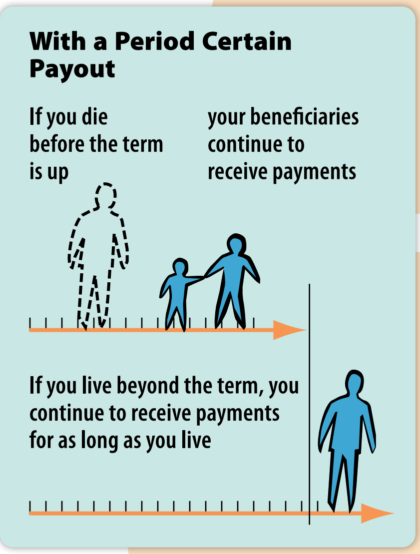
FACTORS

How long will you get the money?

PERIOD CERTAIN OR **LIFETIME**

Should you choose a life annuity that guarantees a certain number of payments? One reason people give for choosing not to annuitize is that they're afraid if they die shortly after they begin receiving payments, they will forfeit a large portion of the amount they spent to purchase the annuity. To avoid that situation, some people choose a period certain payout guaranteeing that they or their beneficiaries will receive income for at least a minimum period, typically 5, 10, or 20 years.

You can choose a period certain payout whether you take a single life or joint and survivor option. Although the guarantee reduces the amount you get somewhat, its appeal is that it provides added peace of mind.



Should you take a payout that guarantees life income? You may choose a **guaranteed lifetime withdrawal benefit (GLWB)** rider that promises you can take lifetime income based on what's known as your income base or total withdrawal base and your age when you start taking the income. For example, if you're 75 and have a single life rider, you might be able to withdraw 5% of your income base each year, depending on the contract issuer.

There's the potential for added income if your investment account—which is different from your income withdrawal base—increases in value because investment markets go up. But there's also the assurance of at least the minimum withdrawal if the investment account value goes down—provided you don't withdraw more in any year from your investment account than the maximum percentage your contract sets.

Complexity and cost, which can equal or exceed the fees you're already paying for your variable annuity, are the two chief drawbacks of this approach.

FIXED TERM PAYOUTS

If you want to receive more income each month than annuitization would provide, and won't be dependent on annuity income to cover long-term expenses, you may want to choose a fixed-term payout, such as ten years. When you select this option, you may also have the opportunity to **commute**, or cash in, your annuity for a lump sum rather than stretch out the income.

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Understanding Variable Income

Variable income means the amount of your payments will change to reflect investment performance.

The point of choosing variable income when you annuitize your contract is the potential for the income to increase over time. Such increases are dependent on growth in the value of the underlying investments in the annuity funds you've selected. For example, if you've invested primarily in equity funds and the stock market gains value, your account should gain value.

Of course, growth isn't guaranteed. So your income could be less in one year than it was the year before if investment markets lost value or the funds you chose didn't provide a strong return.

THE AIR FACTOR

Whether or not you realize an increase in income in any year also depends on another factor: the contract's assumed interest rate, or AIR. The AIR is a benchmark against which the annual return on your annuity funds, minus expenses, is measured. If the net return is equal to the AIR or exceeds it, the return will translate into higher income. But if the net return is less than the AIR, your income will decrease.

For example, if the AIR was 3.5% and the net gain in the value of your investment funds is five percentage points, your income will increase. But if the AIR was 5.5% and the net gain was the same five percentage points, your income would drop despite the increase in your account value.

In some contracts, the AIR is set by the annuity issuer and in others you may have a choice of two rates that vary by one and a half to three percentage points, such as 3.5% and 5% or 3% and 6%. If you choose the lower rate, your initial income payment will be lower than it would have been with the higher rate. But the performance of your investment funds can meet or exceed the benchmark more easily than if the AIR were higher.

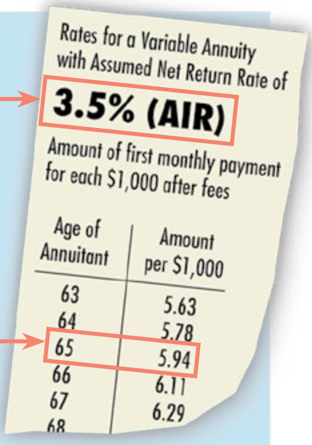
ACCUMULATION PERIOD

Invested monthly	**$500**
Value of account at time of annuitization	**$100,000**

WHEN YOU ANNUITIZE

1. Account value is fixed at $100,000

2. Your present age and the AIR benchmark you've chosen determine how much per $1,000 in your account will be in your first payment


Rates for a Variable Annuity with Assumed Net Return Rate of

3.5% (AIR)

Amount of first monthly payment for each $1,000 after fees

Age of Annuitant	Amount per $1,000
63	5.63
64	5.78
65	5.94
66	6.11
67	6.29
68	

3. The number of thousands in account is multiplied by the rate

100
x $5.94

Your first monthly payment = **$594.00**

FINDING THE INITIAL PAYMENT

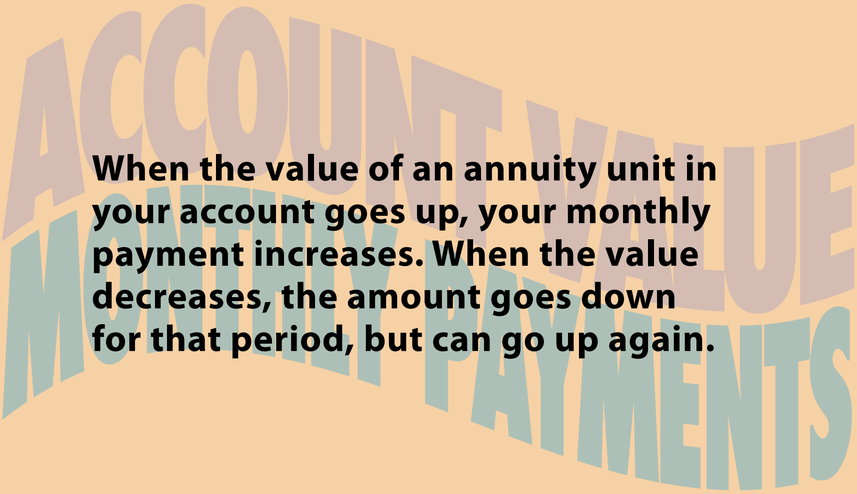
Once the benchmark has been set, you can compute the minimum amount you'll receive in your first payment by using the tables included in your contract. There's a different table for each of the AIRs and payment options the contract offers.

For example, assume you owned a variable annuity contract whose payment tables showed that a life annuity with an AIR of 3.5% would pay $5.94 for each $1,000 of accumulated contract value if you annuitized at age 65. If your contract was worth $100,000, your first monthly check (or direct deposit) would be $594 ($5.94 times 100, the number of 1,000s in $100,000).

IN THE BALANCE

Variable annuities are complex products, and the process involved in determining the ups and downs of variable income can be particularly confusing. But investors are typically attracted by their potential, based on past performance, to offset the impact of inflation during retirement, although that's no guarantee of future results.

Once the amount you're receiving increases, any decreases in value are based on the most recent payments, not the amount of your first payment. For example, if over several years the amount you received increased from $267 to $400 and then values declined for a time, your payments might go down to $350 or even less. It is less likely, based on historical figures, that your payment amount will drop below $267, though in a serious downturn, or in a downturn occurring soon after your income stream began, it could.



When the value of an annuity unit in your account goes up, your monthly payment increases. When the value decreases, the amount goes down for that period, but can go up again.

HOW VARIABLE INCOME WORKS

After the first payout, the amount you receive can go up or down depending on the performance of your investment portfolios. The first step in the process is to convert your first payment into a set number of **annuity units**. This is done by dividing the initial payment by the annuity unit value at the time of the payment. Next, this constant number of units is multiplied by the annuity unit value at the time of each future payment to determine the amount of that payout in dollars. Here's how it works:

STEP ONE: DETERMINING ANNUITY UNITS

In the example in the box on the previous page, the first payment was $594. If the annuity unit value at the time of the payment was $10, you would be credited with 59.4 units (594 ÷ 10 = 59.4). The number of annuity units is then fixed so you always have the same number of annuity units as long as you continue to receive income.

STEP TWO: ASSESSING PORTFOLIO PERFORMANCE

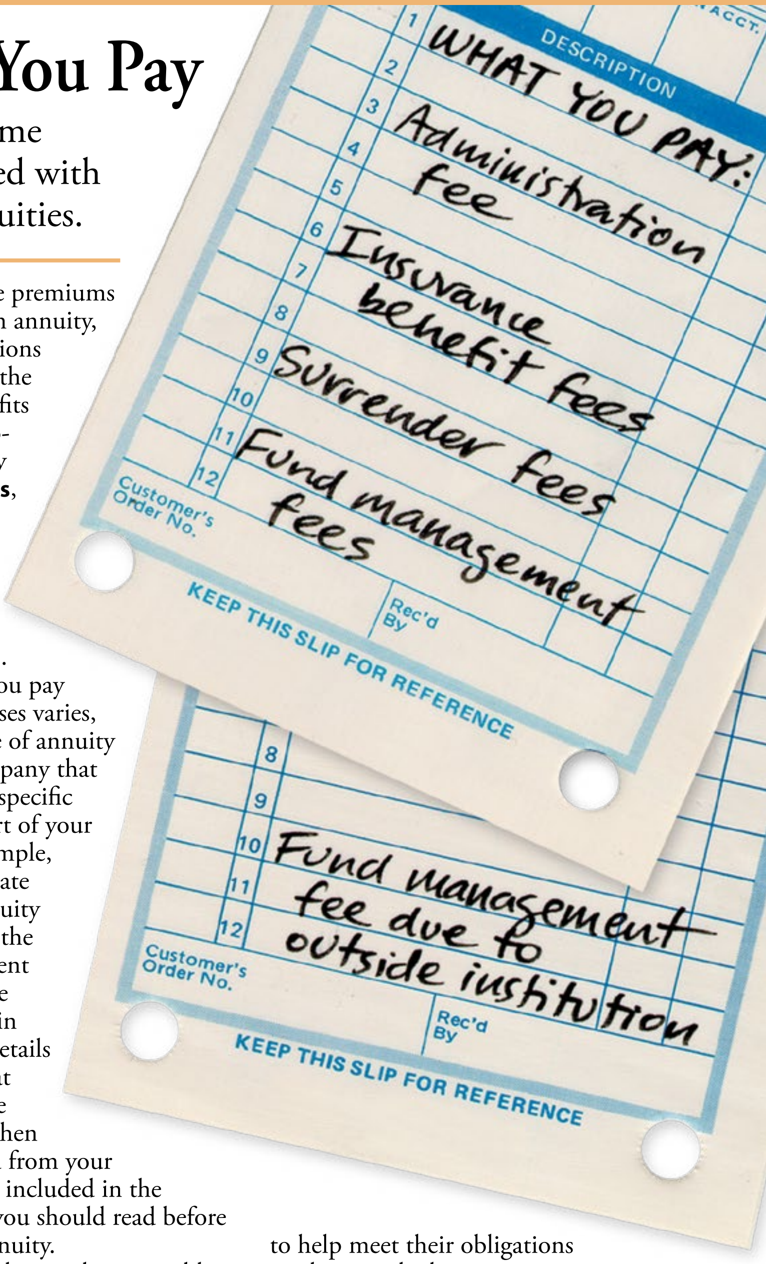
The company determines the value of an annuity unit for your next payment, which can increase or decrease based on the performance of your investment portfolios. If the net return on your investment portfolios is greater than the benchmark rate, the value of the annuity unit increases. For example, if the annual net return on your investment portfolio results in a 6.3% increase over the benchmark, the unit value would increase to $10.63 ($10 x 1.063). But if the net return is less than the benchmark, the value declines.

STEP THREE: CALCULATING NEW INCOME AMOUNT

Finally, the company multiplies the new unit value times the number of annuity units to arrive at the amount of your payment. In this example, the new monthly payment would be $631.42 (59.4 x $10.63 = $631.42). Of course, the amount could go down as well as up in any given period.

What You Pay

There are some costs involved with owning annuities.



In addition to the premiums you pay to buy an annuity, you pay commissions and fees to cover the services and benefits your contract provides and possibly **surrender charges**, which you may owe if you end your contract or withdraw within the first seven to ten years.

The amount you pay in fees and expenses varies, based on the type of annuity you buy, the company that issues it, and the specific terms that are part of your contract. For example, the way you allocate your variable annuity premium among the available investment options affects the amount you pay in fund expenses. Details of the charges that apply, how they're calculated, and when they're subtracted from your account value are included in the **prospectus** that you should read before purchasing an annuity.

There are fees that apply to variable annuities that do not apply to fixed annuities. These fees are used to provide the guaranteed death benefit, which is subject to the claims-paying ability of the issuer, the management and other fees relating to the investment funds, and the various payout options available when you begin to take income.

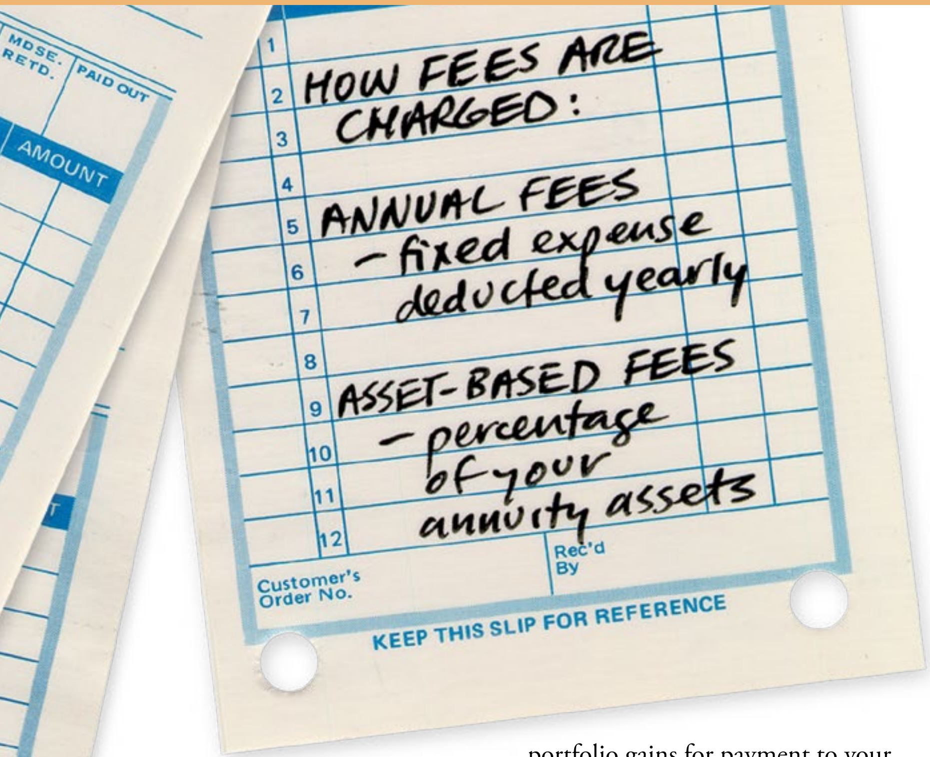
FEE CATEGORIES

All annuity issuers charge you fees that cover overhead, sales and marketing, and the general cost of doing business. You also pay for the risks the issuer assumes, including the possibility that business costs might increase, that annuitants might outlive their life expectancies, or that investments the company makes to help meet their obligations might provide disappointing returns.

You may also pay an **annual administrative fee**. Some contract providers waive the fee once the amount of premium you've paid reaches the required minimum, such as $50,000.

Asset-based fees are a percentage of the total value of your variable annuity, except amounts in a fixed account, deducted daily. All owners of the same contract pay the same percentage of their assets in these fees, but different dollar amounts. In some contracts, the rate drops as your account value increases.

You may also owe a transaction fee, sometimes called a **transfer processing fee**, if you make more transfers among your funds than the contract sets as the norm.



MORTALITY AND EXPENSE FEE

The asset-based **mortality and expense risk (M&E) fee** that is charged on all variable annuity contracts pays for four things:

1. The guaranteed death benefit
2. The option of a lifetime payout
3. The assurance of fixed insurance costs, including the M&E fee itself, which are frozen for the life of the contract
4. The guarantee of minimum annuity purchase rates when you annuitize

The cost of these **insurance features** is a percentage of the total value of your variable annuity each year. In most cases, the fee is subtracted proportionally from each of the investment funds into which you've put money.

When comparing a number of contracts, you'll find that sometimes the M&E fee is higher than average, while administrative and management fees are lower, or vice versa. So you may want to look at the entire fee package, rather than any single component, in evaluating a contract.

MORE BENEFITS/MORE COST

A number of variable annuity contracts offer features often described as **enhanced benefits** or **riders**. One example is a more generous death benefit guarantee, which locks in any portfolio gains for payment to your beneficiary should you die during the accumulation phase. Another benefit is additional protection for your income payments during retirement. These **guaranteed minimum income benefits** ensure a minimum lifetime income stream when you convert the savings in your annuity into income payments. Still other new features, such as long-term care protection, are also offered.

In general, you pay for these enhancements in additional fees. The fees generally reflect the nature and extent of the risks and expenses the company is assuming in providing these extra services.

STEPPED UP DEATH BENEFITS

Initially, the death benefit guarantee provided that your beneficiary would receive the greater of your contract value or the amount of your premium minus any fees and withdrawals if you died during the accumulation phase of your variable annuity. Today, some insurers have added new features to make their annuities more competitive. This means the cost of the death benefit feature may be higher. You have to decide whether the additional protection is worth the additional fee.

Remember too that collecting this benefit depends on the claims-paying ability of the company issuing the contract. Part of choosing an annuity provider should always include investigating the company's reputation and financial status.

More About Fees

There's a lot to be said for the concept of getting what you pay for.

Some fees pay directly for the insurance benefits that a variable annuity contract provides. Other fees pay for managing the individual investment funds.

MANAGEMENT FEES

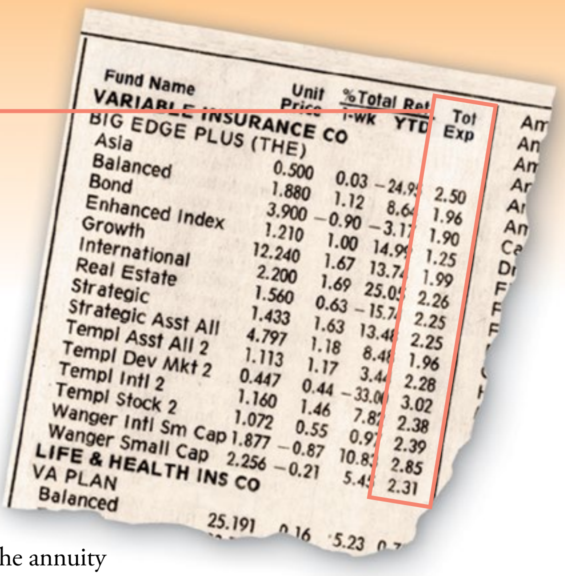
Asset-based management fees are used to pay the investment fund managers as well as other expenses associated with operating a fund. These fees are described in the prospectus, and are sometimes broken down into an investment advisory fee and an operating expense fee. Other times, they're combined under the management fees heading. These fees don't appear as a separate figure on your regular statements. They are subtracted regularly on a percentage basis from your account and reflected in your portfolio values.

The management fees vary from fund to fund within the same contract, based on who the advisers are and how the funds are invested. For example, fees on index portfolios tend to be significantly lower because the advisory costs are lower. On the other hand, fees on international funds tend to be higher. This variation in the cost of owning different types of funds tends to be fairly consistent from contract to contract, but the actual amount that you pay in management fees can be quite different from provider to provider.

If you put some of your money into a fixed account within your variable annuity contract, the expenses are paid by the account's **interest margin**. This margin is the difference between the percentage being earned on investments made by the company and the percentage being paid to you as earnings.

EXPENSE RATIOS

Another way to analyze the cost of an annuity contract is to look at the **expense ratios** of the various funds you're considering within the contract. The expense ratio, expressed as a percentage of a fund's assets, is reported in the fund's prospectus. Regularly updated information should also be available on the annuity issuer's website.



Fund Name	Unit Price	%Total Ret 1-wk	YTD	Tot Exp
VARIABLE INSURANCE CO				
BIG EDGE PLUS (THE)				
Asia	0.500	0.03	–24.9[illegible]	2.50
Balanced	1.880	1.12	8.6[illegible]	1.96
Bond	3.900	–0.90	–3.1[illegible]	1.90
Enhanced Index	1.210	1.00	14.9[illegible]	1.25
Growth	12.240	1.67	13.7[illegible]	1.99
International	2.200	1.69	25.0[illegible]	2.26
Real Estate	1.560	0.63	–15.7[illegible]	2.25
Strategic	1.433	1.63	13.4[illegible]	2.25
Strategic Asst All	4.797	1.18	8.4[illegible]	1.96
Templ Asst All 2	1.113	1.17	3.4[illegible]	2.28
Templ Dev Mkt 2	0.447	0.44	–33.0[illegible]	3.02
Templ Intl 2	1.160	1.46	7.8[illegible]	2.38
Templ Stock 2	1.072	0.55	0.9[illegible]	2.39
Wanger Intl Sm Cap	1.877	–0.87	10.8[illegible]	2.85
Wanger Small Cap	2.256	–0.21	5.4[illegible]	2.31
LIFE & HEALTH INS CO				
VA PLAN				
Balanced	25.191	0.16	5.23	0.7[illegible]

The expense ratio includes management and contract fees, but not sales charges or surrender fees. You can check the expense ratio figures on your own, and you can also ask for that information from the annuity company or your financial adviser.

Difference in expense ratios can be significant, even for funds offered in single contract. Those variations are the result of differing management expenses.

Though you probably won't want to choose your investment funds on expense ratio alone, it

SURRENDER FEES

Most annuity contracts impose a charge, or **surrender fee**, if you withdraw part or all of your contract value or if you terminate during the early years of the contract. These surrender fees are usually calculated as a percentage of the withdrawal and subtracted from your account value.

In most cases, the percentage you're charged declines each year. A typical contract carries a charge of 7% on withdrawals in the first contract year, dropping to 6% in the second year, 5% in the third, and so on, until it disappears entirely in the eighth year. The rates and the number of years the fees apply may vary from contract to contract. However, some contracts allow you to withdraw up to 10% or 15% of the contract value each year without penalty. With some contracts, the surrender fee period begins with the purchase of the contract. With others, a new surrender fee period begins with each new premium payment.

Surrender fees benefit the insurance company that issues the annuity contract. The company has significant expenses for sales and marketing of the annuity, insurance underwriting, and other costs. So it counts on receiving asset-based fees or interest margin over a period of years. The surrender fees cover the loss of income that results when an annuity is ended earlier than projected.

There may be some ways to reduce or eliminate surrender fees, but there are tradeoffs. If you purchase Class A share annuities, you pay an upfront sales charge but no surrender fees. Fees for M&E are also lower than with traditional annuities, also called Class B shares. With Class L shares, there's a shorter surrender period but you may pay higher M&E fees. Class C shares have no surrender period but also have higher fees.

HERE AND THERE

A few states impose a premium tax on amounts you use to purchase an annuity contract, whether you make a single payment or pay periodically. Those charges may be up to 3.5% of the premium, but more typically run between 1% and 2%. They're independent of any fees the insurer or management company charges.

In some cases, however, you may find that the way retirement income is taxed in those states that impose a premium can ultimately offset the added upfront cost of buying the annuity.

should be one of the factors you consider, particularly when choosing among funds with comparable objectives and performance records.

IS THERE AN AX TO GRIND?

Variable annuities are frequently criticized as more costly to own than other investments. The critics point out that stock and bond mutual funds, which also involve asset-based fees, have lower expense ratios than what's typical of variable annuities. Those added costs mean that an equity fund within an annuity contract must turn in a consistently stronger performance than a comparable mutual fund in order to provide the same level of return.

Those who argue that the advantages that variable annuities offer outweigh the added cost point to:

- The guaranteed death benefit
- The potential for a stream of lifetime income among other ways to receive income
- The opportunity for tax-deferred growth, which mutual funds provide only when they're held in an IRA or employer sponsored retirement plan

Taxing Annuity Income

The way you receive annuity income determines the tax you pay.

When you purchase an annuity, you postpone paying tax on your earnings until you begin receiving income from your contract. Then taxes are due on some or all of each payment at the same rate you pay on your ordinary income. Figuring the amount you owe can be complicated, so it's wise to consult your tax adviser and review IRS Publications 939 and 575.

TAXES ON ANNUITY INCOME

If you annuitize a nonqualified annuity, part of the income you receive is the return of your **cost basis**, or premium. The rest comes from your accumulated earnings. The portion that represents a return of your premium is tax free because you paid tax on that money before you bought your annuity. The balance is taxable.

TAXING FACT
When you estimate the income you need in retirement, don't forget that you'll still owe income taxes.

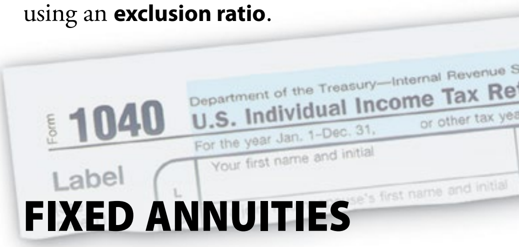
If you receive periodic or systematic payments or make occasional withdrawals from your nonqualified deferred annuity during the accumulation phase, the tax law assumes you don't begin to get your premium back until you have received all of the earnings. This means all of your income is taxable in the early years of periodic withdrawals.

If you take a lump sum, you owe tax plus the potential penalty on all of the earnings in the year you make the withdrawal.

With a **qualified annuity**, the total amount of each income payment you receive is generally taxable because you reduced your salary by the amount of the premium and paid less in taxes at the time you purchased or added to the contract. The same is true of an annuity you own in an IRA if you were entitled to a tax deduction for your contribution.

FINDING WHAT YOU OWE

When you receive nonqualified annuity income, you find the taxable portion by using an **exclusion ratio**.



FIXED ANNUITIES

With a fixed annuity, you divide the premiums paid for the annuity by the expected return, determined by IRS tables. The resulting fraction or percentage is the nontaxable portion of each payment until all of the investment amount has been returned. The balance is taxable.

$$\frac{\text{Premium paid (Cost basis)}}{\text{Expected return}} = \textbf{Nontaxable portion of payments}$$

for example

If you invested $100,000 in an annuity, and the expected total return is $250,000 based on your life expectancy and the interest rate being paid, you'd divide the investment total by the expected return:

$$\frac{\$100{,}000}{\$250{,}000} = \mathbf{40\%}\ \textbf{Nontaxable portion of payments}$$

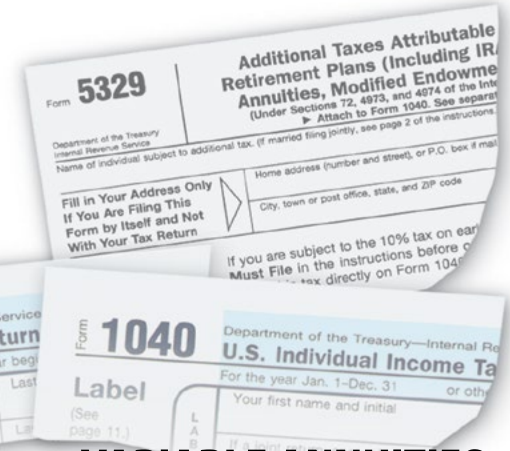
That means that 40% of the payments you receive in that year are free of tax, and 60% are taxed at your regular rate. So if you were getting $650 a month, you'd owe tax on $390 of it, or on $4,680 of your $7,800 annual income.

Monthly income		**$ 650**
Percentage taxable	**x**	**.60**
Taxable income	=	**$ 390**
	x	**12**
Annual taxable income	=	**$ 4,680**

TAXES ON GUARANTED BENEFIT WITHDRAWALS

When you choose a guaranteed lifetime withdrawal benefit rider, the income you take each year is taxed differently than the income you receive when you annuitize a nonqualified contract.

With the rider, the IRS considers all the money you withdraw to be taxable earnings as long as the remaining balance in the account is at least equal to your investment in the contract, which is your premium minus withdrawals. In contrast, when



VARIABLE ANNUITIES

With a variable annuity, the excluded amount is figured a little differently, since there is no way to predict the expected total return. Here, you divide your cost basis, or the amount you spent on premiums, by the number of years you expect payments to be made. In a fixed-term contract, the number of years is the same as the fixed term. When you arrange for lifetime payment, you use your life expectancy depending on the payout option you choose to determine the number of years.

$$\frac{\text{(Cost basis)}}{\text{Number of years of expected payments}} = \textbf{Nontaxable portion of annual income}$$

for example

If you had paid in $100,000 and your life expectancy was 20 years at the time you annuitized, the annual income you could exclude from taxes would be $5,000.

$$\frac{\$100{,}000}{20} = \mathbf{\$5{,}000} \quad \textbf{Nontaxable portion of payments}$$

In this case, after you collected payments for 20 years, all of your income would become taxable.

BENEFICIARY TAXES

If you've started to collect income from your annuity, but die before all of the amount you're guaranteed has been paid, your beneficiary gets the remaining income. Those payments are free of income tax to the same extent they were free of income tax during your lifetime, and this continues until the value of the cost basis has been fully repaid. The remaining income is fully taxable.

If you die before you annuitize, your beneficiary gets the death benefit provided in the contract. The cost basis is returned tax free, and the balance is taxed in the manner which reflects the way it's received: lump sum, periodic payments within five years, or annuitization starting within one year after the date of your death. The payout method is determined by the terms of the contract and who the beneficiary is.

PREMATURE DISTRIBUTIONS

One of the limitations of tax-deferred investing is that you usually owe a 10% penalty on the taxable portion of withdrawals you make before you reach age 59½. Congress imposes this penalty to discourage you from touching your retirement money before you actually retire.

There are some exceptions that let you withdraw from deferred annuities without owing the federal tax penalty, though you do pay income tax on the taxable amount:

- You can withdraw if you are disabled
- You can annuitize for your life or joint lifetimes, or set up a series of substantially equal periodic payments to last for your lifetime or the joint lifetimes of you and your spouse
- In certain circumstances with a qualified annuity contract, you can use a portion of your contract value to pay higher education expenses or buy a first home

The penalty doesn't apply to immediate annuity payments, which you can begin to receive at any age.

PAYING ESTIMATED TAXES

While you work, your employer typically withholds enough from your paycheck to cover the income taxes you owe. After you retire, however, it's your job to figure out—and prepay—the correct amount.

Generally, if you expect to owe at least $1,000, you must make quarterly estimated tax payments. Although annuity companies will withhold taxes from your income payments, you'll have to coordinate with the company to determine what you owe and to be sure the paperwork is in order.

you annuitize, a portion of each payment is a non-taxable return of premium until the entire premium has been paid back. However, with the rider you can, if necessary, access the money in your account, something you can't do if you annuitize.

Accumulation period is the time between your purchase of an annuity contract and the date on which you either annuitize or cash out your policy.

Accumulation units are the shares you own in variable annuity subaccounts during the period you save for retirement. As you pay additional premiums, you buy additional units.

Annuitant is the person who receives income from an annuity. You can be both the annuitant and the contract owner, or you can purchase an annuity to provide income to another person.

Annuitize means to convert the accumulated value of an annuity contract to a stream of income, either for one or more lifetimes or for a fixed period of time.

Annuity units are the number of units you own during the period that income is paid. The number of annuity units is fixed at the time you annuitize your contract and does not change.

Assumed interest rate (AIR) is the interest rate an annuity provider uses to determine the amount of each of your variable annuity income payments. The AIR is also known as the benchmark rate or the hurdle rate.

Contract value, also known as accumulated value, is the combined total of your principal and earnings in a variable annuity, up to and including the date on which you annuitize.

Expense ratio is the amount that you pay annually for the operating, management, and insurance expenses of your variable annuity, expressed as a percentage of your contract value.

Fixed annuity is a contract that guarantees you will earn at least a stated rate of interest during the accumulation period and that you will receive a fixed amount of income on a regular schedule when you annuitize.

Fixed indexed annuity earns interest at a rate determined in part by a stock market index, sharing in index gains up to a cap but protected against index losses.

Guaranteed death benefit is the assurance that your beneficiary will receive at least your principal and, in some variable annuity contracts, your locked-in earnings if you die during the accumulation period.

Immediate annuity is one that begins to pay you income within a short period of time, always less than 13 months. The annuity, which you buy with a lump sum, may be either fixed or variable.

Longevity annuity is a fixed income annuity that permits you to postpone IRA withdrawals well past 73 in order to accumulate more tax-deferred earnings.

Market value adjustment (MVA) is a fee you may pay if you surrender a fixed annuity or a fixed subaccount in a variable annuity. The MVA offsets any losses the insurance company might have if it sells assets to pay the amount due to you.

Nonqualified annuity is a contract you buy individually rather than through an employer's retirement plan or IRA.

Premium is the amount you pay to buy an annuity or other insurance product. With a single premium annuity you pay just once, but with other types you make payments over time.

Principal is the amount of money you spend to purchase an annuity or other financial product. Principal is the base on which your earnings accumulate.

Qualified annuity is a contract you buy as part of an employer sponsored qualified retirement plan or IRA.

Subaccounts are funds made up of individual investments chosen by an investment manager. Each variable annuity contract offers a number of subaccounts, also known as investment funds or annuity funds.

Surrender period is the time between the date you purchase an annuity and the point at which no surrender fee would be due if you ended the agreement. In many contracts the surrender period is between seven and ten years, and the fee declines each year during the period and then disappears.

Underlying investments are the stocks, bonds, or cash equivalents owned by the investments funds of variable annuities or by other investment products, including mutual funds.

Unit value is the dollar value of a single accumulation or annuity unit. Unit value changes constantly to reflect the current combined total value of the underlying investments in your variable annuity subaccounts, minus expenses.

Variable annuity is a contract that allows you to allocate your premium among a number of subaccounts. Your contract value reflects the performance of the underlying investments held in those subaccounts, minus contract expenses.

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GUIDE TO UNDERSTANDING ANNUITIES explores the role that fixed and variable annuities can play in providing retirement income. This concise and timely guide explains what you need to know about annuities and the questions you should ask before you buy. It also describes the special features of different types of annuities to help you decide which one might be right for you.

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