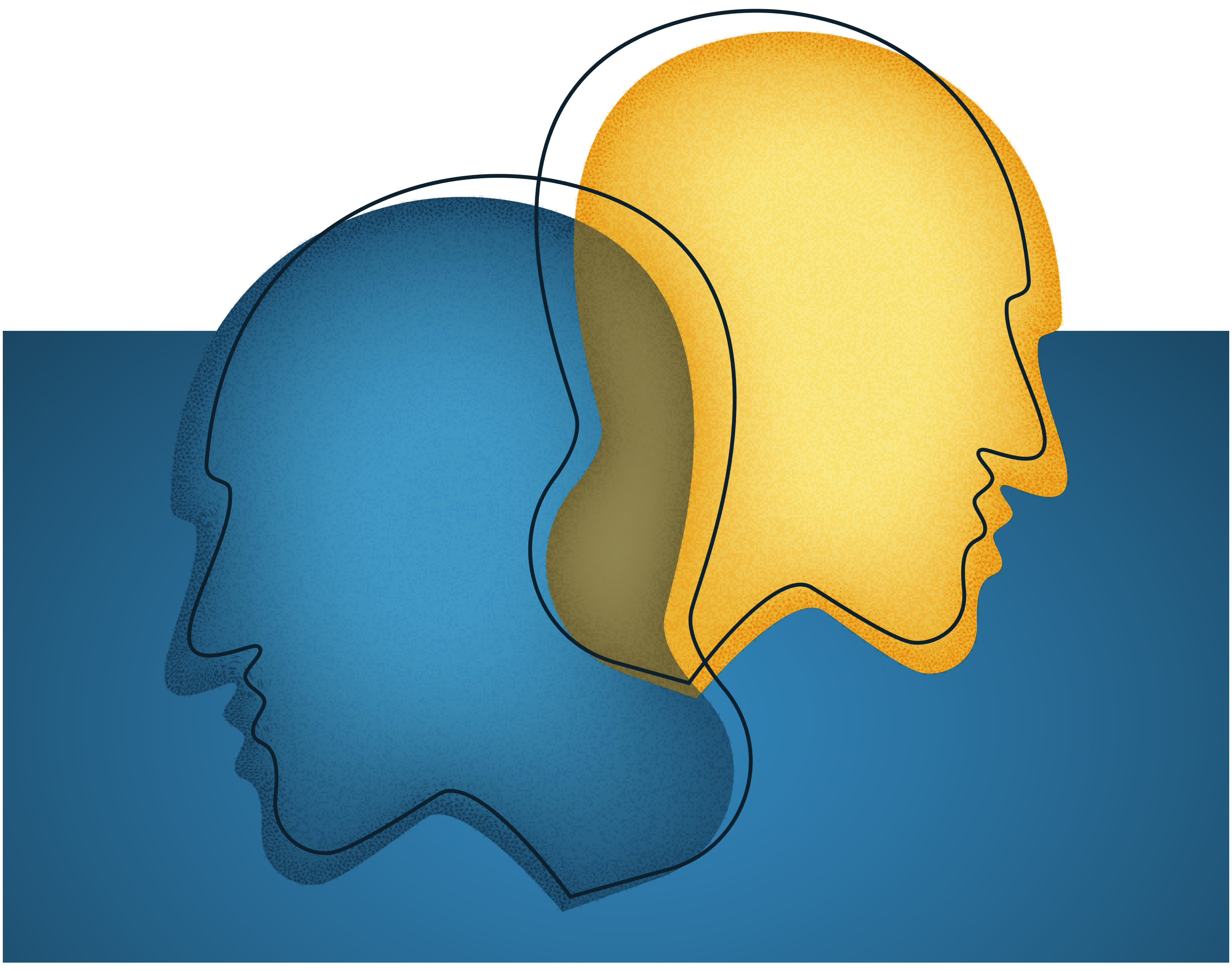
ANNUITIES

PERCEPTION VS. REALITY



Annuity products have existed since the Roman Empire.[1] And yet, even today, these products are often misunderstood.

The bottom line is that annuities may be an option that can help people meet their needs for retirement income. However, we feel that very few people understand the features, benefits and drawbacks of annuities.

The controversy surrounding annuities may be due to the lack of education among consumers. This issue might also be compounded by some insurance agents who do not provide enough education to clients about these products. These issues could lead many retirees to stay away from these products altogether.[2]

You occasionally hear about a retiree unhappy with the annuity product they selected. They may point to being uninformed as one of the reasons for their unhappiness. It is the insurance agent's responsibility to fully explain the product — and provide all the necessary information to help ensure the consumer knows the features, benefits and drawbacks of the product they are buying.

To do so, it is important to know which common perceptions about annuities are based on misinformation and which ones may be grounded in reality. Let's look at some of the common perceptions about annuities.

PERCEPTION: ANNUITIES ARE NOT RIGHT FOR RETIREES

Retirees may be in a position where an annuity can help them meet their retirement income needs. Retirees are typically at an age where they can begin withdrawing from an annuity without incurring the 10% federal IRS tax penalty because they are over the age of 59½.[3] However, they must be aware of any surrender charges that an annuity may have. Additionally, retirees can realize the benefit of tax-deferred contributions associated with annuities. Many younger people can't or don't want to set aside money that typically cannot be touched without incurring penalties until after the age of 59½. To younger individuals, the idea of retirement may seem like a distant event.

PERCEPTION: RETIREES DON'T UNDERSTAND ANNUITIES

It is the responsibility of the insurance agent to educate and help clients understand the features, benefits and drawbacks of annuities, and retirees are certainly as capable of learning about annuities as anyone else. Misinformation and a lack of education may contribute to annuities seeming overly complicated for some retirees.

PERCEPTION: ANNUITIES ARE TOO CONFUSING AND COMPLEX

At the risk of sounding like a broken record – again, this is a matter of education. One of the things that will help you deal with this is having a well-informed insurance agent who can explain the product and walk you through the consumer materials of the product, including the consumer disclosure. When a well-educated insurance agent communicates and reviews the material facts in the consumer materials and disclosure, the things that made the contract confusing and complex may become clearer.

You want to find an insurance agent who is willing to spend the time to help you fully understand the annuity product. Remember, there are many insurance agents out there; you don't have to work with the first insurance agent you talk to. Spend some time getting comfortable with your insurance agent. The right insurance agent will understand the product he or she recommends and will work to help you understand it too.

PERCEPTION: THERE ARE HIGH COSTS ASSOCIATED WITH ANNUITIES

Like every other financial product, costs and features vary widely depending on the specific annuity product. Some annuities may have relatively high fees, while others may have no fees. It is always a good idea to compare a variety of annuity products and carriers and find a financial services professional that you trust.

PERCEPTION: CONTRACT OWNERS PAY THE COMMISSION OF ANNUITIES PURCHASED

Typically, the insurance company pays commissions to the insurance agent.[4] This is different from many other purchases; for example, when you sell your house, the commission earned by your real estate agent is typically a direct reduction in funds you receive.

PERCEPTION: DON'T PLACE AN ANNUITY IN AN IRA ACCOUNT

This is usually based on annuities and IRAs both having tax-deferred status and there being no added tax benefit in having an annuity in an IRA account. However, while tax deferral is important, it may be only one feature of the annuity. It is important to evaluate your risk tolerance and choose products accordingly. Fixed annuities, in particular, can be the right product for people that are concerned with having their assets in lower-risk products and preserving the money they have, rather than potentially generating higher returns in products with more risk. In some instances, it may make sense for someone to use qualified funds, like an IRA, to purchase an annuity as part of their overall retirement strategy.

PERCEPTION: ANNUITIES HAVE NO LIQUIDITY

Annuities typically have surrender charges that the policyowner incurs if they withdraw funds before the end of the surrender charge period. The surrender charge is typically expressed as a percentage of the funds withdrawn. The surrender charge period varies based on the annuity, but they often last seven or eight years (among other options).[5]

With annuities, you may incur surrender charges if you withdraw all or part of your money before the contract term; however, most annuities give you the option to take the interest from the account each year (typically allowing for a 10% withdrawal,[6] or the interest to be withdrawn, without a surrender charge), or the ability to turn the annuity assets into a lifelong income stream.

You may not want to place all your money into an annuity because of liquidity limitations, but understanding how the product works can help you determine if an annuity is the right product for you. An annuity may be a product that can help you enjoy the security of a guaranteed income stream at some point in the future.

PERCEPTION: YOU ONLY BENEFIT FROM AN ANNUITY IF YOU LIVE A LONG TIME

Living a "long time" is a relative term, but whether or not you benefit from an annuity can depend on the type of annuity, its features and your retirement goals. Some annuities have a death benefit for beneficiaries, and many annuities have an income option that will pay out incometo the owner's spouse if the owner predeceases the spouse.* This is typically known as a joint and survivor income option. Ultimately, there are many different types of annuities and many have features that can be beneficial to retirees, even if they don't live for a long time.

*With the purchase of any additional-cost riders, the contract's values will be reduced by the cost of the rider. This may result in a loss of principal and interest in any year in which the contract does not earn interest or earns interest in an amount less than the rider charge.

PERCEPTION: ONCE YOU BEGIN TO TAKE INCOME, YOUR ANNUITY HAS NO CASH VALUE

Many people remember earlier iterations of annuities, when you handed in a lump sum of money in return for an income stream in retirement. Once you turned on your income stream, your annuity had no cash value or death benefit. Newer annuities, however, typically have more options. One option may be to add a lifetime income benefit rider (there is sometimes a fee associated with this) that allows you to receive lifetime income from the annuity even after the account value reaches $0. Upon death, any money left in the annuity's cash value can typically be left to beneficiaries.

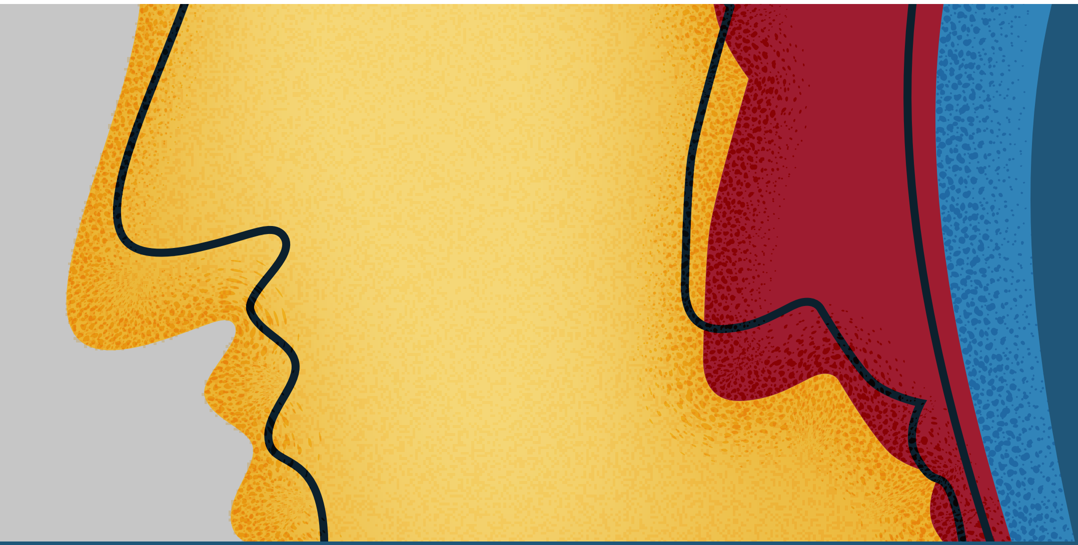
SUMMARY

As you can see, a lack of education and misinformation have contributed to the negative perception of annuities. This brochure is designed to give you a better understanding of annuities and how they can be used in a retirement income plan.

Annuities, along with Social Security and pensions, are some of the only options to potentially provide a lifelong income. Retirement strategies should help satisfy your retirement income needs. Also, retirement strategies should examine your risk tolerance and allocate your assets accordingly.

You should find a financial services professional that you feel comfortable with and who is willing to spend as much time as you need. No one knows what the future holds but educating yourself and formulating a retirement strategy is the right way to help reach your unique retirement goals.

Annuities are long-term insurance products primarily designed to provide retirement income. Guarantees are backed by the financial strength and claims-paying ability of the issuing insurance company. Annuities are designed to be long-term insurance products and frequently involve charges such as administrative fees, annual contract fees, mortality & risk expense charges and surrender charges. Early withdrawals may impact annuity cash values and death benefits. Taxes are payable upon withdrawal of funds. An additional 10% IRS penalty may apply to withdrawals prior to age 59½. Annuities are not guaranteed by FDIC or any other governmental agency and are not deposits or other obligations of, guaranteed, or endorsed by any bank or savings association.



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