

1 **DEPARTMENT OF CONSUMER AND BUSINESS SERVICES**
2 **INSURANCE DIVISION**
3 **Chapter 836**

4
5 **Division 51**
6 **Annuity Disclosure**
7

8 **836-051-0900**

9 **Purpose; Authority**

10 (1) OAR 836-051-0900 to 836-051-0925 establish standards for disclosure of minimum
11 information relating to annuity contracts, to protect consumers and foster consumer education.
12 OAR 836-051-0900 to 836-051-0925 prescribe the minimum information that must be disclosed
13 and the method for disclosing it in connection with the sale of annuity contracts. The goal of
14 OAR 836-051-0900 to 836-051-0925 is to ensure that purchasers of annuity contracts understand
15 certain basic features of annuity contracts.

16 (2) OAR 836-051-0900 to 836-051-0925 are adopted pursuant to ORS 731.244 for the
17 purpose of implementing ORS 746.075, 746.085, 746.110 and 746.240.

18
19 Stat. Auth.: ORS 731.244

20 Stats. Implemented: ORS 742.009, 746.075, 746.085, 746.110, and 746.240
21

22 **836-051-0905**

23 **Applicability and Scope**

24 (1) OAR 836-051-0900 to 836-051-0925 apply to all group and individual annuity
25 contracts and certificates except:

26 (a) Registered or non-registered variable annuities or other registered products;

27 (b) Immediate and deferred annuities that contain no nonguaranteed elements except as
28 provided in OAR 836-051-0920(2);

29 (c) Annuities used to fund:

30 (A) An employee pension plan that is covered by the Employee Retirement Income
31 Security Act (ERISA);

32 (B) A plan described by Sections 401(a), 401(k) or 403(b) of the Internal Revenue Code,
33 when the plan, for purposes of ERISA, is established or maintained by an employer;

34 (C) A governmental or church plan defined in Section 414 or a deferred compensation
35 plan of a state or local government or a tax exempt organization under Section 457 of the
36 Internal Revenue Code; or

37 (D) A nonqualified deferred compensation arrangement established or maintained by an
38 employer or plan sponsor.

39 (d) Structured settlement annuities; and

40 (e) Funding agreements.

41 (2) OAR 836-051-0900 to 836-051-0925 also apply to annuities used to fund a plan or
42 arrangement that is funded solely by contributions an employee elects to make, whether on a pre-
43 tax or after-tax basis, and when the insurer has been notified that plan participants may choose
44 from among two or more fixed annuity providers and there is a direct solicitation of an individual
45 employee by a producer for the purchase of an annuity contract. A direct solicitation under this

1 section does not include any meeting held by a producer solely for the purpose of educating or
2 enrolling employees in the plan or arrangement.

3 (3) OAR 836-051-0900 to 836-051-0925 apply to annuity contracts that are sold on or
4 after October 1, 2008. An insurer may conform its contracts to the provisions of OAR 836-051-
5 0900 to 836-051-0925 prior to that date.

6
7 Stat. Auth.: ORS 731.244

8 Stats. Implemented: ORS 742.009, 746.075, 746.085, 746.110, and 746.240

9
10 **836-051-0910**

11 **Definitions**

12 As used in OAR 836-051-0900 to 836-051-0925:

13 (1) "Contract owner" means the owner named in the annuity contract or a certificate
14 holder in the case of a group annuity contract.

15 (2) "Determinable elements" means elements that are derived from processes or methods
16 that are guaranteed at issue and not subject to insurer discretion, but in which the values or
17 amounts cannot be determined until some point after issue. These elements include the
18 premiums, credited interest rates (including any bonus), benefits, values, non-interest based
19 credits, charges or elements of formulas used to determine any of these. These elements may be
20 described as guaranteed but not determined at issue. An element is considered determinable if it
21 was calculated from underlying determinable elements only, or from both determinable and
22 guaranteed elements.

23 (3) "Free look" means the number of days immediately after delivery of the contract in
24 which the contract owner has to examine the contract and decide to return it to get the purchase
25 payment returned penalty free. May also be referred to as "Right to Examine."

26 (4) "Funding agreement" means an agreement for an insurer to accept and accumulate
27 funds and to make one or more payments at future dates in amounts that are not based on
28 mortality or morbidity contingencies.

29 (5) "Generic name" means a short title descriptive of the annuity contract being applied
30 for or illustrated, such as "single premium deferred annuity."

31 (6) "Guaranteed elements" means the premiums, credited interest rates (including any
32 bonus), benefits, values, non-interest based credits, charges or elements of formulas used to
33 determine any of these, that are guaranteed and determined at issue. An element is considered
34 guaranteed if all of the underlying elements that go into its calculation are guaranteed.

35 (7) "Non-guaranteed elements" means the premiums, credited interest rates (including
36 any bonus), benefits, values, non-interest based credits, charges or elements of formulas used to
37 determine any of these, that are subject to company discretion and are not guaranteed at issue.
38 An element is considered non-guaranteed if any of the underlying non-guaranteed elements are
39 used in its calculation.

40 (8) "Structured settlement annuity" means a "qualified funding asset" as defined in
41 section 130(d) of the Internal Revenue Code or an annuity that, by its issue, would be a qualified
42 funding asset under section 130(d) but for the fact that it is not owned by an assignee under a
43 qualified assignment.

44
45 Stat. Auth.: ORS 731.244

46 Stats. Implemented: ORS 742.009, 746.075, 746.085, 746.110, and 746.240

1
2
3 **836-051-0915**

4 **Standards for the Disclosure Document and Buyer's Guide**

5 (1) When the application for an annuity contract is taken in a face-to-face meeting, the
6 applicant shall be given, at or before the time of application, both the disclosure document
7 described in section (6) of this rule and the Buyer's Guide contained in Exhibit 1 to this rule.

8 (2) When the application for an annuity contract is taken by means other than in a face-
9 to-face meeting, the applicant shall be sent both the disclosure document and the Buyer's Guide
10 no later than five business days after the completed application is received by the insurer. The
11 following provisions apply to the requirement in this section:

12 (a) With respect to an application received as a result of a direct solicitation through the
13 mail:

14 (A) Providing a Buyer's Guide in a mailing inviting prospective applicants to apply for
15 an annuity contract satisfies the requirement that the Buyer's Guide be provided no later than
16 five business days after receipt of the application.

17 (B) Providing a disclosure document in a mailing inviting a prospective applicant to
18 apply for an annuity contract satisfies the requirement that the disclosure document be provided
19 no later than five business days after receipt of the application.

20 (b) With respect to an application received through the Internet:

21 (A) Taking reasonable steps to make the Buyer's Guide available for viewing and
22 printing on the insurer's website satisfies the requirement that the Buyer's Guide be provided no
23 later than five business days of receipt of the application.

24 (B) Taking reasonable steps to make the disclosure document available for viewing and
25 printing on the insurer's website satisfies the requirement that the disclosure document be
26 provided no later than five business days after receipt of the application.

27 (c) A solicitation for an annuity contract provided in other than a face-to-face meeting
28 must include a statement that the proposed applicant may contact the insurance department of the
29 state for a free annuity Buyer's Guide, except that alternatively, an insurer may include a
30 statement that the prospective applicant may contact the insurer for a free annuity Buyer's Guide.

31 (3) When the Buyer's Guide and disclosure document are provided at delivery of the
32 contract and are not provided at or before the time of application, a free look period of no less
33 than 15 days must be provided for the applicant to return the annuity contract without penalty.
34 This free look runs concurrently with the free look provided under the contract.

35 (4) When the Buyer's Guide and disclosure document are provided at the time of
36 application, a free look period of no less than ten days must be provided to enable the contract
37 owner to examine the contract with the disclosure document and return the annuity contract
38 without penalty if not satisfied.

39 (5) For the purpose of this rule, a "Buyer's Guide" is the document in Exhibit 1 to this
40 rule or the most current version adopted by the NAIC, or other published descriptions that are
41 similar in nature approved by the Director. Companies may purchase personalized brochures
42 from the NAIC or reproduce the Buyer's Guide in their own type, style and format. Any
43 description of an annuity feature in the Buyer's Guide is for general education and does not
44 imply that all features are acceptable for filing under Oregon standards.

45 (6) At a minimum, the following information shall be included in the disclosure
46 document required to be provided under OAR 836-051-0900 to 836-051-0925:

- 1 (a) The generic name of the contract, the insurer product name, if different, and form
2 number, and the fact that it is an annuity;
3 (b) The insurer's name and address;
4 (c) A description of the contract and its benefits, emphasizing its long-term nature,
5 including examples when appropriate, as follows:
6 (A) The guaranteed, non-guaranteed and determinable elements of the contract, and their
7 limitations, if any, and an explanation of how they operate;
8 (B) An explanation of the initial crediting rate, specifying any bonus or introductory
9 portion, the duration of the rate and the fact that rates may change from time to time and are not
10 guaranteed;
11 (C) Periodic income options both on a guaranteed and non-guaranteed basis;
12 (D) Any value reductions caused by withdrawals from or surrender of the contract, and
13 also a dollar-figure statement, which may be specific to the contract or given as an example
14 using round numbers, of the maximum effect of penalties, surrender charges, market value
15 adjustments and any other adjustments owing to a withdrawal or surrender;
16 (E) How values in the contract can be accessed;
17 (F) The death benefit, if available and how it will be calculated;
18 (G) A summary of the federal tax status of the contract and any penalties applicable on
19 withdrawal of values from the contract; and
20 (H) The impact of any rider, such as a long-term care rider.
21 (d) The specific dollar amount or percentage charges and fees, which shall be listed with
22 an explanation of how they apply.
23 (e) Information about the current guaranteed rate for new contracts, with a clear notice
24 that the rate is subject to change.
25 (7) An insurer must define terms used in the disclosure statement in language that
26 facilitates the understanding by a typical person within the segment of the public to which the
27 disclosure statement is directed.

28
29 Stat. Auth.: ORS 731.244

30 Stats. Implemented: ORS 742.009, 746.075, 746.085, 746.110, and 746.240

31
32 **836-051-0920**

33 **Report to Contract Owners**

34 (1) For an annuity in the payout period with changes in non-guaranteed elements and for
35 the accumulation period of a deferred annuity, the insurer shall provide each contract owner with
36 a report, at least annually, on the status of the contract that contains at least the following
37 information:

- 38 (a) The beginning and end date of the current report period.
39 (b) The accumulation and cash surrender value, if any, at the end of the previous report
40 period and at the end of the current report period.
41 (c) The total amounts, if any, that have been credited, charged to the contract value or
42 paid during the current report period; and
43 (d) The amount of outstanding loans, if any, as of the end of the current report period.
44 (2) For a deferred annuity with only guaranteed elements and no cash surrender value
45 during the accumulation period, the insurer shall provide each contract owner with a report, at
46 least annually, on the status of the contract that contains at least the following information:

1 (a) The beginning and end date of the current report period.

2 (b) The selected annuitization date, including any time restraints for changing the
3 annuitization date.

4 (c) The selected annuitization option, including any time restraints for changing to
5 another option.

6 (d) Any additional benefit values, such as the death benefit and any optional access to
7 cash values.

8
9 Stat. Auth.: ORS 731.244

10 Stats. Implemented: ORS 742.009, 746.075, 746.085, 746.110, and 746.240

11
12 **836-051-0925**

13 **Trade Practice Regulation**

14 Violation of any provision of OAR 836-051-0900 to 836-051-0925 is an unfair trade
15 practice under ORS 746.240.

16
17 Stat. Auth.: ORS 731.244

18 Stats. Implemented: ORS 742.009, 746.075, 746.085, 746.110, and 746.240

1 **DEPARTMENT OF CONSUMER AND BUSINESS SERVICES,**
2 **INSURANCE DIVISION**

3 **DIVISION 80**
4 **TRADE PRACTICES**

5
6 **Replacement of Life Insurance and Annuities**

7
8 **836-080-0001**

9 **Statutory Authority; Purpose; Applicability**

10 (1) OAR 836-080-0001 to 836-080-0043 are adopted pursuant to the general rulemaking
11 authority of the Director of the Department of Consumer and Business Services in ORS 731.244
12 and the specific authority in ORS 746.085(1), for the purpose of implementing ORS 746.085 and
13 746.240.

14 (2) The purpose of OAR 836-080-0001 to 836-080-0043 is to protect the insurance-
15 buying public in insurance transactions involving the replacement of life insurance or annuities
16 by:

17 (a) Regulating the activities of insurers and insurance producers with respect to the
18 replacement of existing life insurance and annuities.

19 (b) Protecting the interests of life insurance and annuity purchasers by establishing
20 minimum standards of conduct to be observed in replacement or financed purchase transactions.
21 OAR 836-080-0001 to 836-080-0043 are intended to:

22 (A) Assure that a purchaser receives information with which a decision can be made in
23 the purchaser's own best interest;

24 (B) Reduce the opportunity for misrepresentation and incomplete disclosure; and

25 (C) Establish penalties for failure to comply with requirements of OAR 836-080-0001 to
26 836-080-0043.

27 (3) In OAR 836-080-0001 to 836-080-0043 and the appendices thereto, for purposes of
28 consistency with the Life Insurance and Annuities Replacement Model Regulation of the
29 National Association of Insurance Commissioners dated July 2000, an annuity is referred to as a
30 contract and a life insurance policy is referred to as a policy, and they are subject to OAR 836-
31 080-0001 to 836-080-0043 on the basis of that terminology.

32 (4) Unless otherwise specifically included, OAR 836-080-0001 to 836-080-0043 do not
33 apply to transactions involving:

34 (a) Credit life insurance;

35 (b) Group life insurance or group annuities, when there is no direct solicitation of
36 individuals by an insurance producer. Direct solicitation does not include any group meeting held
37 by an insurance producer solely for the purpose of educating or enrolling individuals or, when
38 initiated by an individual member of the group, assisting with the selection of investment options
39 offered by a single insurer in connection with enrolling that individual. Group life insurance or
40 group annuity certificates marketed through direct response solicitation are subject to the
41 provisions of OAR 836-080-0039;

42 (c) An application to the existing insurer that issued the existing policy or contract when
43 a contractual change or a conversion privilege is being exercised; or, when the existing policy or
44 contract is being replaced by the same insurer pursuant to a program filed with and approved by
45 the Director; **or when a term conversion privilege is exercised among corporate affiliates;**

1 (d) Proposed life insurance that is to replace life insurance under a binding or conditional
2 receipt issued by the same insurer;

3 (e)(A) Policies or contracts used to fund any of the following:

4 (i) An employee pension or welfare benefit plan that is covered by the Employee
5 Retirement and Income Security Act (ERISA);

6 (ii) A plan described by Section 401(a), 401(k) or 403(b) of the Internal Revenue Code,
7 when the plan, for purposes of ERISA, is established or maintained by an employer;

8 (iii) A governmental or church plan defined in Section 414 of the Internal Revenue Code,
9 a governmental or church welfare benefit plan, or a deferred compensation plan of a state or
10 local government or tax exempt organization under Section 457 of the Internal Revenue Code; or

11 (iv) A nonqualified deferred compensation arrangement established or maintained by an
12 employer or plan sponsor.

13 (B) Notwithstanding paragraph (A) of this subsection, OAR 836-080-0001 to 836-080-
14 0043 apply to policies or contracts used to fund any plan or arrangement that is funded solely by
15 contributions an employee elects to make, whether on a pre-tax or after-tax basis, and when the
16 insurer has been notified that plan participants may choose from among two or more insurers and
17 there is a direct solicitation of an individual employee by an insurance producer for the purchase
18 of a contract or policy. As used in this subsection, direct solicitation does not include any group
19 meeting held by an insurance producer solely for the purpose of educating individuals about the
20 plan or arrangement or enrolling individuals in the plan or arrangement or, when initiated by an
21 individual employee, assisting with the selection of investment options offered by a single
22 insurer in connection with enrolling that individual employee;

23 (f) When new coverage is provided under a life insurance policy or contract and the cost
24 is borne wholly by the insured's employer or by an association of which the insured is a member;

25 (g) Existing life insurance that is a non-convertible term life insurance policy that will
26 expire in five years or less and cannot be renewed;

27 (h) Immediate annuities that are purchased with proceeds from an existing contract.
28 Immediate annuities purchased with proceeds from an existing policy are not exempted from the
29 requirements of OAR 836-080-0001 to 836-080-0043; or

30 (i) Structured settlements.

31 (5) Registered contracts are exempt from the requirements of OAR 836-080-0029(1)(b)
32 and 836-080-0034(2) with respect to the provision of illustrations or policy summaries, but
33 premium or contract contribution amounts and identification of the appropriate prospectus or
34 offering circular shall be required instead.

35
36 Stat. Auth.: ORS 731.244 & 746.085

37 Stats. Implemented: ORS 746.085 & 746.240

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39

1
2 **DEPARTMENT OF CONSUMER AND BUSINESS SERVICES,**
3 **INSURANCE DIVISION**

4 **DIVISION 80**
5 **TRADE PRACTICES**

6
7 **Trade Practices (ORS Chapter 746)**

8
9 **Suitability**

10
11 **Annuity Sales; Disclosure Not a Defense**
12 **836-080-0095**

13 The fact that a person made a disclosure to a consumer about the nature of an annuity in
14 connection with the sale of the annuity to the consumer is not a defense by itself to a
15 determination by the Director under OAR 836-080-0090 that the sale was unsuitable with respect
16 to the consumer.

17
18 Stat. Auth.: ORS 731.244

19 Stats. Implemented: ORS 746.100, 746.110 and 746.240
20

21 **Sales of Individual Annuities**

22
23 **836-080-0165**

24 **Notice of Insurance Division Assistance**

25 (1) An insurer shall include in an individual annuity contract and with any subsequent
26 offer for sale of additional coverage in connection with the annuity a statement to the effect that
27 the Insurance Division of the Department of Consumer and Business Services offers assistance
28 to consumers in the event of a dispute with the insurer. When the statement appears in the
29 contract, the statement must be displayed on the cover page, the first page of the annuity terms,
30 the page that contains the names of the parties and basic coverage information or another
31 prominent place. When the statement appears in an offer for sale of additional coverage, the
32 statement must be displayed in a prominent place. The statement must include the telephone
33 number and website information for contacting the Insurance Division for assistance.

34 (2) Violation of this rule is an unfair trade practice for the purpose of ORS 746.240.
35

36 Stat. Auth.: ORS 731.244

37 Stats. Implemented: ORS 742.009, 746.240
38
39

BUYER’S GUIDE TO FIXED DEFERRED ANNUITIES

Prepared by the National Association of Insurance Commissioners

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

This guide does not endorse any company or contract.

Reprinted by...

It is important that you understand the differences among various annuities so you can choose the kind that best fits your needs. This guide focuses on *fixed deferred* annuity contracts. There is, however, a brief description of variable annuities. If you’re thinking of buying an equity-indexed annuity, an appendix to this guide will give you specific information. This Guide isn’t meant to offer legal, financial or tax advice. You may want to consult independent advisors. At the end of this Guide are questions you should ask your agent or the company. Make sure you’re satisfied with the answers before you buy.

WHAT IS AN ANNUITY?

An annuity is a contract in which an insurance company makes a series of income payments at regular intervals in return for a premium or premiums you have paid. Annuities are most often bought for future retirement income. Only an annuity can pay an income that can be guaranteed to last as long as you live.

An annuity is neither a life insurance nor a health insurance policy. It’s not a savings account or a savings certificate. You shouldn’t buy an annuity to reach short-term financial goals.

Your value in an annuity contract is the premiums you’ve paid, less any applicable charges, plus interest credited. The insurance company uses the value to figure the amount of most of the benefits that you can choose to receive from an annuity contract. This guide explains how interest is credited as well as some typical charges and benefits of annuity contracts.

A *deferred* annuity has two parts or *periods*. During the *accumulation period*, the money you put into the annuity, less any applicable charges, earns interest. The earnings grow tax-deferred as long as you leave them in the annuity. During the second period, called the *payout period*, the company pays income to you or to someone you choose.

WHAT ARE THE DIFFERENT KINDS OF ANNUITIES?

1 This guide explains major differences in different kinds of annuities to help you understand how
2 each might meet your needs. But look at the specific terms of an individual contract you're
3 considering and the disclosure document you receive. If your annuity is being used to fund or
4 provide benefits under a pension plan, the benefits you get will depend on the terms of the plan.
5 Contact your pension plan administrator for information.

6
7 This Buyer's Guide will focus on individual fixed deferred annuities.

8 9 *Single Premium or Multiple Premium*

10
11 You pay the insurance company only one payment for a *single premium* annuity. You make a
12 series of payments for a *multiple premium* annuity. There are two kinds of multiple premium
13 annuities. One kind is a *flexible premium* contract. Within set limits, you pay as much premium
14 as you want, whenever you want. In the other kind, a *scheduled premium* annuity, the contract
15 spells out your payments and how often you'll make them.

16 17 *Immediate or Deferred*

18
19 With an *immediate* annuity, income payments start no later than one year after you pay the
20 premium. You usually pay for an immediate annuity with one payment.

21
22 The income payments from a *deferred* annuity often start years later. Deferred annuities have an
23 accumulation period, which is the time between when you start paying premiums and when
24 income payments start.

25 26 *Fixed or Variable*

27 28 • Fixed

29
30 During the accumulation period of a *fixed deferred* annuity, your money (less any applicable
31 charges) earns interest at rates set by the insurance company or in a way spelled out in the
32 annuity contract. The company guarantees that it will pay no less than a minimum rate of
33 interest. During the payout period, the amount of each income payment to you is generally set
34 when the payments start and will not change.

35 36 • Variable

37
38 During the accumulation period of a *variable* annuity, the insurance company puts your
39 premiums (less any applicable charges) into a separate account. You decide how the company
40 will invest those premiums, depending on how much risk you want to take. You may put your
41 premium into a stock, bond or other account, with no guarantees, or into a fixed account, with a
42 minimum guaranteed interest. During the payout period of a variable annuity, the amount of
43 each income payment to you may be fixed (set at the beginning) or variable (changing with the
44 value of the investments in the separate account).

45 46 **HOW ARE THE INTEREST RATES SET FOR MY FIXED DEFERRED ANNUITY?**

1
2 During the accumulation period, your money (less any applicable charges) earns interest at rates
3 that change from time to time. **Usually, what these rates will be is entirely up to the**
4 **insurance company.**

5
6 *Current Interest Rate*
7

8 The current rate is the rate the company decides to credit to your contract at a particular time.
9 The company will guarantee it will not change for some time period.

- 10
11 • The *initial rate* is an interest rate the insurance company may credit for a set period of time
12 after you first buy your annuity. The initial rate in some contracts may be higher than it will
13 be later. This is often called a bonus rate.
14
15 • The *renewal rate* is the rate credited by the company after the end of the set time period. The
16 contract tells how the company will set the renewal rate, which may be tied to an external
17 reference or index.
18

19 *Minimum Guaranteed Rate*
20

21 The *minimum guaranteed interest rate* is the lowest rate your annuity will earn. This rate is
22 stated in the contract.
23

24 *Multiple Interest Rates*
25

26 Some annuity contracts apply different interest rates to each premium you pay or to premiums
27 you pay during different time periods.
28

29 Other annuity contracts may have two or more accumulated values that fund different benefit
30 options. These accumulated values may use different interest rates. **You get only one of the**
31 **accumulated values depending on which benefit you choose.**
32

33 **WHAT CHARGES MAY BE SUBTRACTED FROM MY FIXED DEFERRED**
34 **ANNUITY?**
35

36 Most annuities have charges related to the cost of selling or servicing it. These charges may be
37 subtracted directly from the contract value. Ask your agent or the company to describe the
38 charges that apply to your annuity. Some examples of charges, fees and taxes are:
39

40 *Surrender or Withdrawal Charges*
41

42 If you need access to your money, you may be able to take all or part of the value out of your
43 annuity at any time during the accumulation period. If you take out part of the value, you may
44 pay a *withdrawal* charge. If you take out all of the value and surrender, or terminate, the annuity,
45 you may pay a *surrender* charge. In either case, the company may figure the charge as a
46 percentage of the value of the contract, of the premiums you've paid or of the amount you're

1 withdrawing. The company may reduce or even eliminate the surrender charge after you've had
2 the contract for a stated number of years. A company may waive the surrender charge when it
3 pays a death benefit.

4
5 Some annuities have stated terms. When the term is up, the contract may automatically expire or
6 renew. You're usually given a short period of time, called a *window*, to decide if you want to
7 renew or surrender the annuity. If you surrender during the window, you won't have to pay
8 surrender charges. If you renew, the surrender or withdrawal charges may start over.

9
10 In some annuities, there is no charge if you surrender your contract when the company's current
11 interest rate falls below a certain level. This may be called a *bail-out* option.

12
13 In a multiple-premium annuity, the surrender charge may apply to each premium paid for a
14 certain period of time. This may be called a *rolling* surrender or withdrawal charge.

15
16 Some annuity contracts have a *market value adjustment* feature. If interest rates are different
17 when you surrender your annuity than when you bought it, a market value adjustment may make
18 the cash surrender value higher or lower. Since you and the insurance company share this risk,
19 an annuity with a MVA feature may credit a higher rate than an annuity without that feature.

20
21 Be sure to read the Tax Treatment section and ask your tax advisor for information about
22 possible tax penalties on withdrawals.

23 24 *Free Withdrawal*

25
26 Your annuity may have a limited *free withdrawal* feature that lets you make one or more
27 withdrawals without a charge. The size of the free withdrawal is often limited to a set percentage
28 of your contract value. If you make a larger withdrawal, you may pay withdrawal charges. You
29 may lose any interest above the minimum guaranteed rate on the amount withdrawn. Some
30 annuities waive withdrawal charges in certain situations, such as death, confinement in a nursing
31 home or terminal illness.

32 33 *Contract Fee*

34
35 A contract fee is a flat dollar amount charged either once or annually.

36 37 *Transaction Fee*

38
39 A transaction fee is a charge per premium payment or other transaction.

40 41 *Percentage of Premium Charge*

42
43 A percentage of premium charge is a charge deducted from each premium paid. The percentage
44 may be lower after the contract has been in force for a certain number of years or after total
45 premiums paid have reached a certain amount.

46

1 *Premium Tax*

2 Some states charge a tax on annuities. The insurance company pays this tax to the state. The
3 company may subtract the amount of the tax when you pay your premium, when you withdraw
4 your contract value, when you start to receive income payments or when it pays a death benefit
5 to your beneficiary.

6
7 **WHAT ARE SOME FIXED DEFERRED ANNUITY CONTRACT BENEFITS?**

8
9 *Annuity Income Payments*

10
11 One of the most important benefits of deferred annuities is your ability to use the value built up
12 during the accumulation period to give you a lump sum payment or to make income payments
13 during the payout period. Income payments are usually made monthly but may choose to receive
14 them less often. The size of income payments is based on the accumulated value in our annuity
15 and the annuity's *benefit rate* in effect when income payments start. The benefit rate usually
16 depends on your age and sex, and the annuity payment option you choose. For example, you
17 might choose payments that continue as long as you live, as long as your spouse lives or for a set
18 number of years.

19
20 There is a table of guaranteed benefit rates in each annuity contract. Most companies have
21 *current* benefit rates as well. The company can change the current rates at any time, but the
22 current rates can never be less than the guaranteed benefit rates. When income payments start,
23 the insurance company generally uses the benefit rate in effect at that time to figure the amount
24 of your income payment.

25
26 Companies may offer various income payment options. You (the owner) or another person that
27 you name may choose the option. The options are described here as if the payments are made to
28 you.

- 29
- 30 • Life Only – The company pays income for your lifetime. It doesn't make any payments to
31 anyone after you die. This payment option usually pays the highest income possible. You
32 might choose it if you have no dependents, if you have taken care of them through other
33 means or if the dependents have enough income of their own.
 - 34 • Life Annuity with Period Certain – The company pays income for as long as you live and
35 guarantees to make payments for a set number of years even if you die. This *period certain*
36 is usually 10 or 20 years. If you live longer than the period certain, you'll continue to receive
37 payments until you die. If you die during the period certain, your beneficiary gets regular
38 payments for the rest of that period. If you die after the period certain, your beneficiary
39 doesn't receive any payments from your annuity. Because the "period certain" is an added
40 benefit, each income payment will be smaller than in a life-only option.
 - 41 • Joint and Survivor – The company pays income as long as either you or your beneficiary
42 lives. You may choose to decrease the amount of the payments after the first death. You
43 may also be able to choose to have payments continue for a set length of time. Because the
44 *survivor* feature is an added benefit, each income payment is smaller than in a life-only
45 option.
- 46

1 *Death Benefit*

2
3 In some annuity contracts, the company may pay a death benefit to your beneficiary if you die
4 before the income payments start. The most common death benefit is the contract value or the
5 premiums paid, whichever is more.

6
7 **CAN MY ANNUITY'S VALUE BE DIFFERENT DEPENDING ON MY CHOICE OF**
8 **BENEFIT?**

9
10 While all deferred annuities offer a choice of benefits, some use different accumulated values to
11 pay different benefits. For example, an annuity may use one value if annuity payments are for
12 retirement benefits and a different value if the annuity is surrendered. As another example, an
13 annuity may use one value for long-term care benefits and a different value if the annuity is
14 surrendered. You can't receive more than one benefit at the same time.

15
16 **WHAT ABOUT THE TAX TREATMENT OF ANNUITIES?**

17
18 Below is a general discussion about taxes and annuities. You should consult a professional tax
19 advisor to discuss your individual tax situation.

20
21 Under current federal law, annuities receive special tax treatment. Income tax on annuities is
22 deferred, which means you aren't taxed on the interest your money earns while it stays in the
23 annuity. Tax-deferred accumulation isn't the same as tax-free accumulation. An advantage of
24 tax deferral is that the tax bracket you're in when you receive annuity income payments may be
25 lower than the one you're in during the accumulation period. You'll also be earning interest on
26 the amount you would have paid in taxes during the accumulation period. Most states' tax laws
27 on annuities follow the federal law.

28
29 Part of the payment you receive from an annuity will be considered as a return of the premium
30 you've paid. You won't have to pay taxes on that part. Another part of the payments is
31 considered interest you've earned. You must pay taxes on the part that is considered interest
32 when you withdraw the money. You may also have to pay a 10% tax penalty if you withdraw
33 the accumulation before age 59 ½. The Internal Revenue Code also has rules about distributions
34 after the death of a contract holder.

35
36 Annuities used to fund certain employee pension benefit plans (those under Internal Revenue
37 Code Sections 401(a), 401(k), 403(b), 457 or 414) defer taxes on plan contributions as well as on
38 interest or investment income. Within the limits set by the law, you can use pretax dollars to
39 make payments to the annuity. When you take money out, it will be taxed.

40
41 You can also use annuities to fund traditional and Roth IRAs under Internal Revenue Code
42 Section 408. If you buy an annuity to fund an IRA, you'll receive a disclosure statement
43 describing the tax treatment.

44
45 **WHAT IS A "FREE LOOK" PROVISION?**

1 Many states have laws which give you a set number of days to look at the annuity contract after
2 you buy it. If you decide during that time that you don't want the annuity, you can return the
3 contract and get all your money back. This is often referred to as a *free look* or *right to return*
4 *period*. The free look period should be prominently stated in your contract. Be sure to read your
5 contract carefully during the free look period.
6

7 **HOW DO I KNOW IF A FIXED DEFERRED ANNUITY IS RIGHT FOR ME?**

8

9 The questions listed below may help you decide which type of annuity, if any, meets your
10 retirement planning and financial needs. You should think about what your goals are for the
11 money you may put into the annuity. You need to think about how much risk you're willing to
12 take with the money. Ask yourself:
13

- 14 • How much retirement income will I need in addition to what I will get from Social Security
15 and my pension?
- 16 • Will I need that additional income only for myself or for myself and someone else?
- 17 • How long can I leave my money in the annuity?
- 18 • When will I need income payments?
- 19 • Does the annuity let me get money when I need it?
- 20 • Do I want a fixed annuity with a guaranteed interest rate and little or no risk of losing the
21 principal?
- 22 • Do I want a variable annuity with the potential for higher earnings that aren't guaranteed and
23 the possibility that I may risk losing principal?
- 24 • Or, am I somewhere in between and willing to take some risks with an equity-indexed
25 annuity?
26

27 **WHAT QUESTIONS SHOULD I ASK MY AGENT OR THE COMPANY?**

28

- 29 • Is this a single premium or multiple premium contract?
- 30 • Is this an equity-indexed annuity?
- 31 • What is the initial interest rate and how long is it guaranteed?
- 32 • Does the initial rate include a bonus rate and how much is the bonus?
- 33 • What is the guaranteed minimum interest rate?
- 34 • What renewal rate is the company crediting on annuity contracts of the same type that were
35 issued last year?
- 36 • Are there withdrawal or surrender charges or penalties if I want to end my contract early and
37 take out all of my money? How much are they?
- 38 • Can I get a partial withdrawal without paying surrender or other charges or losing interest?
- 39 • Does my annuity waive withdrawal charges for reasons such as death, confinement in a
40 nursing home or terminal illness?
- 41 • Is there a market value adjustment (MVA) provision in my annuity?
- 42 • What other charges, if any, may be deducted from my premium or contract value?
- 43 • If I pick a shorter or longer payout period or surrender the annuity, will the accumulation
44 value or the way interest is credited change?
- 45 • Is there a death benefit? How is it set? Can it change?

- 1 • What income payment options can I choose? Once I choose a payment option, can I change
2 it?
3

4 **FINAL POINTS TO CONSIDER**

5
6 Before you decide to buy an annuity, you should review the contract. Terms and conditions of
7 each annuity contract will vary.
8

9 Ask yourself if, depending on your needs or age, this annuity is right for you. Taking money out
10 of an annuity may mean you must pay taxes. Also, while it's sometimes possible to transfer the
11 value of an older annuity into a new annuity, the new annuity may have a new schedule of
12 charges that could mean new expenses you must pay directly or indirectly.
13

14 You should understand the long-term nature of your purchase. Be sure you plan to keep an
15 annuity long enough so that the charges don't take too much of the money you put in. Be sure
16 you understand the effect of all charges.
17

18 If you're buying an annuity to fund an IRA or other tax-deferred retirement program, be sure that
19 you're eligible. Also, ask if there are any restrictions connected with the program.
20

21 Remember that the quality of service that you can expect from the company and the agent is a
22 very important factor in your decision.
23

24 When you receive your annuity contract, **READ IT CAREFULLY!!** Ask the agent and
25 company for an explanation of anything you don't understand. Do this *before* any free look
26 period ends.
27

28 Compare information for similar contracts from several companies. Comparing products may
29 help you make a better decision.
30

31 If you have a specific question or can't get answers you need from the agent or company, contact
32 your state insurance department.
33

APPENDIX I – EQUITY-INDEXED ANNUITIES

This appendix to the Buyer’s Guide for Fixed Deferred Annuities will focus on equity-indexed annuities. Like other types of fixed deferred annuities, equity-indexed annuities provide for annuity income payments, death benefits and tax-deferred accumulation. You should read the Buyer’s Guide for general information about those features and about provisions such as withdrawal and surrender charges.

WHAT ARE EQUITY-INDEXED ANNUITIES?

An equity-indexed annuity is a fixed annuity, either immediate or deferred, that earns interest or provides benefits that are linked to an external equity reference or an equity index. The value of the index might be tied to a stock or other equity index. One of the most commonly used indices is Standard & Poor’s 500 Composite Stock Price Index (the S&P 500), which is an equity index. The value of any index varies from day to day and is not predictable. (NOTE: S&P 500 is a registered trademark of the McGraw-Hill Companies, Inc., used with permission.)

When you buy an equity-indexed annuity you own an insurance contract. You are not buying shares of any stock or index.

While immediate equity-indexed annuities may be available, this appendix will focus on deferred equity-indexed annuities.

HOW ARE THEY DIFFERENT FROM OTHER FIXED ANNUITIES?

An equity-indexed annuity is different from other fixed annuities because of the way it credits interest to your annuity’s value. Some fixed annuities only credit interest calculated at a rate set in the contract. Other fixed annuities credit interest at rates set from time to time by the insurance company. Equity-indexed annuities credit interest using a formula based on changes in the index to which the annuity is linked. The formula decides how the additional interest, if any, is calculated and credited. How much additional interest you get and when you get it depends on the features of your particular annuity.

Your equity-indexed annuity, like other fixed annuities, also promises to pay a minimum interest rate. The rate that will be applied will not be less than this minimum guaranteed rate even if the indexed-linked interest rate is lower. The value of your annuity also will not drop below a guaranteed minimum. For example, many single premium contracts guarantee the minimum value will never be less than 90 percent of the premium paid, plus at least 3% in annual interest (less any partial withdrawals). The guaranteed value is the minimum amount available during a term for withdrawals, as well as for some annuitizations (see “Annuity Income Payments”) and death benefits. The insurance company will adjust the value of the annuity at the end of each term to reflect any index increases.

WHAT ARE SOME EQUITY-INDEXED ANNUITY CONTRACT FEATURES?

Two features that have the greatest effect on the amount of additional interest that may be credited to an equity-indexed annuity are the indexing method and the participation rate. It is

1 important to understand the features and how they work together. The following describes some
2 other equity-indexed annuity features that affect the index-linked formula.

3 4 *Indexing Method*

5
6 The indexing method means the approach used to measure the amount of change, if any, in the
7 index. Some of the most common indexing methods, which are explained more fully later on,
8 include annual reset (ratcheting), high-water mark and point-to-point.

9 10 *Term*

11
12 The index term is the period over which index-linked interest is calculated; the interest is
13 credited to your annuity at the end of a term. Terms are generally from one to ten years, with six
14 or seven years being most common. Some annuities offer single terms while others offer
15 multiple, consecutive terms. If your annuity has multiple terms, there will usually be a window
16 at the end of each term, typically 30 days, during which you may withdraw your money without
17 penalty. For installment premium annuities, the payment of each premium may begin a new
18 term for that premium.

19 20 *Participation Rate*

21
22 The participation rate decides how much of the increase in the index will be used to calculate
23 index-linked interest. For example, if the calculated change in the index is 9% and the
24 participation rate is 70%, the index-linked interest rate for your annuity will be 6.3% ($9\% \times 70\%$
25 $= 6.3\%$). A company may set a different participation rate for newly issued annuities as often as
26 each day. Therefore, the initial participation rate in our annuity will depend on when it is issued
27 by the company. The company usually guarantees the participation rate for a specific period
28 (from one year to the entire term). When that period is over, the company sets a new
29 participation rate for the next period. Some annuities guarantee that the participation rate will
30 never be set lower than a specified minimum or higher than a specified maximum.

31 32 *Cap Rate or Cap*

33
34 Some annuities may put an upper limit, or cap, on the index-linked interest rate. This is the
35 maximum rate of interest the annuity will earn. In the example given above, if the contract has a 6%
36 cap rate, 6%, and not 6.3%, would be credited. Not all annuities have a cap rate.

37 38 *Floor on Equity Index-Linked Interest*

39
40 The floor is the minimum index-linked interest rate you will earn. The most common floor is 0%. A
41 0% floor assures that even if the index decreases in value, the index-linked interest that you earn
42 will be zero and not negative. As in the case of a cap, not all annuities have a stated floor on index-
43 linked interest rates. But in all cases, your fixed annuity will have a minimum guaranteed value.

44 45 *Averaging*

1
2 In some annuities, the average of an index's value is used rather than the actual value of the index
3 on a specified date. The index averaging may occur at the beginning, the end, or throughout the
4 entire term of the annuity.

5 *Interest Compounding*

6
7 Some annuities pay simple interest during an index term. That means index-linked interest is added
8 to your original premium amount but does not compound during the term. Others pay compound
9 interest during a term, which means that index-linked interest that has already been credited also
10 earns interest in the future. In either case, however, the interest earned in one term is usually
11 compounded in the next.

12 *Margin/Spread/Administrative Fee*

13
14 In some annuities, the index-linked interest rate is computed by subtracting a specific percentage
15 from any calculated change in the index. This percentage, sometimes referred to as the "margin,"
16 "spread," or "administrative fee," might be instead of, or in addition to, a participation rate. For
17 example, if the calculated change in the index is 10%, your annuity might specify that 2.25% will be
18 subtracted from the rate to determine the interest rate credited. In this example, the rate would be
19 7.75% ($10\% - 2.25\% = 7.75\%$). In this example, the company subtracts the percentage only if the
20 change in the index produces a positive interest rate.

21 *Vesting*

22
23 Some annuities credit none of the index-linked interest or only part of it, if you take out all your
24 money before the end of the term. The percentage that is vested, or credited, generally increases as
25 the term comes closer to its end and is always 100% at the end of the term.

26 **HOW DO THE COMMON INDEXING METHODS DIFFER?**

27 28 *Annual Reset*

29
30 Index-linked interest, if any, is determined each year by comparing the index value at the end of the
31 contract year with the index value at the start of the contract year. Interest is added to your annuity
32 each year during the term.

33 34 *High-Water Mark*

35
36 The index-linked interest, if any, is decided by looking at the index value at various points during
37 the term, usually the annual anniversaries of the date you bought the annuity. The interest is based
38 on the difference between the highest index value and the index value at the start of the term.
39 Interest is added to your annuity at the end of the term.

40 *Low-Water Mark*

41

1 The index-linked interest, if any, is determined by looking at the index value at various points
2 during the term, usually the annual anniversaries of the date you bought the annuity. The interest is
3 based on the difference between the index value at the end of the term and the lowest index value.
4 Interest is added to your annuity at the end of the term.

5 *Point-to-Point*

6
7 The index-linked interest, if any, is based on the difference between the index value at the end of the
8 term and the index value at the start of the term. Interest is added to your annuity at the end of the
9 term.

10
11
12
13
14
15
16
17
18
19

WHAT ARE SOME OF THE FEATURES AND TRADE-OFFS OF DIFFERENT INDEXING METHODS?

Generally, equity-indexed annuities offer *preset* combinations of features. You may have to make trade-offs to get features you want in an annuity. This means the annuity you chose may also have features you don't want.

Features

Trade-Offs

Annual Reset

Since the interest earned is “locked in” annually and the index value is “reset” at the end of each year, future decreases in the index will not affect the interest you have already earned. Therefore, your annuity using the annual reset method may credit more interest than annuities using other methods when the index fluctuates up and down often during the term. This design is more likely than others to give you access to index-linked interest before the term ends.

Your annuity’s participation rate may change each year and generally will be lower than that of other indexing methods. Also an annual reset design may use a cap or averaging to limit the total amount of interest you might earn each year.

High-Water Mark

Since interest is calculated using the highest value of the index on a contract anniversary during the term, this design may credit higher interest than some other designs if the index reaches a high point early or in the middle of the term, then drops off at the end of the term.

Interest is not credited until the end of the term. In some annuities, if you surrender your annuity before the end of the term, you may not get index-linked interest for that term. In other annuities, you may receive index-linked interest, based on the highest anniversary value to date and the annuity’s vesting schedule. Also, contracts with this design may have a lower participation rate than annuities using other designs or may use a cap to limit the total amount of interest you might earn.

Low-Water Mark

Since interest is calculated using the lowest value of the index prior to the end of the term, this design may credit higher interest than some other designs if the index reaches a low point early or in the middle of the term and then rises at the end of the term.

Interest is not credited until the end of the term. With some annuities, if you surrender your annuity before the end of the term, you may not get index-linked interest for that term. In other annuities, you may receive index-linked interest based on a comparison of the lowest anniversary value to date with the index value at surrender and the annuity's vesting schedule. Also, contracts with this design may have a lower participation rate than annuities using other designs or may use a cap to limit the total amount of interest you might earn.

Point-to-Point

Since interest cannot be calculated before the end of the term, use of this design may permit a higher participation rate than annuities using other designs.

Since interest is not credited until the end of the term, typically six or seven years, you may not be able to get the index-linked interest until the end of the term.

WHAT IS THE IMPACT OF SOME OTHER EQUITY-INDEXED ANNUITY PRODUCT FEATURES?

Cap on Interest Earned

While a cap limits the amount of interest you might earn each year, annuities with this feature may have other product features you want, such as annual interest crediting or the ability to take partial withdrawals. Also, annuities that have a cap may have a higher participation rate.

Averaging

Averaging at the beginning of a term protects you from buying your annuity at a high point, which would reduce the amount of interest you might earn. Averaging at the end of the term protects you against severe declines in the index and losing index-linked interest as a result. On the other hand, averaging may reduce the amount of index-linked interest you earn when the index rises either near the start or at the end of the term.

Participation Rate

The participation rate may vary greatly from one annuity to another and from time to time within a particular annuity. Therefore, it is important for you to know how your annuity's participation rate works with the indexing method. A high participation rate may be offset by other features, such as simple interest, averaging, or a point-to-point indexing method. On the other hand, an insurance company may offset a lower participation rate by also offering a feature such as an annual reset indexing method.

Interest Compounding

1 It is important for you to know whether your annuity pays compound or simple interest during a
2 term. While you may earn less from an annuity that pays simple interest, it may have other features
3 you want, such as a higher participation rate.
4

5 **WHAT WILL IT COST ME TO TAKE MY MONEY OUT BEFORE THE END OF THE** 6 **TERM?** 7

8 In addition to the information discussed in this Buyer's Guide about surrender and withdrawal
9 charges and free withdrawals, there are additional considerations for equity-indexed annuities. Some
10 annuities credit none of the index-linked interest or only part of it if you take out money before the
11 end of the term. The percentage that is vested, or credited, generally increases as the term comes
12 closer to its end and is always 100% at the end of the term.
13

14 **ARE DIVIDENDS INCLUDED IN THE INDEX?** 15

16 Depending on the index used, stock dividends may or may not be included in the index's value. For
17 example, the S&P 500 is a stock price index and only considers the prices of stocks. It does not
18 recognize any dividends paid on those stocks.
19

20 **HOW DO I KNOW IF AN EQUITY-INDEXED ANNUITY IS RIGHT FOR ME?** 21

22 The questions listed below may help you decide which type of annuity, if any, meets your
23 retirement planning and financial needs. You should consider what your goals are for the money
24 you may put into the annuity. You need to think about how much risk you're willing to take with
25 the money. Ask yourself:
26

27 Am I interested in a variable annuity with the potential for higher earnings that are not guaranteed
28 and willing to risk losing the principal?
29

30 Is a guaranteed interest rate more important to me, with little or no risk of losing the principal?
31

32 Or, am I somewhere in between these two extremes and willing to take some risks?
33

34 **HOW DO I KNOW WHICH EQUITY-INDEXED ANNUITY IS BEST FOR ME?** 35

36 As with any other insurance product, you must carefully consider your own personal situation and
37 how you feel about the choices available. No single annuity design may have all the features you
38 want. It is important to understand the features and trade-offs available so you can choose the
39 annuity that is right for you. Keep in mind that it may be misleading to compare one annuity to
40 another unless you compare all the other features of each annuity. You must decide for yourself
41 what combination of features makes the most sense for you. Also remember that it is not possible to
42 predict the future behavior of an index.
43

44 **QUESTIONS YOU SHOULD ASK YOUR AGENT OR THE COMPANY**

1
2 You should ask the following questions about equity-indexed annuities in addition to the questions
3 in the Buyer's Guide to Fixed Deferred Annuities.

- 4
- 5 • How long is the term?
- 6
- 7 • What is the guaranteed minimum interest rate?
- 8
- 9 • What is the participation rate? For how long is the participation rate guaranteed?
- 10
- 11 • Is there a minimum participation rate?
- 12
- 13 • Does my contract have an interest rate cap? What is it?
- 14
- 15 • Does my contract have an interest rate floor? What is it?
- 16
- 17 • Is interest rate averaging used? How does it work?
- 18
- 19 • Is interest compounded during a term?
- 20
- 21 • Is there a margin, spread, or administrative fee? Is that in addition to or instead of a participation
22 rate?
- 23
- 24 • What indexing method is used in my contract?
- 25
- 26 • What are the surrender charges or penalties if I want to end my contract early and take out all of
27 my money?
- 28
- 29 • Can I get a partial withdrawal without paying charges or losing interest? Does my contract have
30 vesting? If so, what is the rate of vesting?

31
32 *Final Points to Consider*

33
34 Remember to read your annuity contract carefully when you receive it. Ask your agent or
35 insurance company to explain anything you don't understand. If you have a specific complaint or
36 can't get answers you need from the agent or company, contact your state insurance department.
37