BUYER'S GUIDE TO ANNUITIES

WHAT IS AN ANNUITY?

An annuity is a series of payments made at regular intervals. You can buy annuity contracts from life insurance companies. In return for premiums that you pay, the company will pay you an annuity. An annuity contract is not a life insurance policy or a health insurance policy. It is not a savings account or savings certificate, nor should it be bought for short term purposes.

TYPES OF ANNUITY CONTRACTS

Annuity contracts may be classified in a number of ways. The most common classifications are set out below.

Annuity contracts may be either immediate or deferred. Immediate annuity contracts provide income payments that start shortly after you pay the premium. Deferred annuity contracts provide income payments that start later, often many years later. Thus, the main reason for buying an immediate annuity contract is to obtain an income, most frequently for retirement purposes. There are two reasons for purchasing a deferred annuity contract. One is to obtain a vehicle for the accumulation of money on a tax-deferred basis. Secondly, the money accumulated can then provide an income.

Annuity contracts may be either single premium or installment premium. Single premium contracts require you to pay the company only one premium. Installment premium contracts are designed for a series of premiums. Most of these are flexible premium contracts; they allow you to pay as much as you wish whenever you wish, within specified limits. Others are scheduled premium contracts, which specify the size and frequency of your premiums.

Annuity contracts may be either individual or group. Individual contracts cover only one or two persons. Group contracts cover a specified group of people.

Annuity contracts may be fixed, variable, or a combination of both. During the deferred period of a fixed annuity contract, premiums, less charges, are accumulated at rates of interest set by the company. The amount of each annuity payment is determined when payments begin. During the deferred period of a variable annuity, the value of the accumulated premiums, less charges, varies with the performance of a specified pool of investments. The amount of annuity payments also varies with the performance of the pool. Combination annuities allow you to put part of your premium in a fixed annuity and part in a variable annuity.

Some companies offer deposit fund arrangements under the provisions of their life insurance policies or annuity contracts. These arrangements allow you to pay amounts, in addition to your premiums, which will be accumulated at interest in much the same way as under a deferred fixed annuity contract. The balance of this Buyer's Guide deals specifically with deferred fixed annuity contracts and therefore, is generally applicable to deposit fund arrangements also.

ANNUITY CONTRACT FEATURES

Your value in the contract consists of the premiums you have paid, less charges, plus interest credited. This value is used to calculate the amount of most benefits that you will receive. Charges, interest, and benefits are explained below.

Charges

Considerable diversity exists in the types and amounts of charges. A typical contract might contain one or more of the following types of charges. Companies may refer to these charges by different names. Also,
while some charges will be fixed by the contract, other charges may be changed by the company from time to time.

Percentage of Premium Charge. This charge, often called a "load," is deducted from each premium paid. The percentage may reduce after the contract has been in force for a certain number of years or after total premiums paid have reached a certain level.

Contract Fee. This is a flat dollar amount charged either once at issue or annually.

Transaction Fee. This is a charge per premium payment or other transaction.

Surrender Charge. This charge is usually a percentage of the value of the contract or of premiums paid. The percentage may be reduced or eliminated after the contract has been in force for a certain number of years. Sometimes the charge takes the form of a reduction in the interest rate credited. In some cases, the charge is eliminated if the interest rate declared by the company falls below a certain level.

Interest

The interest rate used to accumulate contract values may never be less than the guaranteed rate stated in the contract. In practice, the interest rate actually used by a company, usually referred to as the "current" rate, is often higher. The company may change the current rate from time to time, but it cannot be lower than the guaranteed rate. Companies differ substantially in their methods of determining the current rate.

Benefits

Annuity contracts provide a number of benefits. While the annuity income benefit is the primary one, the other benefits set out below are also important.

ANNUITY INCOME BENEFIT

Income payments are usually made monthly, although other frequencies are available. The amount of the annuity payments is based on both the value of the contract and the contract's "benefit rate" when annuity payments begin. This benefit rate depends on your age and sex and the annuity from you have chosen.

Annuity contracts contain a table of guaranteed benefit rates. Most companies periodically develop "current" benefit rates as well; these rates are subject to change by the company at any time. When annuity payments begin, the company will determine the amount of each payment according to the current benefit rates then in effect if these are more favorable to you. If the guaranteed benefit rates would provide higher income payments, those rates will be used. Once payments begin, they are unaffected by any future benefit rate changes.

The most commonly available annuity forms are:

Straight Life. The annuity is paid as long as you are alive. There are no further payments to anyone after your death.

Life With Period Certain. The annuity is paid as long as you are alive. If you die before the end of the period referred to as the "certain period," the annuity will be paid to your beneficiary for the rest of that period. Typical certain periods are 10 or 20 years.

Joint and Survivor. The annuity is paid as long as either you or another named annuitant is still alive. In some variations, the annuity is decreased after the first death. A period certain may also be available with this form.
DEATH BENEFIT

Most contracts provide that, if you die before the annuity payments start, the contract value will be paid to your beneficiary. Some contracts provide that the death benefit will be the total premiums paid if that amount is greater than the value of the contract at death.

SURRENDER BENEFIT

Most annuity contracts allow you to surrender your contract if income payments have not yet started. Upon surrender, the contract terminates. The surrender benefit is equal to your contract value less surrender charge, if any.

Many annuity contracts also provide that you may withdraw a portion of your contract value, under certain conditions, without terminating the contract. A surrender, or withdrawal, charge may be deducted from the amount withdrawn. This charge is usually a percentage of either the accumulation value of the contract, the premiums paid or the portion withdrawn.

WAIVER OF PREMIUM BENEFIT

Some companies offer a benefit which will pay premiums for you if you become disabled. A charge is made for this benefit.

HOW MUCH SHOULD I BUY?

Before buying, ask yourself these questions:

1. How much annuity income will I need in addition to social security, pension savings and investments?
2. Will I need an income only for myself or for someone else also?
3. How much can I afford to pay in premiums?
4. How will the annuity contract fit in with my total financial planning?

HOW TO BUY AN ANNUITY

Buying an annuity contract is a major financial decision which should be considered carefully. The prospective purchaser of an annuity contract should consider the offerings of as many companies as possible.

CONTRACT SUMMARY

You will receive a Contract Summary when an annuity contract is delivered to you, or you can ask for one now. You should review this statement thoroughly.

Accumulated values and surrender values under the contract are illustrated for various years on this statement. During the first few years, these values may be less than premiums paid. This is why an annuity contract should not be purchased for short term purposes.

Also illustrated are the yields on gross premiums at specified times. Since this takes into account not only the interest credited under the contract, but also the effect of all charges, the yield on gross premiums is a figure you can use to compare annuity contracts. Be careful in comparing this figure with yields available on other investments. The tax treatment of annuity earnings is usually substantially different from that of
earnings from other investments. And only annuity contracts offer life income and waiver of premium benefits.

As stated near the beginning of this guide, one reason for buying an annuity contract is to obtain an income. Therefore, you should also review the life income figures shown in the Contract Summary. These life income figures are shown for annuities beginning at age 60, 65, and 70. Not everyone plans to retire at the same age. Thus, this set of figures enables the contract summary to be relevant to the purchaser of an annuity contract whatever his personal plans may be for retirement. Two different sets of life income figures are shown. One shows the payout amount per month produced by the guaranteed cash surrender value accumulated at the applicable age and the guaranteed annuity purchase rates. The second set of amounts shows the monthly payout produced by the illustrated cash surrender value accumulated at the applicable age and the current annuity purchase rates.

You will note that all values and income figures are shown on both a "guaranteed" and an "illustrated" basis. Illustrations on the guaranteed basis show the minimum values and income which could be paid under the contract. Illustrations on the "illustrated" basis show the values and income which would be paid if the current interest and benefit rates for the contract were to continue in effect for the period shown. Since it is impossible to predict the future course of interest and benefit rates, you will have to decide for yourself how much to rely on the illustrated basis values when making your purchase decision.

**OTHER POINTS TO CONSIDER**

Be certain that you understand the effect of all charges that will be made under the contract.

Check whether the annuity contract allows you to change the amount of your premium payments. Find out what happens if you stop paying premiums altogether.

You may want to obtain and compare contract summaries for similar contracts from several companies. Comparing these should help you select a good buy.

If you are buying an annuity contract for an Individual Retirement Account, IRA, or another tax deferred retirement program, make sure that you are eligible. Also make sure that you understand any restrictions connected with the program.

If you are shown a presentation which illustrates tax savings, find out what assumptions are used. Be sure the assumptions apply in your case.

A good agent can help you choose the right annuity contract. Remember that the quality of service that you can expect from the life insurance company and the agent is an important factor also.

**READ THE CONTRACT**

When you receive your new annuity contract read it carefully. Ask the agent and company for an explanation of anything you do not understand.

If you have a specific complaint or cannot get the answers you need from the agent or company, please contact your state insurance department.