AMERICAN ACADEMY *of* ACTUARIES

January 17, 2013

Jim Mumford, Chair
Annuity Disclosures (A) Working Group
National Association of Insurance Commissioners

Dear Mr. Mumford:

The American Academy of Actuaries[1] Annuity Illustration Subgroup (AIS) is pleased to present its comments on the November 28, 2012 draft of the *NAIC Buyer's Guide for Deferred Annuities*.

Overall, we thought the draft was very good. In particular, we liked its tone, the amount and depth of content covered, and the use of callout boxes and bulleted lists. In our redline comments, we endeavored to further improve the *Buyer's Guide* without changing what already works. We note that our comment document appears to contain a significant amount of redline at first glance; however, upon closer inspection you'll see that most of our edits were either (1) deletions of redundant text; (2) reorganization without rewriting (i.e., cut/paste); or (3) the same change repeated multiple times for consistency.

We have included comments in the redline document to help explain our edits. In particular, we would like to highlight the following comments:

1. Concept
    - Annuities are insurance contracts, not investments—they earn "interest," not a "return."
    - An illustration does not "estimate the interest an annuity might earn." It is not intended to estimate, project, or predict values, and its focus should not be on interest crediting. Therefore, we recommend instead: "Illustration: A document that demonstrates the features of your annuity using sample values."
    - Since there are so many insurance companies with so many crediting methods, we believe the participation rates, caps, spreads section should be more general as indicated by our redlined comments in this document.
    - An MVA can increase contract values, therefore we changed the heading of Section IV-A to "Fees, Charges, and Other Adjustments."
    - Since lifetime income withdrawals are a significant form of annuity income today, we added lifetime income withdrawals in Section IV-B (How Can I Receive Income From My Annuity?).

[1] The American Academy of Actuaries is a 17,000-member professional association whose mission is to serve the public and the U.S. actuarial profession. The Academy assists public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

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2. Organization
    - We suggest Section I (What Is an Annuity?) begin with how annuities are alike before describing how they are different (i.e., reverse the order of Sections IA and IB).
    - Both the fixed and variable sections had similar death benefit language so we consolidated the language and moved it to Section I-A (Features Common to Most Deferred Annuities).
    - Since both fixed and variable annuities can offer a bonus, we moved the bonus language from the fixed section to Section I-B (Important Differences Among Deferred Annuities).
    - We noted that Sections II-A and II-B describe interest crediting only, therefore we updated the titles accordingly.
    - We added Sections and titles to Section III (Variable) to make parallel with Section II (Fixed).

3. Consistency – We believe there should be a consistent term used for the following concepts, and used the asterisked terms throughout the document:
    - Insurer, Insurance Company,* Company, Issuing Company.
    - Account Value, Annuity Value, Annuity's Value,* Value Of Your Annuity, Annuity's Account Value, Contract Value.

4. Differentiation – We believe there should be a differentiation between annuity payments and GLWB payments. Both were typically referred to as "annuity income" in the draft. We used:
    - "Annuity income payment" for annuity payments
    - "Lifetime income withdrawal" for GLWB payments
    - "Income" when referring to both

If you have any questions, please contact John Meetz, the Academy's life policy analyst, at 202-223-8196 or meetz@actuary.org.

Sincerely,

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NAIC Buyer's Guide for Deferred Annuities

Comment [A1]: Version 11.28.12

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Comment [A2]: We recommend "receive income from your annuity" vs. "earn income" (e.g., paycheck from an employer).

Comment [A3]: To match section title on page15.

Comment [A4]: Noted inconsistency: some sections titles are questions, some are statements.

It's important that you understand how annuities can be different from each other so you can choose the type of annuity that is best for you. The purpose of this Guide is to help you do that. This Guide isn't meant to offer legal, financial, or tax advice. You may want to consult independent advisors that specialize in these areas.

This Guide includes questions you should ask the company or the annuity sales~~-~~person (the agent, producer, broker or advisor). Be sure you're satisfied with the answers before you

buy an annuity.

SECTION I - What Is an Annuity?

An annuity is a contract with an insurance company. All annuities have one feature in common – and it's the thing that makes annuities different from other financial products. **With an annuity the issuing company promises to pay you a regular income for a period of time you choose –** including an option for income that continues for the rest of your life.

Some annuities begin paying income soon after you buy them (**immediate** annuities) while others begin at some later date you choose (**deferred** annuities). **This buyer's guide is only about deferred annuities.**

I-A~~B~~ – Features Common to Most Deferred Annuities ~~- How Are Different Types of Annuities Alike?~~

Comment [A5]: Seems more logical to start with similarities before going into differences. Sections were swapped without tracking changes.

There are ways that most deferred annuities are alike.

- All deferred annuities have an **accumulation** period and a **payout** period. During the accumulation period, the ~~money in the~~ annuity's value can ~~earnings, if any,~~ earn interest (based on the type of annuity). During the payout period, the annuity makes annuity income payments to you.
- You usually have to pay a ~~**charge (called a**~~**withdrawal or surrender charge**~~)~~ if you ~~want to take some or all of your~~withdraw money ~~for a period of years before the annuity starts to make income payments to you (before you **annuitize**)~~during the surrender charge period. For more information see SECTION IV-A.~~Some annuities may not charge if you withdraw~~

Comment [A6]: It is possible to pay a surrender charge when the contract is annuitized.

small amounts (for example, 10% or less of the account value) each year, or if certain events happen (for example, a death), or after you've owned the annuity for several years.

- If you die before you start to receive annuity income payments (before you **annuitize**), most annuities offer a basic death benefit that will pay some or all of the annuity's value to your beneficiaries either in one payment or multiple payments over time, depending on your annuity.

> *Payout Options*
>
> You'll have a choice about how to receive annuity income payments, and your payment amount will vary depending on which option you choose. These choices usually include:
>
> - For your lifetime
> - For the longer of your lifetime or your spouse's lifetime
> - For a set time period
> - For the longer of your lifetime or a set time period

- If you die after you start to receive annuity income payments from the annuity (after you **annuitize**), your beneficiaries may not receive anything *unless*: 1) your annuity guarantees to pay out at least as much as you paid into the annuity, or 2) you chose a payout option that continues to make payments after your death. the remaining money in your annuity may **not** be paid to your survivors. Annuities do give you a choice about how to receive income payments and one of those choices is to pay income to your spouse after your death. Some annuities promise to pay out at least as much as you've paid into the annuity. If the company hasn't paid that amount to you in income payments by the time of your death, it would make a final payment to your beneficiaries.
- Any interest that money in your annuity earns is **tax deferred**. That means you won't pay income tax on earnings until you take them out of the annuity.
- You can add features to your annuity, usually at an extra cost, by adding **riders**.

Comment [A7]: Redundant—same information in fees and charges section.

Comment [A8]: This language pulled forward from later sections. The fixed and variable sections had similar death benefit language so we consolidated here.

Comment [A9]: This language incorrectly implies there is value left in the contract after annuitization that beneficiaries can't access.

- ~~Only licensed insurance representatives can sell annuities.~~ ~~Anyone who sells an annuity~~Annuity salespersons must be licensed by the insurance department in your state. ~~A person selling~~ An annuity salesperson who sells a variable annuity also must be a **licensed securities representative** in your state **and** registered with a broker/dealer that is a FINRA member.[1]
- ~~Insurance companies sell annuities.~~ You want to buy an annuity from an insurance company that's financially sound. For example, you can check the financial health of an insurance company by using ratings from independent rating agencies such as Standard and Poor's, A.M. Best, and Moody's.
- ~~Individuals who sell annuities~~Annuity salespersons typically earn money ~~from the sale~~when you buy an annuity. You have a right to ask how ~~the individual selling you the annuity~~your annuity salesperson will earn money from the sale.

Sources of Information

Contract: The Legal document that between you and the insurance company that binds you and the insurance company to the terms of the agreement.
Disclosure: A document that describes the key features of your annuity, including what's guaranteed and what isn't, and your annuity's fees and charges. A variable annuity purchaser will receive a disclosure document called a prospectus that includes detailed information about investment objectives, risks, charges and expenses.
Illustration: A document that ~~estimates the interest an annuity might earn~~demonstrates the features of your annuity using sample values; ask about what's guaranteed and what isn't and what assumptions were made to create the illustration.

I-B – Important Differences Among Deferred Annuities ~~A - Aren't Some Annuities Different from Others?~~

There **are** important differences among annuities. Some of these are:

[1] FINRA (Financial Industry Regulator Authority) is a self-regulatory organization that oversees the sales and distribution of~~regulates~~ variable annuities and other investments at the federal level.

Comment [A10]: Redundant.

Comment [A11]: Footnote described SEC, not FINRA. (SEC regulates VAs; FINRA oversees their sales and distribution.)

Comment [A12]: Sentence was deleted because it was confusing. Previous bullet states that annuity salespersons sell annuities.

- Whether you pay for the annuity with one payment (called a **premium**) or more than one.
- Whether the annuity begins paying income to you soon after you buy it (an **immediate** annuity) or at some later date you choose (a **deferred** annuity). **This buyer's guide is only about deferred annuities.**
- The types and amounts of the **fees and charges**. While all annuities charge assess *some* fees and or charges that reduce your account annuity's value, they can be different across annuities. For more information see SECTION IV-A.
- Whether the annuity has a bonus. Some fixed annuities offer a **premium bonus**, which usually is a lump sumn amount the insurer insurance company adds to your annuity when you buy it. It's (this bonus is usually a set percentage of the amount money you put into the annuity) (called **premium**). Other annuities may offer an **interest bonus**, which is an amount the insurance company adds to your annuity when you earn interest (this bonus is usually a set percentage of additional interest earned). **You could lose part or all of the bonus if you take some or all of the money out of your annuitywithdraw money within a set period of time.** *Read the section in this buyer's guide titled Fees and Charges for more information.*
- How much risk there is that the income the annuity pays you won't be as much as you need or expect. There are two basic types of annuities: fixed and variable.
- How the money in your annuity earns a returninterest is different for each of these.. Fixed annuities and variable annuities earn interest differently. For more information see SECTIONS II and III.

Fixed annuities guarantee your money will earn at least a minimum interest rate and may earn more at an interest rate set by the company. For more information see SECTION II.

Fixed indexed annuities are a type of fixed annuity and earn interest based on changes in a market index. The index measures how the market or part of the market performs. The interest rate isn't

Comment [A13]: Avoid using "charge" twice.

Comment [A14]: Not all annuities charge fees.

Comment [A15]: Moved from Fixed Annuity section since a bonus can apply to both fixed and variable annuities.

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Comment [A16]: A note about the Illustration definition in the callout box: An illustration does not "estimate the interest an annuity might earn." It is not intended to estimate, project, or predict values, and its focus should not be on interest crediting. Instead, we recommend the definition shown in redline.

Comment [A17]: Annuities are insurance contracts, not investments—they earn "interest," not a "return." Same comment applies throughout document.

Comment [A18]: Bullets deleted because they were redundant with Sections II and III.

~~guaranteed. An indexed annuity does guarantee that the value of your annuity won't go down as long as you don't take out the money.~~

~~Variable annuities earn investment returns based on the "subaccounts" you choose. The return earned in a variable annuity isn't guaranteed. The subaccounts are invested as you decide – in different types of funds with different investment risk. If the value of these subaccounts goes down,~~ ~~**you could lose money**~~ ~~and income payments to you could be less than you expected. For more information see SECTION III.~~

SECTION II - Fixed Deferred Annuities

If you buy a fixed deferred annuity, the insurance company guarantees your annuity will earn a minimum interest rate. Depending on the type of fixed deferred annuity, the minimum interest rate could be zero or it could be more. The interest you earn in a fixed deferred annuity is credited by the insurance company.

II-A – Interest Crediting in ~~General~~Traditional Fixed Annuities

Money in a traditional fixed annuity earns interest at a ~~rate set by the insurer. The rate is~~ **fixed interest rate** ~~(won't change)~~ for ~~some~~ a set period, usually a year. After that rate period ends, the insurance company will set another fixed interest rate for the next rate period. ~~**That**~~ **The new rate could be higher or lower than the ~~earlier~~ initial rate.**

~~Fixed~~ Traditional fixed ~~deferred~~ annuities ~~do~~ have a guaranteed minimum interest rate. That's the lowest rate the annuity can earn. It's stated in your contract and can't change as long as you own the annuity.

Ask about:

- The *initial interest rate* – What's the rate? How long ~~until it will change~~will the initial interest rate apply to your annuity? How will the company tell you what the ~~new~~next rate will be?
- The *~~renewal~~ minimum interest rate* -- Wh~~en will it be announced~~at is it? ~~How will the company tell you what the new rate will be?~~

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~~Fixed Deferred Indexed Terms~~Common Formulas Used to Determine Index-Based Interest

- *Annual Point-to-Point* – Change in index calculated using two dates one year apart. Interest credited to your account **at the end of the contract year.**
- *Multi-Year Point-to-Point* Change in index calculated using two dates more than one year apart. Interest credited to your account **at the end of the index term**.
- *Monthly or Daily Averaging* – Change in index calculated using ~~two dates (every month for monthly averaging, every day the market is open for daily averaging)~~one date and an average index value. The average ~~of these values~~index value is compared with the index value ~~at~~ from the start of the index term. Interest is credited to your account **at the end of the index term.**~~**when?**~~
- *Monthly Point-to-Point* – Change in index calculated using two dates one month apart. ~~Positive (but not negative) changes can be no more than a "cap rate" each month.~~ At the end of the index term, monthly changes (positive and negative) are added~~; if the result is positive, interest is credited~~ together. Interest is credited to your account **at the end of the index term**.

II-B ~~-~~– Interest Crediting in Fixed ~~Deferred~~ Indexed Annuities

Money in a fixed indexed annuity ~~is credited~~earns interest based on changes in an index – a measure of how some ~~(such as equities, bonds, or commodities)~~ or all financial markets (such as equities, bonds, or commodities) perform. **There's no guarantee you'll earn index-based interest.** ~~When you buy an indexed annuity, you aren't investing directly in the market or the index.The insurance company uses a formula to determine how a change in the index affects the amount of interest credited to your annuity.~~ **However, i~~I~~f the annuity has a zero percent floor, the insurance company guarantees the value of your annuity won't go down ~~as long as you don't withdraw the money~~due to poor index performance.**

Fixed indexed annuities credit interest periodically, at the end of ~~for~~ a set period of time (called an **index term**). Once interest is credited to your annuity for an index term, those earnings usually are locked in and aren't affected by changes in the index in the next ~~period~~index term. If you take money from an indexed annuity before the end of an index term,

Comment [A19]: It can be inaccurate to say the value of an FIA won't go down "as long as you don't withdraw money," because rider charges may reduce annuity values. All we can 100% promise is that the value of an FIA won't go down due to poor index performance.

Comment [A20]: This sounded like index-linked interest won't be credited after the index term.

the annuity **may not credit any of the index-linked interest for that term to your account.**

When you buy an indexed annuity, you aren't investing directly in the market or the index. Instead, the insurance company uses a formula to determine how a change in the index affects the amount of interest credited to your annuity.~~Insurance companies use different formulas to calculate interest to credit to your annuity. They look at changes in the index between two points in time.~~ Look for the terms **annual point-to-point, multi-year point-to-point, monthly or daily averaging,** and **monthly point-to-point** that describe how changes in an index are used to calculate interest.

The formulas insurance companies use often mean that interest credited to your account is based on only *part* of ~~an increase~~a change in an index. **Participation rates, cap~~s~~ ~~rates~~, and spread ~~rates~~** (sometimes called **margin** or **asset** fees) all are terms that describe ways the amount of interest credited to your account may not reflect the full increase in the index. ~~**But, if the index goes down, zero interest is credited to your annuity – your annuity doesn't lose money.**~~

~~How Insurers Might Limit the Amount of Index Gains on Your Indexed Annuity~~Common Features in Index-Based Interest Formulas

- **Participation Rate** -- Determines how much of the ~~increase~~ change in the index is used to calculate index-linked interest. ~~A participation rate usually is for a set period (from one year to the entire term).~~ Some ~~companies~~ annuities guarantee the rate can never be lower ~~(or higher)~~ than a set minimum ~~(maximum)~~. Participation rates ~~often are~~ can be less than 100%~~, particularly when there's no cap rate~~.
- **Annual Cap ~~Rate~~** – Typically, the maximum rate of interest the annuity will earn during the index term. Some annuities guarantee that the cap ~~rate~~ will never be lower ~~(higher)~~ than a set minimum ~~(maximum)~~.
- **Monthly Cap**– Typically, the maximum monthly index change used in the Monthly Point-to-Point interest rate calculation. Some annuities guarantee that the cap will never be lower than a set minimum. ~~Companies often use a cap rate, especially if the participation rate is 100%.~~
- **Spread ~~Rate~~** – A set percentage the insurer subtracts from any change in the index. Also called a "margin or asset fee." Some annuities guarantee that the spread will never be more than a set maximum. ~~Companies may use this instead of or in addition to a participation or cap rate.~~

Comment [A21]: Not always changes between two points in time (e.g. monthly average).

Comment [A22]: (This comment applies to the callout box) Since there are so many insurance companies with so many crediting methods, we believe the participation rates, caps, spreads section should be more general as shown in this document.

Comment [A23]: Sentence deleted because it is redundant—already stated in first paragraph.

You may have a choice of indexes. One of the equity indexes most commonly used in indexed annuities is the Standard & Poor's 500 Composite Stock Price Index (the S&P 500).[2] ~~Many indexed annuities also offer the option to put part of your money into a fixed interest rate account, with a rate set for a specified period.~~ Some indexed annuities offer you more than one index choice.

Many fixed indexed annuities also offer the option to put part of your money into a fixed interest rate account with a guaranteed minimum interest rate.

II-C ~~-~~ – ~~Features Common to Most Fixed Deferred Annuities~~Death Benefits

~~***Death Benefits***~~

Most fixed annuities offer a basic death benefit~~. I~~ if you die during the accumulation period~~, a fixed annuity with a basic death benefit will pay some or all of the annuity's value to your beneficiaries either in one payment or multiple payments over time, depending on your annuity~~. The amount is usually the greater of the annuity account value or the minimum guaranteed surrender value. ~~If you die after you begin to receive income payments (**annuitize**), your beneficiaries may not receive anything *unless*: 1) your annuity guarantees to pay out at least as much as you paid into the annuity, or 2) you chose a payout option that continues to make payments after your death.~~ For an extra cost, you may be able to choose enhanced death benefits that may increase the value of the basic death benefit.

Comment [A24]: Redundant

Comment [A25]: Moved to section I-A

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

II-D – Living Benefits

Many fixed annuities offer a **guaranteed living benefits** rider, sometimes at no extra cost. The most common type is one that guarantees to make ~~income payments~~lifetime income withdrawals that you can't outlive, **even if your annuity account value falls to zero.** There may be a waiting period before you can use these benefits.

SECTION III - Variable Deferred Annuities

If you buy a variable deferred annuity, the insurance company invests your money directly in the market. There's typically no guarantee for your annuity's value, and you can lose money. Because of this, variable annuities are considered securities regulated by the U.S. Securities and Exchange Commission (SEC).

An insurer may offer several versions of a ~~deferred~~ variable deferred annuity product, with different fee structures, and different features and benefits that may be appropriate for you based on your personal financial situation and how you intend to use the annuity. For example, the ~~different features and benefits~~annuity may include restrictions on when you can ~~access money in your annuity with a~~withdraw money without a surrender charge.

Comment [A26]: Paragraph moved up from below.

III-A – Interest Crediting

Money in a variable annuity ~~earns a return~~ generally earns interest based on how investments perform. You choose "subaccounts" invested in mutual funds or other investment products. Your investment choices likely will include subaccounts with different amounts and types of risk. Your choices also may affect the fees you pay.

~~Some subaccounts will have no guaranteed return. But, you may have a choice to put some money into a fixed account with a guaranteed minimum interest rate.~~

The ~~insurer~~ insurance company allocates the money you pay for the annuity into the subaccounts you choose. The value of your annuity can change every day as the value of the subaccounts changes. **There's no guarantee you'll earn ~~any return on~~interest in the subaccounts. If the value of the subaccounts goes down, ~~you may have less money in~~ your annuity's value may be less than the money you paid into it.**

Some variable annuities also offer the option to put part of your money into a fixed interest rate account with a guaranteed minimum interest rate.

III-B – Death Benefits

Most variable annuities offer a basic death benefit. ~~i. I~~If you die during the accumulation period~~, a variable annuity with a basic death benefit will pay some or all of the annuity's value to your beneficiaries either in one payment or multiple payments over time, depending your annuity~~. The amount is usually the greater of the annuity's ~~account~~ value or the total you've paid in, less the total you've withdrawn. ~~If you die after you begin to receive income payments (**annuitize**), your beneficiaries may not receive anything *unless*: 1) your annuity guarantees a minimum payout, or 2) you chose a payout option that continues to make payments after your death.~~ For an extra cost, you may be able to choose enhanced death benefits that may increase the value of the basic death benefit. Guaranteed minimum death benefit (GMDB) riders typically guarantee the death benefit will equal or exceed the total you've paid in plus a certain interest rate, or guarantee the death benefit will equal or exceed the annuity's highest locked-in value since purchase.

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Comment [A27]: Redundant

Comment [A28]: Moved to section I-A

Variable Annuity Living Benefit Options

- **Guaranteed Minimum Accumulation Benefit (GMAB)** – Guarantees your account value will equal some percentage (typically at least 100%) of premiums less withdrawals, at a set future date. (for example, at maturity). If your annuity is worth less than the guaranteed amount, at that date, your insurance company will add the difference.
- **Guaranteed Minimum Income Benefit (GMIB)** – Guarantees a minimum lifetime annuity income equal to at least a certain amount. You usually must choose this benefit when you buy the annuity and must annuitize to use the benefit. Generally, a waiting period before you can annuitize using this benefit.
- **Guaranteed Lifetime Withdrawal Benefit (GLWB)** – Guarantees you can take withdrawals, up to a set maximum percentage each year for the rest of your life.
- **Guaranteed Minimum Withdrawal Benefit (GMWB)** – Guarantees you can tmake withdrawals, up to a set maximum percentage each year, equal to at least a certain amount.

III-C – Living Benefits

Variable annuities may offer a **guaranteed living benefits** ridern extra benefit at an extra cost that guarantees you a minimum account value, a minimum lifetime income, or minimum withdrawal amounts **regardless of how the subaccounts you choose perform.** There may be a waiting period before you can use these benefits. Ask the annuity salesperson for information about these options.

SECTION IV – OTHER INFORMATION TO CONSIDER

IV-A - Fees and, Charges, and Other Adjustments

Most annuities have fees and , charges, or other adjustments that reduce can affect the value of your annuity. These fees and charges cover the insurance companyinsurer's costs of selling and managing the annuity and paying benefits. The insurer insurance company may subtract these fees or charges directly from

your annuity's value. Different annuities have ~~different fees and charges~~features, so~~. R~~ read the ~~prospectus and~~ disclosure carefully and ask ~~the agent~~ your annuity salesperson to describe the fees, charges, or other adjustments.

A ***withdrawal or surrender charge*** is a charge deducted if you ~~take part or all of the~~withdraw money from your annuity ~~within a specified period of time~~during the surrender charge period. The charge is a percentage of the amount you take out of the annuity; the percentage usually goes down each year. When the percentage is zero, ~~until~~ the surrender charge period ends. Some annuities may not assess a surrender charge if you withdraw small amounts (for example, 10% or less of the account value) each year, or if certain events happen (for example, a death).~~Look in the contract and the disclosure document for details about the charge and any waivers for events (such as a death) or the right to take out a small amount (usually up to 10%) each year without paying the fee.~~ ~~If you take all of your money out of an annuity, you've surrendered it and no longer have any right to future income payments.~~

Comment [A29]: Redundant—covered in Full Withdrawal later. Doesn't fit here.

~~Annuity~~ Additional Fees and Charges

- ***Contract fee*** --A flat dollar amount or percentage charged once or annually.
- ***Mortality and expense (M&E) risk charge*** -- A fee charged on *variable annuities*; it's a percent of the account value invested in subaccounts.
- ***Percentage of purchase payment*** – A front end sales load or other charge deducted from each premium paid. The percentage may vary over time.
- ***Premium tax*** – A tax some states charge on annuities. The insurer may subtract the amount of the tax when you pay your premium, when you withdraw your contract value, when you start to receive income ~~payments~~, or when it pays a death benefit to your beneficiary.
- ***Transaction fee*** -- A charge for certain transactions, such as transfers or withdrawals.
- ***Underlying fund charges –*** A fee charged on *variable annuities* for fees and charges on the annuity's subaccounts; may include an investment management fee, distribution and service (12b-1) fees, and other charges that may apply.

Some annuities have a *Market Value Adjustment (MVA)* feature. An MVA could increase or decrease your annuity's account value, cash surrender value, and/or death benefit value if you withdraw money from your ~~account~~annuity. In general, if interest rates are *lower* when you withdraw money than they were when you bought the annuity, the MVA feature will *increase* your annuity's value. If interest rates are *higher* than when you bought the annuity, the MVA feature will *reduce* your annuity's value. Every MVA calculation is different, so check your contract and disclosure for details.

IV-B - How Can I ~~Earn~~ Receive Income From My Annuity?

Annuity Income Payments~~tize~~

At some future time, you can choose to *annuitize* your contract and begin to receive annuity income payments. When you annuitize your contract, you permanently convert your annuity's value into annuity income payments.

Lifetime Income Withdrawals

If your annuity offers a lifetime income withdrawal feature, you can keep your annuity in the accumulation period and receive income that you can't outlive, **even if your annuity's value falls to zero.** Some annuities may require a waiting period before lifetime income withdrawals can begin. ~~An important benefit is the ability to receive income payments for life regardless of the payment option you choose. This basic feature of an annuity is called *"annuitization´ or "annuitizing."*~~

Comment [A30]: First sentence is not true. Second is redundant.

Full Withdrawal

You can withdraw the entire cash surrender value of the annuity in a lump sum payment and end your annuity – *~~you'll likely pay fees to do this if it's~~the cash surrender value you'll receive is likely lower than the account value during the surrender charge period.* If you withdraw your annuity's cash surrender value, your annuity is cancelled and you will no longer be able to annuitize or ~~start receiving regular income payments~~take lifetime income withdrawals from the contract.

Comment [A31]: If you're withdrawing the CSV, the surrender charge has already been taken.

Partial Withdrawals

You may be able to withdraw *some* of the money from the cash surrender value without ending the annuity. Most annuities ~~with surrender charges~~ let you withdraw a certain amount (usually up to 10%) each year ~~free (you do not pay~~without triggering surrender charges or Market Value Adjustments~~)~~. ~~*Otherwise you'll likely pay these charges on a withdrawal during the surrender charge period unless some other exception applies under the annuity contract terms.*~~

IV-C - How Are Annuities Taxed?

Ask a professional about your individual tax situation. The information below is general and isn't tax advice.

Under current federal law, ~~annuities receive special tax treatment. I~~income tax on ~~annuities~~ annuity earnings is deferred, which means you aren't taxed on any earned interest ~~or investment returns~~ while your money stays in the annuity. This is not the same as tax-free; you'll pay ordinary income tax on the ~~increase in value~~earnings when you take a withdrawal, receive ~~an income stream~~a lifetime income withdrawal, or receive ~~each~~ an annuity income payment. You also may have to pay a 10% tax penalty if you withdraw money before you're age 59½. Most states' tax laws on annuities follow the federal law.

You can use annuities to fund Traditional and Roth Individual Retirement Accounts (IRAs) as well as other tax-deferred options, such as 401(k)s and 403(b)s. However, since taxes on these accounts already are deferred, there's no tax advantage to using an annuity to fund them. A decision to use an annuity in a tax-deferred account should be based on the other features and benefits of an annuity, such as being able to receive income ~~payments~~ guaranteed to last your lifetime. When you die, your beneficiaries typically will owe income taxes on any death benefit they receive.

IV-D - How Do I Know Which Annuity is Right for Me?

An annuity salesperson who suggests an annuity must choose one that he or she thinks is right for you, based on the information you give the annuity salesperson. The annuity salesperson needs complete information about your life and financial situation to make a suitable recommendation. You should expect to be asked about your age; your financial situation (assets, debts, income, tax status, how you plan to pay for the annuity); your tolerance for risk; your financial objectives and experience; your family circumstances; and how you plan to use the annuity. If you aren't comfortable with the annuity an annuity salesperson recommends, ask the annuity salesperson to explain why she/he recommended it. Don't buy an annuity you don't understand or doesn't seem right for you.

~~Within each annuity, t~~The ~~insurer~~ insurance company *may* guarantee some ~~values~~ features but not others. Some guarantees may be only for a year or less while others could be longer. Ask about risks and decide if you can accept them. There could be risks you won't get all of your money back, the ~~return on your annuity~~interest earned may be lower than you expected, you can't withdraw money you need from your annuity without paying ~~fees~~surrender charges or Market Value Adjustments, and the annuity income payments won't be as much as you need to reach your goals. These risks will vary with the type of annuity you buy. All product guarantees depend on the insurance company's financial strength and claims paying ability.

IV-E - What Questions Should I Discuss with the Annuity Salesperson?

- How does an annuity match my financial and investment objectives, risk tolerance, and time horizon?
- How will this annuity help me meet my overall financial and investment objectives?

- Will I use the annuity for a long-term goal such as retirement? If so, how could I achieve that goal if the income from the annuity isn't as much as I expected it to be?
- What features and benefits in the annuity, other than tax deferral, make it appropriate for me?
- Am I taking full advantage of all of my other tax-deferred opportunities, such as 401(k)s, 403(b)s and IRAs?
- Do I understand all of the annuity's fees~~, and~~ charges, and other adjustments?
- Do I understand the risks associated with an annuity? Am I comfortable with them?
- Do I intend to keep my money in the annuity long enough to avoid paying any surrender charges?
- Have I consulted a tax advisor and/or considered how buying an annuity will affect my tax liability?
- If I'm exchanging annuities, how do the fees and charges of the replacement annuity compare to the existing one? Will I lose the value of optional living or death benefits on the existing contract?

IV-F - What Should I Do When I Receive My Annuity Contract?

When you receive your annuity contract, carefully review it and be sure it matches your understanding. Also, read the disclosure and other materials the insurance company provides. Ask your annuity salesperson to explain anything you don't understand. In many states, a law gives you a set number of days (usually 10 to 30 days) to change your mind about an annuity after you receive it. If you decide during that time that you don't want the annuity, you can contact the insurance company, return the contract and, depending on the state, either get all

of your money back or your current account value. This is often called a **free look** or **right to return** period. Your contract ~~and disclosure~~ should prominently state your specific free look period.