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Variable Annuities

Some basics

A variable annuity is a contract between you (the purchaser) and an insurance company (the issuer). In return for your premium payments, the issuer agrees to make periodic payments to you (if you elect this option), beginning either immediately or at some future date.

Why buy an annuity?

- *To provide income to supplement what you receive from Social Security, pension plans, and other employer-sponsored retirement plans.*
- *To create a lifetime income stream.*
- *To maintain financial independence. For example, you can use annuity funds to pay for long-term care expenses and stay in your own home, rather than rely on your children for care.*
- *To invest for any specific purpose or long-term goal, such as providing a legacy for your heirs or making a charitable gift.*
- *To grow funds on a tax-deferred basis.*

Annuity premium payments are made with after-tax dollars and are not tax deductible. That's why it's often advisable to fund retirement plans like 401(k)s and IRAs first. However, if you've already contributed the maximum allowable amount to these plans and want to save more toward your retirement, an annuity can be an excellent choice.

You can pay your premiums in one lump sum, or you can make a series of payments over time. There's no limit to how much you can invest in an annuity, and your funds grow tax deferred until you begin taking distributions.

Once you begin withdrawing from your annuity, you'll pay taxes (at your regular income tax rate) only on the earnings, since your contributions to principal were made with after-tax dollars. As with a qualified retirement plan, a 10% tax penalty may be imposed if you withdraw from an annuity before age 59½.

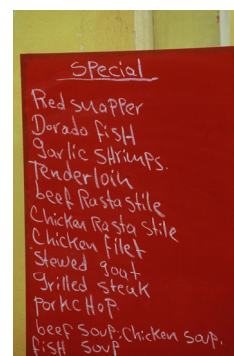
Annuities are designed to be very long-term investment vehicles. In most cases, you'll pay a penalty for early withdrawals. And if you take a lump-sum distribution of your annuity funds

within the first few years after purchasing your annuity, you may be subject to surrender charges imposed by the issuer. As long as you're sure you won't need the money until at least age 59½, an annuity is worth considering.

Your investment choices are varied

As the purchaser, you can designate how your premium dollars will be allocated among the investment choices (often called subaccounts) offered within the variable annuity. A variable annuity's subaccount choices will be described in detail in the fund prospectus provided by the issuer.

With the exception of a guaranteed subaccount, variable annuities don't offer any guarantees on the performance of their subaccounts. You assume all the risk related to those investments. In return for assuming a greater amount of risk, you may experience a greater potential for growth in your earnings. However, it's also possible that the subaccounts will perform poorly, and you may lose money, including principal. You should consider purchasing a variable annuity only if you're willing to assume the risk inherent in investing.

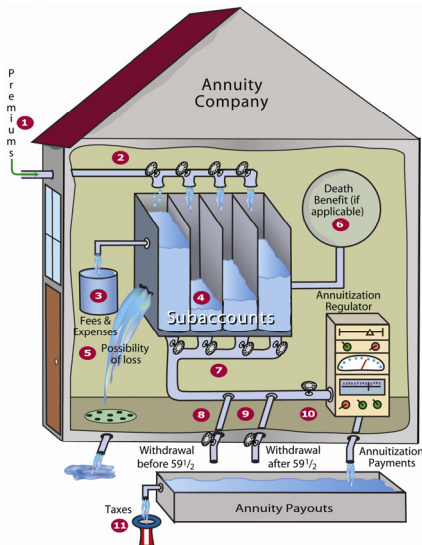


Typical subaccount investment offerings

- *Government securities*
- *Corporate bonds*
- *High-yield bonds*
- *A balanced subaccount (made up of both stocks and bonds)*
- *A growth and income account*
- *A guaranteed subaccount (in which the issuer guarantees* a minimum rate of interest)*

**Guarantees are subject to the claims-paying ability of the issuer.*

How a Variable Annuity Works



1. In the accumulation phase, you (the annuity owner) send your premium payment(s) (all at once or over time) to the annuity issuer. These payments are made with after-tax funds, and you may invest an unlimited amount.

2. You may choose how to allocate your premium payment(s) among the various investments

offered by the issuer. These investment choices, often called subaccounts, typically invest directly in mutual funds. Generally, you can also transfer funds among investments without paying tax on investment income and gains.

- 3. The issuer may collect fees to manage your annuity account. These may include an annual administration fee, underlying fund fees and expenses which include an investment advisory fee, and a mortality and expense risk charge. If you withdraw money in the early years of your annuity, you may also have to pay the issuer a surrender fee.
- 4. The earnings in your subaccounts grow tax deferred; you won't be taxed on any earnings or capital gains until you begin withdrawing funds or begin taking annuitization payments.
- 5. With the exception of a fixed account option where a guaranteed* minimum rate of interest applies, the issuer of a variable annuity generally doesn't guarantee any return on the investments you choose. While you might experience

substantial growth in your investments, your choices could also perform poorly, and you could lose money.

- 6. Your annuity contract may contain provisions for a guaranteed* death benefit or other payout upon the death of the annuitant. (The annuitant provides the measuring life used to determine the amount of the payments if the annuity is annuitized. As the annuity owner, you're most often also the annuitant, although you don't have to be.)
- 7. Just as you may choose how to allocate your premiums among the subaccount options available, you may also select the subaccounts from which you'll take the funds if you decide to withdraw money from your annuity.
- 8. If you make a withdrawal from your annuity before you reach age 59½, you'll not only have to pay tax (at your ordinary income tax rate) on the earnings portion of the withdrawal, but you may also have to pay a 10% premature distribution tax.
- 9. After age 59½, you may make withdrawals from your annuity proceeds without incurring any premature distribution tax. Since annuities have no minimum distribution requirements, you don't have to make any withdrawals. You can let the account continue to grow tax deferred for an indefinite period. However, your annuity contract may specify an age at which you must begin taking income payments.
- 10. To obtain a guaranteed* income stream for life or for a certain number of years, you can annuitize. Once you decide to do so, you may not be allowed to make any more withdrawals or invest any more in your annuity. The amount of your annuitization payments will depend on many factors: the cash value of your account, the age(s) and gender(s) of your annuitant(s), and the payment option you choose. Whatever annuitization option you select, you can't change it later.
- 11. You'll have to pay taxes (at your ordinary income tax rate) on the earnings portion of any withdrawals or annuitization payments you receive.

*All guarantees are subject to the claims-paying ability of the issuing company.

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