You might also want to research the financial strength of the insurance company that sponsors any variable annuity you are considering. This can affect the company's ability to pay any benefits to you.

Your most important source of information about a variable annuity's investment options is the prospectus. Request this for the mutual fund investment options and read it carefully. The prospectus should provide you with information such as the fund's investment objectives and policies, management fees and other expenses that the fund charges, the risks and volatility of the fund, and whether the fund contributes to the diversification of your overall investment portfolio.

Variable annuity contracts typically have a "free look" period of 10 or more days, during which you can terminate the contract without paying any surrender charges and get back your purchase payments (which may be adjusted to reflect charges and the performance of your investment). You can continue to ask questions to make sure you understand your variable annuity before the "free look" period ends.

Remember, it's your money and your decision. Only ***you*** can make the right choice for your financial future, but these guidelines can help you make an informed decision.

Missouri Securities Division
Office of the Secretary of State
Investor Protection Hotline: 800-721-7996
www.MissouriInvestorProtection.gov

Variable Annuities

A Guide for Investors.

www.MissouriInvestorProtection.gov

What is a Variable Annuity?

Variable annuities are complex investment products, often described as mutual funds wrapped in an insurance policy. Under a variable annuity contract, an insurance company agrees to make periodic payments to you, beginning either immediately or at some future date. You purchase a variable annuity contract by making either a single "purchase payment" or a series of purchase payments.

Variable annuities have become part of the retirement and investment plans of many Americans. But, before you buy a variable annuity, you should know that typically, variable annuities are long-term investment options. Do your research on the company and the product, and get advice from someone you trust about whether a variable annuity is right for you.

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How Does a Variable Annuity Work?

A variable annuity offers a range of investment options. The value of your investment as a variable annuity owner will vary depending on the performance of the investment options you choose. The investment options for a variable annuity are typically mutual funds, known as subaccounts, that invest in stocks, bonds, money market instruments, or some combination of the three. Remember, variable annuities are designed to be long-term investments, to meet retirement and other long-range goals. Variable annuities also involve investment risks, just as all investments do.

1. **Periodic payments:** Variable annuities let you receive periodic payments for the rest of your life (or the life of your spouse or designated beneficiary). This feature offers protection against the possibility that, after you retire, you will outlive your assets.
2. **Death benefit:** Most variable annuities have an enhanced death benefit. This means that if you die before receiving any payments, the person whom you have designated to receive this money is guaranteed to receive a specified amount. Assuming there is still an account value, this amount typically is at least the amount of your contributions.
3. **Tax deferral:** Variable annuities are tax-deferred, which means you pay no taxes on the income and investment gains from your annuity until you take out your money. You may also transfer your money from one investment option to another within a variable annuity without paying tax at the time of the transfer. When you take your money out of a variable annuity, however, you will be taxed on the earnings at ordinary income tax rates.

In general, the benefits of variable annuities, including tax deferrals, will outweigh the costs only when considered as long-term investments to meet retirement and other long-term goals.

While variable annuities have tax benefits, be sure to compare them to other retirement plans. For many investors, it may be advantageous to make the maximum allowable contributions to IRAs and 401(k) plans before investing in a variable annuity.

In addition, if you are investing in a variable annuity through a tax-advantaged retirement plan (such as a 401(k) plan or IRA), ***you will get no additional tax advantage*** from the variable annuity. The tax rules that apply to variable annuities can be complicated. You might want to consult a tax advisor about the tax consequences ***before*** you invest.

Variable Annuity Phases

A variable annuity has two phases: an accumulation phase and a payout phase.

The Accumulation Phase: In this phase, ***you*** make purchase payments to the account, which you can allocate to a number of investment options. Depending on the fund's performance, the money you have allocated to each investment option will increase or decrease over time.

The Payout Phase: At the beginning of this phase, you can receive a return of your purchase payments plus investment income and gains (if any) as a lump sum payment, or you might choose to receive them as a stream of payments at regular intervals (generally monthly). If you choose to receive a stream of payments, you have a number of choices of how long the payments will last. During the payout phase, your annuity contract could allow you to choose between receiving payments that are fixed in amount or payments that vary based on the performance of the mutual fund investment options.

What Charges and Fees Apply?

You will pay several charges and fees when you invest in a variable annuity. Be sure you understand ***all*** the charges before you invest. ***These charges will reduce the value of your account and the return on your investment***. Often, they will include the following:

Surrender charges: A surrender charge is a type of sales charge or penalty you will pay if you withdraw your money from a variable annuity within a certain period after purchase (typically six to eight years).

Mortality and expense risk charge: This charge is equal to a percentage of your account value (typically about 1.25% per year) and compensates the insurance company for risks it assumes under the annuity contract.

Administrative fees: These charges cover record-keeping and other administrative expenses of the insurance company and might be charged as a flat account maintenance fee (usually $25 or $30 per year) or as a percentage of your account value (typically about 0.15% per year).

Underlying Fund Expenses: These fees and expenses are imposed by the underlying mutual fund investment and will likely be paid indirectly by you. These fees are taken annually as a percentage of your assets invested in the fund.

Charges and Fees for Other Features: Special features offered by some variable annuities, such as a stepped-up death benefit, a guaranteed minimum income benefit, or long-term care insurance, often carry additional fees and charges.

Note: The GMIB, or guaranteed minimum income benefit, guarantees a particular minimum level of annuity payments made to you, even if you do not have enough money in your account (perhaps because of investment losses) to support that level of payments.

Other charges, such as initial sales loads, or fees for transferring part of your account from one investment option to another, might also apply. Be sure you are aware of ***all*** applicable charges and also check the prospectus for a description of the charges.

What Do You Need to Know?

1. **Product Knowledge:** Learn all you can about how the annuity works, the benefits it provides and the charges you will pay. Read the prospectus, which contains important information, including fees and charges, investment options, death benefits and costs of the annuity compared to other variable annuities and other types of investments, such as mutual funds.
2. **Suitability:** Make sure an annuity is something you can afford and is an appropriate investment for your age and financial situation. If you are over 65 years old, annuities are probably ***not*** for you.
3. **Volatility:** Consider the amount of risk you can tolerate. **Risk** means you could lose some or all of your money. The account value of some annuities might decline if the underlying investment performs poorly.
4. **Rate of Return:** Watch out for introductory or teaser rates of return that give you the impression that your return will be significantly higher than the actual rate of return specified in the contract.
5. **Liquidity:** How **liquid** your money is means how readily you can transfer from one fund to another or take money out for use. Find out how long your money will be tied up. Most annuities have expensive surrender charges if you try to withdraw money before the end of the surrender period. In addition, due to IRS regulations, you will not be able to access your money prior to age 59 ½ without a tax penalty.
6. **Professional Advice:** Thoroughly check out anyone who makes a variable annuity offer. Discuss any potential variable annuity purchases with a stockbroker, attorney, accountant or financial advisor you trust ***before*** you buy.

7. **Rollover:** Before cashing in one annuity to purchase another, make sure the benefits of the purchase outweigh the costs, such as additional commissions, surrender costs, penalties and tax liabilities. Switching annuities frequently benefits the seller more than the investor.

8. **Optional Features:** Consider whether you can purchase additional benefits, such as long-term care insurance, as a separate product at a better price.

9. **Death Benefit:** Understand what happens to the proceeds of your annuity upon death. Not all annuities provide an enhanced death benefit.

10. **Know your salesperson:** Do not do business with anyone who tries to scare or pressure you to buy. You should be completely comfortable with the product and the salesperson before you commit any of your hard-earned money.

What About Tax-Free "1035" Exchanges?

Section 1035 of the U.S. tax code allows you to exchange an existing variable annuity contract for a new annuity contract without paying any tax on the income and investment gains in your current variable annuity account. These tax-free "1035" exchanges can be useful if another annuity has features that you prefer, such as a larger death benefit, different annuity payout options, or a wider selection of investment choices.

If you are thinking about a "1035" exchange, compare both annuities carefully. Unless you plan to hold the new annuity for a significant amount of time, you could be better off keeping the old annuity because the new annuity typically will impose a new surrender charge period. You will also want to consider the commissions and any increased fees you'll have to pay for the new annuity.

In addition, talk to your financial professional or tax advisor to confirm the exchange will be tax-free. If you surrender the old annuity for cash and then buy a new annuity, you will have to pay tax on the surrendered annuity.

What are Bonus Credits?

Some insurance companies are now offering variable annuity contracts with "bonus credit" features. These contracts promise to add a bonus to your contract value upfront based on a specified percentage (typically 1% to 5%) of purchase payments. The downside, however, is higher expenses that can outweigh the benefit of the bonus credit offered.

Frequently, insurers will charge you for bonus credits in one or more of the following ways: higher surrender fees, longer surrender periods, high administrative fees and high mortality and expense risk charges.

What Questions Should You Ask Before You Invest?

Before you decide to buy a variable annuity, consider the following questions:

- Will you use the variable annuity primarily to save for retirement or a similar long-term goal?
- Are you investing in the variable annuity through a retirement plan or IRA (which would mean that you are not receiving any additional tax-deferral benefit from the variable annuity)?
- Are you willing to take the risk that your account value might decrease if the underlying mutual fund investment options perform badly?
- Do you understand all of the features of the variable annuity?
- Do you understand all of the charges and fees of the variable annuity?
- Do you intend to remain in the variable annuity long enough to avoid paying any surrender charges if you have to withdraw money?
- If a variable annuity offers a bonus credit, will the bonus outweigh any higher fees and charges that the product may charge?
- Are there features of the variable annuity, such as long-term care insurance, that you could purchase separately for less money?
- Have you consulted with a tax advisor and considered all the tax consequences of purchasing an annuity, including the effect of annuity payments on your tax status in retirement? For instance, annuity payments could combine with other retirement income to lift you into a higher-than-expected tax bracket.
- If you are exchanging one annuity for another one, do the benefits of the exchange outweigh the costs, such as any surrender charges you will have to pay if you withdraw your money before the end of the surrender charge period for the new annuity?
- Are you purchasing from a seller you trust and feel comfortable with all of the information you have been provided?

Ask all of these questions and any others that would be helpful to you. Keep records of your answers so there is no confusion later. Financial professionals who sell variable annuities have a duty to advise you whether the product they are trying to sell is suitable for your particular investment needs.

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