March 2017

Dear Kansas consumer,

Only a handful of decisions have great significance over the course of a lifetime. For most people, life insurance and annuities fall into that category because they can protect a family against a devastating loss of income. This booklet is designed to provide you with valuable information, as well as address frequent consumer concerns about life insurance and annuities.

Buying a life insurance policy can be a daunting task. The insurance need is usually the greatest when there are young children in the family, only one breadwinner or not enough money set aside to support the survivors for a significant length of time. A consumer must choose from countless options and different types of policies while keeping in mind the legal fine print.

This booklet is also designed to assist you in understanding the different types of annuity products on the market and to answer some of the questions you may have about them. I hope you will find it helpful in assisting with important decisions that will save you time and money.

If you have questions or need assistance understanding life insurance issues or annuities, don’t hesitate to contact the Kansas Insurance Department’s Consumer Assistance Hotline toll-free at 800-432-2484. Our trained staff is dedicated to helping answer your insurance questions and finding solutions to your problems.

Sincerely,

Ken Selzer, CPA
Commissioner of Insurance
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Chapter 1

Life insurance basics

Do you need life insurance?
People buy life insurance to replace income that would be lost with the death of a wage earner. The cash provided by life insurance also can help ensure that your dependents are not burdened with significant debt when you die. Your need for life insurance will vary with your age and your responsibilities. The need is usually the greatest when there are young children in the family, the family has only one breadwinner or there isn’t enough money saved to support the surviving family members for a significant length of time.

Life insurance proceeds could mean your dependents won’t have to sell their own assets to pay for your outstanding bills or taxes. An important feature of life insurance is that beneficiaries are not required to pay income tax on life insurance proceeds.

Life insurance can be used to help with other financial goals, such as funding retirement or education expenses. However, it is important to remember that the main purpose of life insurance is financial protection. If your primary goals are something other than financial protection, you should consider other financial products to meet those goals.

Factors to consider
Before buying life insurance, assemble your personal financial information and review your needs. There are a number of factors to consider when determining how much life insurance you should have:
• Any immediate needs at the time of death, such as final illness expenses, burial costs and estate taxes.
• Funds for a readjustment period, to finance a move or to provide time for remaining family members to find a job.

• Ongoing financial needs, such as monthly bills and expenses, day care costs, college tuition or retirement.

Although there is no substitute for a careful evaluation of the amount of coverage needed to meet your needs, one rule of thumb is to buy life insurance that is equal to five to seven times your annual take-home pay. However, this varies based on individual circumstances, such as income level and the amount one is able to afford.

Basic life insurance plans
All life insurance policies agree to pay an amount of money if you die, but all policies are not the same. Term and whole life insurance are the two most common types of plans, but there are many variations of each type. There are also a number of special-purpose policies that combine the basic policies with other elements.

Term insurance — Term insurance is coverage for a term of one or more years. Benefits will be paid if you die during that period. Some term insurance can be renewed at the end of the term. The premium rates usually increase with your age at each renewal.

Whole life insurance — Whole life insurance, also referred to as “straight life,” “ordinary life,” or “permanent insurance,” gives lifelong protection if the premiums are paid. Whole life plans have level premiums, which means the premiums do not increase as you age. These policies are designed and priced for you to keep over a long period of time. If you don’t intend to keep the policy for the long term, it could be the wrong type of insurance for you. Whole life insurance policies develop cash values. The cash value is one of the guarantee provisions of your

The primary purpose of life insurance is financial protection.
Universal life — This variation of whole life insurance allows you, after your initial payment, to pay premiums at any time in virtually any amount, subject to certain minimums and maximums. You also can reduce or increase the amount of the death benefit more easily than under a traditional whole life policy.

Universal life may be viewed as a response to consumers who prefer to purchase term insurance at a lower premium cost and invest the difference. With a universal life policy, the amount of premium not used to purchase your death benefit or pay policy expense charges accumulates as interest in a cash value-type account. The interest rates paid on this money may vary with the market. Unlike a regular whole life policy, surrender penalties for early withdrawal are common on this type of policy.

Indexed universal life — A more recent type of universal life is called indexed universal life. Like more traditional universal life, this is a form of permanent life insurance that offers the ability to accumulate cash value based on premium payments earning interest at a declared rate. However, what distinguishes indexed universal life is that it offers the additional option of earning interest using a formula based on changes in a market index to which the policy is linked, such as the S&P 500 or the Nasdaq 100. Indexed universal life often caps the maximum return while also providing a guaranteed minimum interest rate or floor.

You do not purchase shares of any stock or index when you purchase an indexed universal life policy.

Variable life — This variation of whole life insurance provides death benefits and cash values that vary with the performance of an underlying portfolio of investments. You can choose to allocate your premiums among a variety of investments that offer varying degrees of expected risk and reward. You will receive a prospectus in conjunction with the sale of a variable product. The cash value of a variable life policy is not guaranteed, and the policyholder bears the risk.

Extras and riders
You may add other benefits to your life insurance policy at the time of purchase, including:

Waiver of premium — The waiver of premium rider provides that your policy will stay in force if you become totally disabled. Premiums are waived as long as your disability continues, and the policy benefits continue just as if you had paid the premiums. You are responsible for notifying the company if you become disabled.

Accidental death benefit — This rider pays an extra benefit if you should die accidentally. Sometimes referred to as double or triple indemnity, the benefit will be one or two times the face amount of the policy and will pay in addition to the basic benefit.
Guaranteed insurability — This rider guarantees that you will be able to purchase additional life insurance in the future regardless of your health. The policy designates certain times when you will be allowed to add more coverage and not have to answer any questions about your health. The cost for the new policy is based on your current age.

Level-term rider — The level-term rider is temporary coverage that may be attached to a whole life, universal or variable life policy to provide extra insurance protection for a specific length of time. It may insure the same individual as the base policy or it may provide coverage for an additional insured, such as a spouse or child.

Long-term care rider — The long-term care rider is issued in conjunction with a life insurance policy to help pay expenses if you must reside at a long-term care facility. The benefit for long-term care is usually limited to 50% or less of the total face amount of the policy. For more comprehensive long-term care coverage, consider a long-term care insurance policy.

Accelerated benefit rider — Accelerated benefits, also known as “living benefits,” are payable to you before you die. This benefit allows the policy to pay you all or a portion of your benefit for such things as diagnosis of a terminal illness or if you will be permanently confined to a nursing home. These events, referred to in the policy as “qualifying conditions,” vary by company. Any benefit paid out before you die will reduce the benefit paid to your beneficiaries after you die. Review the rider to determine what coverage is available.

Life and viatical settlements
Life settlements are the sale on an existing life insurance policy to a third party. A person’s circumstances change, so he or she might want to sell a life insurance policy for several reasons, such as divorce, retirement from full-time employment, or the death of a beneficiary.

Viatical settlements are transactions in which insureds with terminal illnesses sell their life insurance policies for a certain percentage of the face value to provide immediate cash. The viatical company may buy the policy and pay the premiums until the death of the insured or may find an investor willing to purchase the policy. The percentage depends largely on the length of time the insured is expected to live. Before entering into such an arrangement, consider the following:

- All possible alternatives to the sale of your life insurance contract, including but not limited to accelerated benefits options that may be offered by your present contract.
- Tax consequences may result from entering into a contract to sell your policy.
- Consequences for interruption of public assistance as provided by Medicaid or other public assistance programs.

You have an absolute right to rescind a life or viatical settlement contract within 10 days of its execution.
Chapter 1: Life insurance basics

Weighing the differences: Term vs. whole life

Term insurance is often compared to renting your home and whole life insurance is compared to owning your home. If you own your home, you are building equity in the value of the property. When you sell the property, you retain any cash benefits. If you rent, you pay rent every month but take away nothing when you leave. The same is true of term insurance. With term insurance, you’re protected only as long as you pay premiums. With whole life insurance, you accumulate cash value to which you are entitled to if you cancel the policy.

Premiums for whole life insurance are usually higher than premiums for term initially. However, term insurance premiums tend to increase over time, whereas whole life insurance premiums typically remain level. This can make term insurance less affordable than whole life as you get older. Your purpose for buying the policy and how long you intend to keep it should be considered. Term insurance may be better if you’re seeking temporary protection. Ask your agent to show you a cost comparison for the length of time you want the insurance.

Whole life

• Premium is usually level and remains the same, but it may be higher than term insurance initially.
  • Coverage continues for life or until it is canceled.
  • Accumulates cash value over time.

Term

• Has a lower initial premium that increases periodically with age.
• Provides for temporary needs, such as additional insurance during child-rearing period.
• Has no cash value.
Chapter 2
Applying for life insurance

Now that you know about basic life insurance plans, and you’ve determined that you are ready to consider a life insurance policy, the next steps are to choose a company, decide whether you want to work with an agent and to complete the application.

Choosing your company
The Kansas Insurance Department analyzes insurance companies’ financial condition, monitors underwriting and claims practices, and reviews new policy forms. As of March 2015, there were approximately 530 companies authorized to sell life insurance in Kansas. Make certain the company you’re considering is licensed in Kansas. Call our toll-free hotline at 800-432-2484 if you are unsure whether the company you are considering is licensed to do business in the state.

Choosing your agent
Agents must be licensed in Kansas to sell you a life insurance policy. Approximately 22,500 resident agents have a Kansas insurance license. Verify the credentials of your agent before making a major purchase.

In addition to selling policies, life insurance agents are paid commissions to provide services to their clients. Services you can expect from your agent include:

- Advising you on the right insurance policy to fit your needs. The agent should consider your entire financial picture before selling you a policy.
- Explaining the cost and coverage of a policy to you.
- Keeping you informed of the latest insurance developments that may be of interest to you.
- Reviewing your current insurance coverage with you periodically to consider changes in your financial or family status that may change your insurance requirements.

Direct Marketing
Life insurance is also marketed and sold by insurance companies directly to consumers. This may be done by mail, over the phone,
Chapter 2: Applying for life insurance

through the use of television advertising and via the Internet. In these cases, an insurance agent will not be involved in the sale. Make sure you fully understand the provisions of a life insurance policy before purchasing directly from a company.

Completing the application

When you have chosen the policy and amount of insurance you want, the agent or company will have you complete an application, which is a questionnaire that asks for personal and medical information and about the type of policy and the amount of coverage you want. The company uses the information on the application as evidence of insurability. Based on this information, the company will determine whether it will issue a policy to you. A copy of the application is attached to the policy when issued and becomes a permanent part of the policy.

It is important that you answer all of the questions on the application as completely and truthfully as you can. A misstatement or omission could make the insurance invalid. If someone has helped you fill out the application, check it for accuracy before signing. Under no circumstances should you sign a blank or incomplete application.

You will also name your beneficiary or beneficiaries on the application. Your beneficiary will receive the death benefit when you die.

Underwriting (qualifying for coverage)

Your life insurance premium is based on the type of insurance you are purchasing and your mortality (risk of death) class. The type of insurance is your choice. Your mortality class, however, is determined by an underwriter using a process through which insurance companies decide whether to accept a risk and in what mortality class the risk should be placed. This is one reason you may find that companies charge different premiums for similar policies.

Your mortality class is determined by such factors as age, sex, personal and family medical history, habits, residence and occupation.

Whether or not a company issues you a life insurance policy can be based on factors such as age, sex, medical history, habits, residence and occupation.
Chapter 2: Applying for life insurance

It is wise to get more than one quote for life insurance.

Use your 10-day “right to return” or “free look” period to read through your policy to make sure you understand what it says.

The company’s decision to insure your life is based on the application, the medical examination (if required), inspection reports, statements from your physician, special questionnaires, and intercompany data. If the underwriter determines that you are in a substandard class (your risk of death is greater than normal), your policy will be “rated,” which means the premium will cost more than the normal (standard) premium.

Remember, a substandard policy rating is one company’s opinion. A different company, given the same information, may not rate you at all or may give you a lower rating. It is wise to get more than one quote for life insurance.

If you are rated, you should be told the reason (such as health or occupation). If at some later time the reason for the original rating improves, notify your agent and insurance company and request that they review the situation. Your rating may be reduced or eliminated entirely.

Upon receipt of your policy

Review your policy summary. Ask your agent to go over the plan provisions.

You have a minimum 10-day “right to return” or “free look” provision on your policy. If you decide within 10 days of the policy being delivered to you that you do not want it, the company is required by state law to return all of the premiums you have paid (unless you have purchased a variable policy, in which case the refund amount is based on the performance of the investments you have chosen). You may return the policy to either your agent or the company to receive your refund.
Chapter 3

Protecting your beneficiaries

The following suggestions will help protect your beneficiaries:

Name the beneficiary. Your beneficiary will receive the insurance benefits federal income tax free, and life insurance benefits do not have to go through the probate process. If you die without naming a beneficiary, the death benefit will be paid to your estate and then paid out according to your will and/or state laws. This delays the payment and could create a financial hardship for your beneficiary.

Number of beneficiaries. You may specify as many beneficiaries as you want to receive the benefits. You may also specify how the benefits are to be divided. It is a good idea to name a contingent beneficiary to receive the death benefit in case your primary beneficiary dies before or at the same time as you.

Keep your policy in a safe place. However, do not use any place where the policy might not be readily available. Record the basic information, such as company, policy type, policy number, insured’s and beneficiaries’ names in a separate place. Let your beneficiary know the kind of insurance policy you have, any changes you make, and where you keep the policy.

A change in beneficiary may be made after the policy is taken out, unless you have named an irrevocable beneficiary. An irrevocable beneficiary arrangement can only be changed with the beneficiary's consent. Your agent can arrange for a change in beneficiaries or you can do it by contacting your life insurance company and asking for the appropriate form.

Taxes. As a general rule, your beneficiary does not have to pay any federal income taxes on the proceeds of your policy. However, if proceeds of a policy are paid to the deceased person's estate and the total estate exceeds a statutory maximum, including life insurance, there will be federal estate taxes payable. There are variations between states, and tax laws are complex. Your agent may have information on the subject. However, you should always discuss tax matters with your lawyer or accountant.

Lost policy. Loss of life insurance policy paperwork will not affect your protection in any way. If a policy is lost, accidentally destroyed or stolen, ask your agent or contact the company directly to receive a duplicate.

Filing a life claim. Your beneficiary will need to notify the life insurance company of your death. That's why it is important for your beneficiary to be able to locate your policy. Companies require a certified death certificate or other legal proof of death and may ask for the policy. The life insurance company will pay the proceeds of the policy to your beneficiary after receiving proper notification of death.
Chapter 4

Important policy provisions

Cash surrender value

Cash surrender value is the amount available when you cancel or “surrender” a whole life policy. In many cases, whole life policies begin to accumulate cash value at the end of the second or third policy year. This, however, depends on the issue age of the insured and the actual amount available and may be reduced by the surrender charges. This means there may be little or no cash value if you surrender your policy in the early years.

The cash value for a whole life, universal or variable life policy comes from the excess premium paid in the policy’s early years. The company invests the excess to provide the basis for the equity or cash value in your policy.

These policies have tables that show the amount of guaranteed cash value. If you have a universal life policy, the insurance company must furnish an annual report that includes the cash surrender value and other pertinent policy information.

Before you surrender your policy for cash, carefully consider the loss of valuable insurance protection you may not be able to get later. Alternatives are available when you need cash or can’t make payments — for example, a policy loan or one of the nonforfeiture options described below.

Policy loans

With whole life, universal or variable life insurance, you may typically borrow money from the insurer by using the cash value of your policy as collateral for the loan. Unlike loans from most financial institutions, the loan is not dependent on credit checks, nor is the policyowner legally obligated to repay the loan. However, insurers charge interest on the loan - usually annually. The amount of interest payable on the loan is stated in your policy.

You may repay the loan and interest as a lump sum, in installments or not at all. If you do not pay the interest, it is added to the loan. If the loan plus unpaid interest eventually becomes greater than the policy’s cash value, the policy terminates without value. Any unpaid loan, including interest, will be deducted from the proceeds at the time of death.

Common provisions

• **Incontestability provision.** This provision sets a time limit of two years during which the company has the right to void the contract for material misstatements made in the application. However, the policy may be canceled at any time in the case of fraud.

• **Misstatement of age provision.** If the insured dies and the company discovers that the insured’s age in the original application was incorrect, the company pays an amount equal to the amount of insurance which the premium would have purchased at the correct age. The amount paid could be more or less than the face amount, depending on whether the insured’s age was overstated or understated.
Chapter 4: Important policy provisions

- **Suicide clause.** Companies are permitted to include a suicide provision in their policies. A suicide clause generally states that if the insured dies by suicide during the first two years, the death benefit will be limited to the total premiums paid. After the first two years, the full death benefit is payable in the event of suicide.

- **Settlement options.** At your death the policy proceeds may be paid to your beneficiary in a lump sum; be kept with the insurance company to earn interest; or be paid out in installments in the form of an annuity payment. Your policy will have a table showing the various options available to you and your beneficiary. You may select an option on behalf of your beneficiary or you may wish to let your beneficiary decide at the time of your death. You should discuss this matter with your agent or company when your policy is issued.

### Nonforfeiture options

If you decide to cancel your policy, you may select one of these nonforfeiture benefits instead of receiving cash:

**Reduced paid-up life.** This nonforfeiture option will provide you with a fully paid-up life insurance policy for a smaller amount than the original policy. The cash value in the policy is used as a net single premium to purchase paid-up insurance of the same type as the original policy. This option is useful if you wish to discontinue premium payments (such as at retirement age) and a smaller amount of insurance is satisfactory.

**Extended term insurance.** This nonforfeiture option provides that you may use the cash value of your policy to purchase term insurance equal to the face amount of the policy. The length of time the term insurance remains in force will depend on the amount of cash value, as well as other factors, such as the sex of the insured and attained age of the insured at the time the policyowner elects the extended term option.

In either of these options, you are applying the cash value of your policy. By law, the value of the life insurance under these options is equal to the cash value at the time the option goes into effect. If either nonforfeiture option goes into effect, all rider coverage and premiums cease. If your premium has not been paid by the end of the grace period, one of these two options will automatically go into effect. In order to reinstate your policy on a premium-paying basis, you may have to show evidence of good health (insurability), as well as pay any unpaid premium plus interest.

### Dividends and your options

Participating policies may pay the policyowner a dividend that represents a return of premium based
on the company’s claims, investment, and administrative experience. You may select one of several ways to receive your dividends. Dividends are distributed annually, and you may want to review your dividend option from time to time to be sure your dividend dollar is being used to your best advantage. The options:

- **Cash payment.** The dividend is paid directly to you each year in cash.

- **Premium deduction.** The dividend is used to pay part of your premium instead of being paid directly to you. You will receive a notice from the company showing the amount of the dividend and how much premium you have left to pay.

- **Interest option (left on deposit).** You may leave your dividends with the company to earn interest. All or any part of the total amount left on deposit may be withdrawn by you at any time. However, interest may be taxable.

- **Dividend addition.** You may use the dividend to purchase additional life insurance on a paid-up basis on the same plan as your regular policy. This is one way to buy additional life insurance without having to provide evidence of insurability.

- **One-year term option.** You may use the dividend to buy one-year term insurance. Substantial additional insurance can be purchased at term rates, but like all term insurance, the coverage is temporary and gets more expensive as you age. Any unused portion of the dividend may be left on deposit with the company to earn interest.

If you stop paying required premiums

**Grace Period.** You have a grace period of at least 30 days after the due date of any premium, meaning your policy will remain in force during that period. If you pay your premium within this period, the protection continues. If you have elected an automatic premium loan provision in your policy, your cash value will be used to continue your coverage until you resume premiums or until all cash value is used. Companies also have provisions for reinstating policies that lapse due to nonpayment of premiums. Generally, they call for presentation of evidence of insurability and for payment of back premiums with interest.

**Cash value.** This option, previously explained, is available to you if you decide to surrender your policy for its cash value. Companies may delay disbursement of the cash for a period of no more than six months.

**Automatic premium loan.** Some companies offer you the option of automatically paying any overdue premium through an automatic premium loan. It is a policy loan. The advantage of an automatic premium loan is that the policy and riders are kept in force as long as there is sufficient cash value, even though you fail to pay the premium. Remember, if you continue to pay premiums by this method, you risk having your policy lapse when the cash value is used up. It is also important to note that the proceeds payable upon surrender or death of the insured will be reduced by the amount of any outstanding loan balance.
Chapter 5
Other buying information

Shopping smart

**Take your time.** Don’t rush into a decision just because you are feeling pressured. Make sure you fully understand any policy you are considering and that you are comfortable with the company, agent and product.

**Do not pay cash.** When you purchase a policy, make your check payable to the insurance company, not the agent. Be sure you receive a receipt.

**You have a 10-day free look period.** You have 10 days after you receive the policy to return it to the company and receive a full refund of your premium. You may return it for any reason.

**Replacement can be expensive!** Canceling a life insurance policy you already have and purchasing a new one is called replacement. Although Kansas law prohibits an agent from making misleading statements or misrepresenting a policy, you should still proceed carefully before replacing an existing policy. Do not replace a policy without fully discussing the proposed change with both your current agent and your company. **Never cancel your old policy before a replacement policy is in force.**

Important notice regarding replacements

Kansas law requires the agent to give you an “Important Notice” regarding replacement of insurance. This notice should be reviewed when considering replacement. The agent writing the new policy is required to complete a replacement notice, which is sent to your current company to advise them of possible replacement.

Replacement is not always in your best interest for the following reasons:

- The new policy is likely to be at a higher premium because you are older.
- Your new premium must provide for initial start-up costs of writing a new insurance policy. This means your cash value buildup starts over.
- Kansas law requires the replacing insurer to give credit, in the event of your death, for the contestable period which you have already served by the policy you are replacing. If you increase the death benefit on the new policy, you will start a new incontestable period only on the increased amount.
- Existing policies may be more favorable in such areas as settlement options.
- Your present life insurance company can often make the change you want at a lower cost to you.
- It is usually not in your best interest to borrow against the loan value of your
Guaranty associations

Kansas law created the Kansas Life and Health Insurance Guaranty Association, a funding method under which solvent companies absorb the losses of insolvent companies. The guaranty association is a safety net designed to reduce consumer losses if an insurance company becomes bankrupt. The association also works with its members to prevent insurance company insolvency.

Kansas law defines which companies need to be insured, which contracts are eligible for guaranty fund coverage, and the restrictions and limitations that apply. Claims payable under the guaranty association are subject to benefit maximums. In no event is the guaranty association required to pay more than the amount of the contractual obligation of the insolvent insurance company. For a consumer to be protected by a Kansas guaranty fund, the insurance company must be licensed to do business in the state.

Life or annuity benefits on any one person, regardless of the number of policies, are limited to a maximum of $300,000 for death benefits; $100,000 in net cash surrender and net cash withdrawal values; and $250,000 for individual annuities.

Covered insurance companies are required to attach a disclaimer to their policies to notify insureds of the limits of protection provided in the event the insurer is declared insolvent.

Fraternal benefit societies

Fraternal benefit societies are organized solely for the benefit of members and their beneficiaries. They are nonprofit corporations. Some fraternal organizations offer insurance benefits. Most fraternal organizations that provide insurance benefits are regulated by the Kansas Insurance Department. However, fraternal insurance companies or their policyholders are not covered by the Kansas Life & Health Insurance Guaranty Association. If you have a question about buying a policy offered by your fraternal organization, contact the department.
Chapter 6

Glossary of terms

**Beneficiary:** The designated individual(s) assigned to receive the benefits from a life insurance policy after the owner of the policy dies.

**Cash surrender value:** The amount available when a whole life, universal or variable life insurance policy is canceled or “surrendered.”

**Contingent beneficiary:** The designated individual assigned to receive the benefits from a life insurance policy if the primary beneficiary is no longer alive.

**Death benefit:** The money received when the owner of a life insurance policy dies.

**Dividend:** Money paid annually to a policyowner that represents a return of premium that is based on a company’s claims, investment and administrative experience.

**Free look provision:** The 10-day period following receipt of a policy in which the insured has the right to return the policy for a full refund for any reason (unless you have purchased a variable policy, in which case the refund is based on the performance of the investments you have chosen).

**Incontestability provision:** A provision that allows the insurance company a set time limit of two years during which the company has the right to void the life insurance contract for material misstatements made in the application.

**Indexed universal life:** A type of universal life insurance which earns interest based on changes in an external market index.

**Insurability:** Evidence that an individual who is issued a life insurance policy meets certain criteria set by each insurance company, including proof of good health.

*Some definitions taken from Barron's financial & business guides*
**Irrevocable beneficiary:** A named beneficiary that cannot be changed without the consent of that beneficiary.

**Life insurance illustration:** A personalized life insurance illustration is a text-and-graphics presentation or depiction of how a life insurance policy may perform over time based on both guaranteed and non-guaranteed policy elements, such as cost of insurance, premium payments and interest earned.

**Life insurance replacement:** Any transaction in which you purchase a new life insurance policy which results in a substantial reduction in benefits available under an existing policy including: termination of an existing policy, exercising nonforfeiture options, borrowing existing policy’s cash value, or reissuing an existing policy with reduced cash values.

**Life settlement:** The sale of an existing life insurance policy to a third party.

**Mortality class:** A rating given to each life insurance policy applicant to determine his or her risk of death, based on factors such as age, sex, occupation, medical history, habits and residence.

**Nonforfeiture value:** The value of a life insurance policy that entitles the policyowner to one of the following: A) Relinquish the policy for its cash surrender value; B) Take a reduced paid-up insurance; C) Purchase of extended term insurance.

**Permanent life insurance:** See “Whole life insurance.”

**Premium:** The rate that a policyowner is charged to purchase life insurance.

**Prospectus:** A legal document issued by the life insurance company that outlines the details of a variable life insurance policy.

**Rating:** The idea that says if an underwriter determines your risk of death is greater than normal, your policy will be “rated,” and the premium will cost more than standard premiums. This rating can be given due to any number of reasons, including health or
occupation. If that reason for rating changes at a later date, the rating may be reduced or eliminated entirely.

**Rider:** Additional coverage added to life insurance that was not included in the original policy. Examples of life insurance riders include accidental death benefits, long-term care riders and guaranteed insurability riders.

**Surrender charges:** Fees that must be paid should you choose to surrender or cancel your life insurance policy before death.

**Term life insurance:** Coverage for a term of one or more years. Benefits will be paid if you die during that period. Some term insurance can be renewed at the end of the term. The premium rates usually increase with your age at each renewal.

**Underwriting:** The process of examining, accepting, or rejecting insurance risks and classifying those selected in order to charge the proper premium. The purpose of underwriting is to spread the risk among a pool of insureds in a manner that is equitable for the insureds and profitable for the insurers.

**Universal life insurance:** A variation of whole life insurance which allows you, after your initial payment, to pay premiums at any time in virtually any amount, subject to certain minimums and maximums. You can also reduce or increase the amount of death benefit more easily than under a traditional whole life policy.

**Variable life insurance:** A variation of whole life insurance that provides death benefits and cash values that vary with the performance of an underlying portfolio of investments. The cash value of a variable life policy is not guaranteed, and the policyholder bears the risk.

**Viatical settlement:** A transaction in which the owner of a life insurance policy with a terminal illness sells his or her life insurance policy for a certain percentage of the face value of the policy to provide immediate cash.

**Whole life insurance:** Coverage for the insured's entire life, as long as premiums are paid.
Understanding Annuities
Chapter 1

Annuity basics

What is an annuity?

An annuity is a financial contract in which an insurance company makes a series of income payments to you at regular intervals in return for a premium or premiums that 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 policy nor a health insurance policy. It’s not a savings account or a savings certificate, and you shouldn’t buy an annuity to reach short-term financial goals.

Your value in an annuity contract is the amount in premiums you have paid, minus any applicable charges, plus any interest your premiums have earned.

How are premiums paid to an annuity?

Annuity premiums can be paid in either one payment for a single premium annuity or in a series of payments for a multiple premium annuity.

For example, when you retire, you may choose to move a lump sum from a pension plan to an annuity in order to collect monthly payments from it. This would be considered a single premium annuity.

Conversely, if you decide at a young age to begin saving for retirement, you might choose to purchase an annuity and make smaller monthly payments of $200 into the plan over a period of 20 years. This would be an example of a multiple premium annuity. Multiple premium annuity payments can be made either on a regularly scheduled basis, or in flexible payments, allowing you to pay as much premium as you want within set limits.

When will I begin receiving payments from my annuity?

Receiving payments from your annuity depends on whether you’ve chosen an immediate annuity or a deferred annuity.

Immediate annuities begin paying within one year of premium payment, though most actually begin paying within one or two months of receiving a premium payment. Because of this, immediate annuities must be purchased using one large lump sum single premium. You cannot purchase an immediate annuity with multiple premiums.

Deferred annuities delay payment until a later date specified in your annuity contract (for example, 10 or 20 years in the future). Deferred annuities can be purchased with either a single premium payment or multiple premium payments.
Chapter 1: Annuity basics

The following quiz will help you determine whether you should consider an immediate or a deferred annuity. Select either ‘yes’ or ‘no’ to indicate whether the following statements apply to you:

1. Saving for retirement is one of my main goals.
   ____Yes    ____No

2. I do not want to withdraw money from my principal or interest until I am at least 59½ years old.
   ____Yes    ____No

3. I contribute the maximum deductible amount to my IRA, 401(k) or 403(b).
   ____Yes    ____No

4. I need an investment that will earn tax-deferred interest for many years.
   ____Yes    ____No

5. I am retired or very near retirement age now.
   ____Yes    ____No

6. I have a lump sum of money and I want to begin drawing an income from it.
   ____Yes    ____No

7. I want immediate return from my investment.
   ____Yes    ____No

8. I want to receive a steady monthly check for the rest of my life.
   ____Yes    ____No

If you marked ‘yes’ for statements 1 through 4, a deferred annuity may be appropriate for you. If you marked ‘yes’ for statements 5 through 8, you’re more likely to need an immediate annuity. A financial adviser or qualified insurance agent can help you explore these options further.

Immediate annuities

Immediate annuities can provide dependable financial security by providing a stream of income payments guaranteed to continue for the rest of your life or for a period you select. If you are about to retire, an immediate annuity may be a good place to put a large lump sum of money accumulated through a retirement plan.

To purchase an immediate annuity, you make a one-time payment, and distributions must begin within a year, but typically begin within a month. Immediate annuities can be fixed or variable (see pages 22-23).

The principal in an immediate annuity is not generally or readily accessible. If you need more money than the income provided by immediate annuity payments, you might want to consider other retirement options.

Why should I buy an immediate annuity?

Among the reasons to consider an immediate annuity include:

• The income payments you receive can supplement other income sources, such as Social Security and pension payments, which may not provide enough income by themselves.
• **You choose how often to receive your income payments.** Whether monthly, quarterly, semi-annually, or annually, there’s a payout plan to fit your particular needs.

• **You pay income taxes only as you receive your payments.** When you receive income payments, you will be taxed on the portion of the payment that is interest earned. The portion that is principal will not be taxed if the initial deposit for the immediate annuity was made with after-tax dollars.

• **You may lessen your financial worries.** Financial management can be a burden in your retirement years. Because you don’t know how long you’ll live, it’s hard to be sure your resources will last as long as you need them. If you withdraw too much of your nest egg, your future income can suffer or you may run out of money entirely. If you are too thrifty when it comes to spending your nest egg, your level of living may suffer. Immediate annuities can remove some of these burdens so you can concentrate better on enjoying your hard-earned retirement.

**Deferred annuities**

Deferred annuities can be a great way to accumulate money for retirement if you want retirement income beyond what you will receive from Social Security or your pension plan. They are particularly effective if you have many years before retirement.

A deferred annuity is not a vehicle for money you may need for current expenses. If you withdraw income before age 59½, the IRS will usually apply a 10% penalty in addition to ordinary income tax, similar to the penalty for early IRA withdrawals. Additionally, your insurer may impose its own early withdrawal penalty, known as a surrender charge. This surrender charge will usually decrease and be eliminated over time. The surrender charge will not apply once your annuity has fulfilled its contract terms.

When you are ready to start withdrawing money from your deferred annuity, you will need to choose how to receive your money. You can take it all out in a lump sum, take it...
Chapter 1: Annuity basics

as needed or receive it in a steady stream of periodic payments, called “annuitizing.” If you annuitize, you can receive a stream of income that is guaranteed to continue for the rest of your life, no matter how long you live. And the tax liability can be spread out for the rest of your life, too.

Some annuities also provide an option called “systematic withdrawal” to have a set amount, determined by you, automatically withdrawn and deposited in your bank account on a regular schedule – perhaps monthly. You have many options on how you receive your money. Consult your tax or financial adviser to tailor a plan to your particular needs.

Why should I buy a deferred annuity?

There are a number of good reasons to consider a deferred annuity as part of your financial retirement plan:

• **You postpone paying income taxes on any earnings until you withdraw money,** typically during retirement, when you may be in a lower tax bracket. All earnings grow tax-deferred.

• **You can put in as much money as you want.** Unlike Individual Retirement Accounts (IRAs), there is no IRS restriction on the amount that can be contributed annually to a non-qualified deferred annuity with your after-tax money. You can, however, use a deferred annuity to fund your traditional or Roth IRA, in which case you would operate within IRA limitations.

• **You can provide death benefits to your beneficiaries.** If you die prematurely, your annuity can offer a death benefit to your beneficiaries without the costs and delays of probate.

How will my annuity earn interest?

The method by which your annuity accrues interest depends on whether you choose a fixed annuity or a variable annuity.

**Fixed annuities**

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

Fixed annuities earn this guaranteed rate of interest for a specific time period, such as one, three or five years. Once the guarantee period is over, a new interest rate is set for the next period, and so on. This guarantee of both interest and principal makes fixed annuities resemble certificates of deposit (CDs) from a bank. Unlike a typical CD, however, an annuity is not insured by the Federal Deposit Insurance Corporation (FDIC); its security is directly related to the financial health of the insurance company that issues the annuity.

**Indexed annuities**

One special type of fixed annuity is an indexed annuity. An indexed annuity earns interest or provides benefits that are linked to an external equity reference, such as a stock index. One commonly used index is Standard & Poor’s 500 Composite Stock Price Index. The value of any index varies from day-to-day
and is not predictable.

When you buy an indexed annuity you own an annuity contract, not shares of any stock or index.

An 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. 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.

Like other fixed annuities, your indexed annuity 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 index-linked interest rate is lower. The value of your annuity also will not drop below a guaranteed minimum. Indexed annuities provide a potentially greater return than traditional fixed annuities. This results in a product with less growth potential than variable annuities, but also with less downside risk.

Variable annuities

During the accumulation period of a variable annuity, the insurance company puts your premiums (less any applicable charges) into a separate account. You decide how the company will invest those premiums, depending on how much risk you want to take. Variable annuities typically offer a range of investment or funding options, including stocks, bonds and money market instruments. The return on variable annuities can increase or decrease, or even lose money.

With a variable annuity, your principal and the return you earn are not guaranteed - they depend on the performance of the underlying investment options. If the investment options you choose for your annuity perform well, they may exceed the inflation rate or fixed annuity returns. If they don’t, you may lose not only prior earnings but also some of your principal.

Some variable annuities offer a fixed account option that guarantees both principal and interest, much like a fixed annuity. This gives you the option of dividing your money among the low-risk fixed option and higher-risk options, such as stocks, all under the umbrella of just one annuity. Many variable annuities offer asset allocation programs to help you decide where to invest your assets based on your circumstances.

How will my annuity income be paid to me?

Your annuity contract will outline how you are to receive income from your annuity during the payout period. There are four basic options:

- **Life only** pays income for your lifetime and doesn’t make any payments to any one after you die. While this option usually pays the highest income possible among all annuity options, you risk the
Consult with your financial adviser to decide which payout option is right for you and your family.

Payout options can usually be mixed and matched to provide an ideal income plan for your needs.

possibility of receiving less than your principal if you die prior to receiving payments totaling the amount you paid for the annuity.

- **Period certain** pays income for a defined period of time, usually 10 or 20 years. Should you die prior to expiration of the period certain, your beneficiary will receive the remaining payments.

- **Life with period certain** pays income for as long as you live and guarantees to make payments for a defined number of years. If you live longer than the period certain, you will continue to receive payments until you die. If you die during the period certain, your beneficiary will receive the remaining payments for the period certain. If you die after the period certain has ended, your beneficiary will not receive any payments.

- **Joint and last survivor** offers income guaranteed for the rest of your life and the life of another person, such as your spouse. Joint and last survivor coverage is also known as “lifetime income for two,” which guarantees that income payments will continue for the life of the primary owner and a second person. The guarantee is made by the insurance company issuing the annuity.

There are many other options which can be explained to you by a financial adviser or insurance agent. These options can usually be mixed and matched to provide an ideal income plan for your needs. For example, you and your spouse retire at age 65 with 10 years left on your mortgage. You could choose the option to have income for two people with a 10-year guaranteed period, so that if you both die before the guarantee expires, the payments would continue until the end of the 10 year period to pay the mortgage for your heirs.
Chapter 2

Annuity tax considerations

All earnings from annuities are taxed as ordinary income. If your ordinary income tax rate at retirement is higher than the current capital tax gain tax rate, you might end up paying higher taxes on distributions from annuities than you might otherwise pay on selling investments subject only to taxable gains.

However, note that annuities offer a tax deferral on interest earnings, whereas other investments may be subject to annual taxation at ordinary income or capital gain tax rates even if you do not sell the investment. Annual taxation of such investments can reduce the value of your earnings over time compared to tax deferral.

**Tax-deferred accumulation**

Under current federal law, annuities receive special tax treatment. Income tax on annuities is deferred, which means you aren’t taxed on the interest your money earns while it stays in the annuity.

Tax-deferred accumulation isn’t the same as tax-free accumulation. You must pay taxes on earned income when it is paid to you. An advantage of tax deferral is that the tax bracket you’re in when you receive annuity income payments (usually during retirement) may be lower than the one you’re in during the accumulation period. You’ll also be earning interest on the amount you would have paid in taxes during the accumulation period.

Part of the payments you receive from an annuity will be considered as a return on the premium you’ve paid. You won’t have to pay taxes on that part. Another part of the payments is considered interest you’ve earned. You must pay taxes on the part that is considered interest when you withdraw the money. You may also have to pay a 10% tax penalty if you withdraw the accumulation before age 59½. The Internal Revenue Code also has rules about distributions after the death of a contract holder.

Annuities used to fund certain employee pension benefit plans (those under Internal Revenue Code Sections 401(a), 401(k), 403(b), 457 or 414) defer taxes on plan contributions as well as on interest or investment income.
Chapter 2: Annuity tax considerations

Within the limits set by the law, you can use pretax dollars to make payments to the annuity. When you take money out, it will be taxed. You can also use annuities to fund traditional and Roth IRAs under the Internal Revenue Code. If you buy an annuity to fund an IRA, you’ll receive a disclosure statement describing the tax treatment.

After-tax contributions

The money contributed to an annuity may be with after-tax dollars. When you contribute after-tax savings to an annuity, you can put as much money in as you like. However, there may be restrictions on the amount you may contribute with after-tax dollars if your annuity is a Roth IRA. Before you put after-tax dollars into an annuity, it may be advisable for you to put the maximum pre-tax amount into a retirement plan such as your IRA, SEP, 401(k) or 403(b).

Deferred annuities

When you withdraw money from a deferred annuity, you can spread the tax liability out for the rest of your life, no matter how long you live. Some of the earnings are included in each payment and are taxable. Meanwhile, tax-deferred earnings continue to accumulate on the remaining principal and earnings that have not yet been distributed. Thus, receiving distributions as periodic payments after retirement may further reduce your income tax liability if you are in a lower tax bracket.

If the tax-deferred aspect of a deferred annuity is important to you, make sure the expenses do not outweigh the tax benefits. This can be a tough judgment call, and you should consult a tax adviser for assistance in making this determination.

Variable annuities

Variable annuities purchased with after-tax dollars allow you to transfer money from one account to another without triggering a taxable event. In other words, if you transfer money to a different funding option within your variable annuity, you will not have to pay taxes on any earnings you have made. This reallocation of your money allows you to adapt to changing market conditions, or to adjust your investment goals because of life events tax-free, without worrying about reporting and taxing.

Tax-free exchanges

If your financial situation changes and you determine that your current annuity is no longer meeting your needs, you may switch from one annuity to another without having to pay taxes on the gain in your existing annuity, even if the new annuity is issued by a different insurance company. This exchange, known as a “1035 Exchange,” is named after the section of the Internal Revenue Code which outlines the procedure.

In order to exchange one annuity for another, you must surrender your existing annuity.

Though you will not be taxed on your earnings when you complete a 1035 Exchange, your existing annuity may still be subject to surrender penalties or withdrawal charges. Thus, it is extremely critical that before beginning the process you fully understand the surrender penalty or withdrawal charges your insurance company will charge for...
surrendering your annuity. Be sure to consult your policy and to discuss this with your financial adviser before making a decision about whether you wish to complete a 1035 Exchange. If an insurance agent advises you to exchange annuities even though you will be penalized, make sure you know why the salesperson is encouraging you to change products.

Tax-sheltered annuities (TSAs)
Teachers, school personnel, doctors, nurses, hospital employees and members of nonprofit organizations may be eligible for tax-sheltered annuities (TSAs).

A TSA, which is authorized under section 403(b) of the Internal Revenue Code, allows specific groups and individuals to purchase annuities that are paid for through payroll deductions on a tax-deferred basis.

TSAs can be either fixed or variable, and enjoy the same tax benefits as other annuities. Contributing pretax dollars to an annuity reduces the amount of taxable income an employee earns each year, and income tax is deferred until a later point in life when, perhaps, the employee falls into a lower tax bracket.

TSA contributions are intended for retirement use, though the money can sometimes be withdrawn earlier, in cases of financial hardship, disability, death, or the termination of employment. When it is withdrawn, the money can be taken out as one lump sum, partially withdrawn, rolled over to an IRA or other TSA account, or annuitized.

Like other annuities, TSAs may be subject to transaction charges and/or maintenance fees, both during the accumulation period and during the payout period. Be sure you read and understand the fine print before beginning payment to any annuity.
Chapter 3

Other annuity considerations

Fixed and variable annuity expenses

Variable annuities usually have more features and higher fees than fixed annuities. With traditional fixed annuities, most contract expenses - such as maintenance and contract fees - are taken into consideration when the company declares periodic interest rates or determines the payment amount. Indexed annuities, however, may have higher fees than more traditional fixed annuities.

Variable annuity fees are more complicated. They may include an annual contract charge that covers administrative expenses, a mortality and expense risk charges.

In addition, a variable annuity has fees for the management and operating expenses of the funding options in which your money is invested.

For a variable annuity, all important information will be explained in the prospectus that describes the variable annuity contract. The prospectus must be given to you when you are considering the purchase of a contract with after-tax dollars. Read it carefully before you invest or send money and be sure you understand exactly what the expense charges and fees will be. For all annuities, surrender charges may also apply.

Questions to ask before signing

If you’ve decided that an annuity makes sense for you, here are several key questions to ask yourself before signing any paperwork:

Have you done some comparison shopping and considered all of your options? Because annuities are long-term savings vehicles, you’ll want to make sure the company you pick will be around at least as long as you will. And, as discussed in earlier chapters, annuities offer a wide range of choices, prices, features and flexibility. Make sure your plan will work for you in the long run.

Does the rate on a fixed annuity look too good to be true? You want a competitive interest rate at renewal time. If the company is offering bonus rates (a higher interest rate for a set period of time), make sure the underlying interest rate without the bonus is financially attractive, considering any additional contract costs or early surrender fees. Once the bonus rate term expires, there is no guarantee going forward that renewal rates will be competitive. Be especially careful if you are exchanging annuities.

What are the annuity’s surrender fees and how long are they in place? If the surrender fee is high (typical fees are around 6 -7% and decline over a period of approximately five to seven years), you could feel locked into a contract from which it will be costly to escape.

What is the track record of the funding options offered in a variable annuity? Don’t be swayed by last month’s top performer. Look for strong returns over a three- to five-year period or more. Newspapers such as Barron’s and the Wall Street Journal publish rankings of various funding options on a regular basis. The history of various
funding options also can be found in Morningstar and Lipper Analytical Services publications. Remember, past performance is not a guarantee of future results.

**Does a variable annuity offer multiple funding options in case you change your investment strategy down the road?** Look for a range of funds to diversify your retirement savings as your needs change.

**Will your ordinary income tax rate be greater than the current capital gains rate when you begin to take distributions (possibly at retirement)?** If so, you may pay more in taxes by choosing annuities over another investment that would be taxed at the capital gains rate. Keep in mind, however, that your money in an annuity is accumulating on a tax-deferred basis. By selecting an annuity, you avoid paying yearly ordinary income tax on the earnings while your money compounds and grows.

I have been advised to cancel my existing annuity contract to purchase a new annuity. **What should I know?** This is called replacement, and you should proceed carefully before surrendering or exchanging your existing annuity to purchase a new annuity. You may incur surrender charges for terminating your existing annuity, or your existing annuity may have options or features not available under the proposed contract. Do not replace an annuity contract without fully discussing the proposed change with both your current agent and current company.

**What is the insurance company’s rating?** While anyone who is properly licensed to sell insurance products (e.g., banks, brokers, agents, etc.) can sell annuities, the annuity contract is issued by an insurance company. Financial stability helps ensure a company can pay its claims and meet its future obligations. The Kansas Insurance Department enforces statutory requirements and monitors the financial stability of companies licensed and operating in the state. You can check a company’s financial rating by contacting one of the following organizations:

- **Moody’s Investor Services**
  212-553-0377, www.moodys.com

- **Standard & Poor’s Insurance Rating Services**
  212-438-7280, www.standardandpoors.com

- **TheStreet.com Ratings**
  800-289-9222, www.weissratings.com

Or link to A.M. Best Co. ratings by searching for companies under Agent/Company search on the Kansas Insurance Department’s website at www.ksinsurance.org. Click on “Agent/Company Search” under “Quick Links” at the top of the homepage.
Chapter 4

Glossary of terms

**Accumulation period:** The period between a policyholder’s purchase of a deferred annuity and the beginning of the payout period.

**Annuitant:** The named individual whose lifetime is used as the measuring life in a life annuity.

**Annuitize:** To begin a series of payments from the capital that has built up in an annuity. The payments may be a fixed amount, or for a fixed period of time, or for the lifetimes of one or two annuitants.

**Annuity:** A contract under which an insurance company promises to make a series of periodic payments to a named individual in exchange for the payment of a premium or series of premiums.

**Annuity contract replacement:** Replacement is any transaction in which you purchase a new annuity contract which results in a substantial reduction in benefits available under an existing annuity, such as termination of an existing annuity or making withdrawals in order to fund the purchase of a new contract.

**Annuity illustration:** A personalized text-and-graphics presentation or depiction of how an annuity may perform over time based on non-guaranteed contract elements, such as premiums, interest credits and contract charges.

**Beneficiary:** The designated individual(s) assigned to receive the benefits from an annuity after the owner of the annuity dies.

**Bonus rate:** Additional interest credited to an annuity, often during the first year the annuity is in force. This extra amount is above the interest rate to be credited beginning with the second year and the remaining years that the annuity in in force. The extra rate is paid in the first year as an effort to attract new annuitants. See also “Initial rate” and “Renewal rate.”

**Deferred annuity:** An annuity that can be purchased either with a single premium or a series of premiums and which the payout period begins at a specified later date.

**Flexible premium annuity:** An annuity that is purchased by the payment of periodic premiums that can vary between a set minimum amount and a set maximum amount with no fixed schedule for payment of premi-
ums. For example, premiums can be paid for 10 straight months, then not paid for the next 10 months, then paid every other month, or any combination thereof.

**Free withdrawal:** The ability to withdraw money from an annuity without being penalized or charged a withdrawal fee.

**Immediate annuity:** An annuity that begins payments after a single premium is paid. For example, the annuitant pays a single premium of $100,000 on June 1 of the current year and begins receiving a monthly income of $1200 for life starting July 1.

**Income for life annuity:** An annuity that pays income for your lifetime and doesn’t make any payments to anyone after you die.

**Income for two lives annuity:** See “Joint & last survivor payment option.”

**Indexed annuity:** A type of fixed annuity which earns interest or provides benefits that are linked to an external reference, such as a stock index. The interest is linked to the changes in the index and can provide a potentially greater return than traditional fixed annuities.

**Initial rate:** The guaranteed interest rate that assigned to the first period of a fixed annuity.

**Joint & last survivor payment option:** Pays income guaranteed for the rest of your life and the life of another person, such as your spouse. Also known as “lifetime income for two.”

**Life annuity with period certain payment option:** Pays income for as long as you live and guarantees to make payments for a defined number of years.

**Life only payment option:** Payments made from an annuity during the annuitant’s lifetime. No payments are made to a beneficiary after the annuitant’s death.

**Market value adjustment:** An increase or decrease in the surrender charge of the life insurance policy or annuity contract depending on the current financial markets.
Chapter 4: Glossary of terms

**Minimum guaranteed rate:** The lowest interest rate your annuity will earn, as stated in the annuity contract.

**Multiple premium annuity:** An annuity under which multiple payments are made before the annuity is paid up. Multiple premium only apply to deferred annuities, not immediate annuities.

**Non-qualified annuity:** An annuity that is not designated as “qualified” by the Internal Revenue Service and is purchased with after-tax dollars.

**Payout period:** The period during which an insurer makes annuity payments.

**Period certain payment option:** Pays income for a defined period of time, usually 10 or 20 years. Should you die before the period certain is expired, your beneficiary will receive the remaining payments.

**Premium:** The payment(s) made into an annuity upon which interest grows tax-deferred.

**Principal:** A sum of money that is invested over a period of time.

**Prospectus:** A legal document issued by the insurance company that outlines the details of a variable annuity.

**Qualified annuity:** An annuity designated by the Internal Revenue Service as eligible for tax deduction and is funded with pretax dollars.

**Renewal rate:** The guaranteed interest rate that is set after the first period of a fixed annuity has expired. A new interest rate may be set each time the annuity is renewed.

**Scheduled premium annuity:** An annuity with structured premium payments over a specified period of time. For example, an annuity contract may outline that an annuitant pay a specified amount once each month for 10 years.

**Single premium annuity:** An annuity under which one premium payment is made and the
annuity is paid up (no further premium payments are required). Applies to both deferred annuities and immediate annuities.

**Surrender or Withdrawal charge:** A charge an insurance company imposes on certain withdrawals, including partial and full surrenders a policyholder makes from the accumulated value of a deferred annuity.

**Systematic withdrawal:** An option that allows annuitized funds to be automatically withdrawn from your annuity.

**Tax-deferred accumulation:** A system in which money earned in an annuity is not taxed until it is withdrawn from the account.

**Tax-free exchange:** Also known as “1035 Exchange,” this section of the Internal Revenue Code allows funds in one annuity to be transferred directly to another annuity tax-free.

**Tax-sheltered annuity (TSA):** An annuity option available to certain employees of educational, cultural, and nonprofit organizations, such as religious groups. Contributions are made by payroll deduction on a pretax basis and the growth is deferred.

**Variable annuity:** The returns of a variable annuity depend on the performance of the investment or funding options the annuity is linked to, which can increase, decrease, or even lose money.

**Withdrawal:** Money taken out of an annuity.