ACLI
Financial Security. For Life.

The Individual Annuity
A RESOURCE IN YOUR RETIREMENT

Americans need ways to create and guarantee lifetime income.

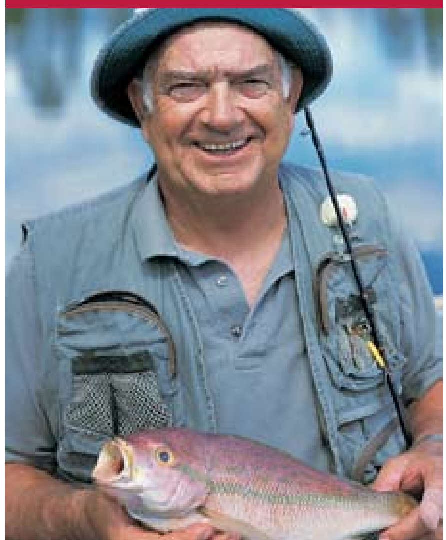
AN AGE OF DECISION

Retirement today requires more planning than for previous generations. Americans are living longer—many will live 20 to 30 years or more in retirement. Finding a way to make savings last over such a long period of time is one of the biggest challenges of today's retirees.

In addition, sources of steady retirement income have changed. Fewer workers are covered by traditional employer-provided pension plans that provide a lifetime benefit. Furthermore, Social Security is not likely to provide future retirees the level of benefits that it provides today. Americans need other ways to create and guarantee lifetime income so their standard of living doesn't decline with age.

To achieve a secure retirement, more and more retirees are including an individual annuity in their plans. An annuity can provide a steady stream of income for life, shifting the burden of managing savings from you to your life insurance company. No other personal financial product offers this guarantee of lifetime income. For many, the income guarantee helps offset worries associated with running out of money.

The American Council of Life Insurers has prepared this guide to help retirees understand what an individual annuity contract is, what options are available, and how the right choice might enhance retirement security.



Annuities are insurance contracts. They come in different types and offer many options to meet a variety of financial objectives.

A deferred annuity can address both pre-retirement savings and post-retirement income needs. For example, if you are years away from retirement—or are retired and have assets that don't need to produce income right away—a deferred annuity allows your savings to accumulate, tax deferred, until you choose to receive income payments. You decide how your money accumulates—at a fixed interest rate, an indexed interest rate, or based on the performance of stocks and bonds. You also select how you receive income—in a lump sum, payments over a specified number of years, or steady income you cannot outlive.

If you need a guaranteed income stream right away, an immediate annuity converts an initial lump sum of money into a series of monthly, quarterly, or annual payments that begin within a year after purchase. You decide if you want to receive those income payments over a specified number of years or as a steady stream of income you cannot outlive.

Accumulation Options For Deferred Annuities

Fixed Annuity

The money you put in a fixed annuity earns interest at a rate that is guaranteed for a specific period of time—ranging from one to five years or more, depending on the terms of the contract. When that period ends, a new rate may take effect—or the old rate may be offered again. In no case will the new interest rate be less than the guaranteed minimum rate defined in the contract.

When you begin receiving income, a fixed payment is guaranteed. Fixed annuities generally include death benefit protection so that if you die before payments begin, your beneficiary will receive at least the amount you contributed minus any withdrawals taken. These benefits are detailed in the annuity contract.

Index Annuity

An index annuity is a type of fixed annuity. With an index annuity, earnings accumulate at a rate based on a formula linked to one or more published equity-based indexes, such as the Standard & Poor's 500 Composite Stock Price Index™ (S&P 500), which tracks the performance of the 500 largest publicly traded securities.

An index annuity provides a guarantee of a minimum accumulation value, and may also offer death benefit protection and a variety of payout options.

The index used, the formula that determines the indexed rate and the guaranteed minimum value, can vary from insurer to insurer.

Variable Annuity

With a variable annuity, your money is put in subaccounts that are invested in stock and bond funds. You can respond to market conditions by moving your money from one subaccount to another—without incurring current taxes. The return on your investments is subject to the risk of market fluctuation. Your total account value depends on how much risk you take, the performance of the subaccounts, and what charges and fees are deducted. These factors are explained in the annuity's prospectus, which outlines the objectives and level of risk for each subaccount, operating expenses, and financial statements.

Over the long term, variable annuities reflect performance and growth in the economy and may serve as an effective hedge against inflation. However, it is possible to lose money in a variable annuity. Some variable annuities allow you to place some of your money in a fixed account with a guaranteed rate of return. Such diversification helps spread your risk. There are also optional guarantees that can be purchased to provide additional protection against downturns in the market.

Many variable annuities allow you to choose between fixed or variable income payments. A variable payment will fluctuate based on the performance of the underlying subaccounts. Some variable annuities guarantee that the payment will not fall below a set amount.

Like a fixed annuity, if you die before payments begin, your beneficiary may receive a death benefit, which is typically the greater of either the current account value of the annuity less withdrawals, or the amount of your initial contribution.

Income Options

When you decide you want to receive income from your annuity, a number of options are available. Common options are:

- Life income—You receive income as long as you live, even if payments exceed the amount of money you put into the annuity. When you die, no further payments are made to anyone. This income option, also referred to as a straight life option, usually provides the highest income payment.
- Joint and survivor life income—This option provides income for as long as you or the joint annuitant live. Because the survivor feature is an added benefit, the income payment is less than in a straight life option.
- Life income with refund—You receive income for life and, if you die before receiving the amount of money you contributed, your beneficiary collects the portion you had not yet received. Some policies pay the beneficiary a lump sum, and others may require benefits to be received in installments.
- Life income with period certain—Payments are made to you for as long as you live with the guarantee that, if you die within a certain period after you start receiving income (usually 10 or 20 years), your beneficiary will receive regular payments for the rest of that period.

Other income options are available. You also can choose to receive income in a series of payments for a specified number of years, or if you have a deferred annuity, in a lump sum. However, neither of these options has a lifetime guarantee.

Many deferred annuities allow you to take money out during the accumulation phase through periodic or systematic withdrawals. There generally is a limit on the amount you may withdraw each year.

Costs and Fees

All financial products have costs associated with them, and annuities are no different. An annuity is an insurance contract that is unique in its ability to guarantee a steady stream of income for life. This and other insurance features, such as death benefits, are included in the cost of the annuity.

In addition to the costs for insurance features, fees may be charged if you withdraw some or all of your money from your deferred annuity in the early years. These fees are commonly referred to as withdrawal or surrender charges. Often, after a time specified in the contract, these fees are eliminated. Some annuities waive these charges under specific circumstances such as death, confinement to a nursing home, or terminal illness. As mentioned in the previous section, some deferred annuities may allow annual withdrawals of a certain amount without triggering a surrender charge.

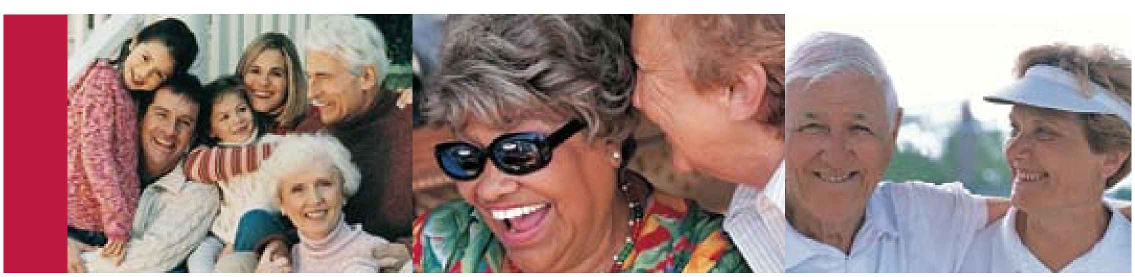
Other fees also may apply, such as transaction, market value adjustment, contract fees, and in the case of a variable annuity, portfolio management. Ask your agent or life insurance company for a description of all applicable charges and fees.

Federal Tax Treatment

Earnings on a deferred annuity build up free of current federal income tax. When you withdraw money or receive income payments, the portion that comes from earnings is taxed as ordinary income. With an immediate annuity, you pay ordinary income taxes on any earnings when you receive payments. The portion of the payment that represents your initial contribution is not taxed if your annuity was purchased with after-tax dollars.

Because taxes are deferred until money is withdrawn or received as income, there are tax penalties for early withdrawal. If you choose to withdraw money from your deferred annuity before you reach age 59 ½, you will trigger a 10 percent tax penalty on the earnings portion of the amount withdrawn plus the income tax due on earnings. The tax penalty is not applied to certain lifetime payouts, death benefits, or payments made if you become disabled. Other exceptions may apply.

Annuity earnings also may be subject to state taxes, which vary according to state. Check with a local tax advisor for more information.



Before a Purchase

Both you, the purchaser, and the life insurance company enter into to a long-term commitment under an annuity contract. It is important to carefully review your current finances, retirement goals, and anticipated needs before you make a purchase. To help you make an informed decision, consider or discuss the following with a financial planner, insurance agent, or broker.

Do you need to supplement current income? You can convert assets to steady income right away through an immediate annuity. Many retirees purchase an immediate annuity with cash from a retirement plan, the sale of a home, life insurance benefits, or savings account. You choose whether the income payments continue for a specified number of years or for life.

Do you need less income in the early years of retirement than you will in the future? A deferred annuity allows your savings to grow—tax deferred—until the date you decide to begin receiving payments. An immediate annuity that provides a cost of living adjustment also can address this need.

What is your tolerance for risk? In a deferred annuity, you decide whether savings accumulate at a guaranteed rate, an indexed rate, or bear the risk of market fluctuations.

Do you need to ensure income or asset protection for a spouse after your death? Certain annuities offer the option of continuing income payments to a spouse after your death. Some also provide death benefits if you die before income payments begin.

If you are purchasing a fixed annuity, ask about the current credited interest rate, how often it changes, and the minimum guaranteed rate.

If you are purchasing an index annuity, find out about the index, formula, and current factors applicable to the initial indexed interest period. Ask how often indexed interest is credited, how factors may change in subsequent periods, and level of minimum guaranteed values provided by the contract.

If you are purchasing a variable annuity, review the investment options currently available and read the prospectus for each subaccount. A prospectus, which is required to be given to potential buyers, outlines the objectives and level of risk, as well as operating expenses and financial statements.

Ask if there are fees or charges for partial withdrawal of funds or full surrender of your deferred annuity contract. Find out how much the fees are and for how long they apply.

Compare similar contracts from several companies. Features, terms, and conditions vary from company to company. Comparing contracts—and the relative cost of features—may help you make a better decision.

Ask if there is a guaranteed death benefit. Some deferred annuities include death benefits that may exceed the account value; some do not. Know what benefit is guaranteed, how and when it will be paid and whether increased benefits can be purchased.

Ask how long the "free-look" period is. The free-look period is the time you have the right to review the contract and return it if you have made the wrong choice. The company then will cancel the contract and, depending on your state, refund your initial contribution or the market value of the contract. Free-looks usually last at least 10 days, but rules vary from state to state and not every state guarantees free-look rights.

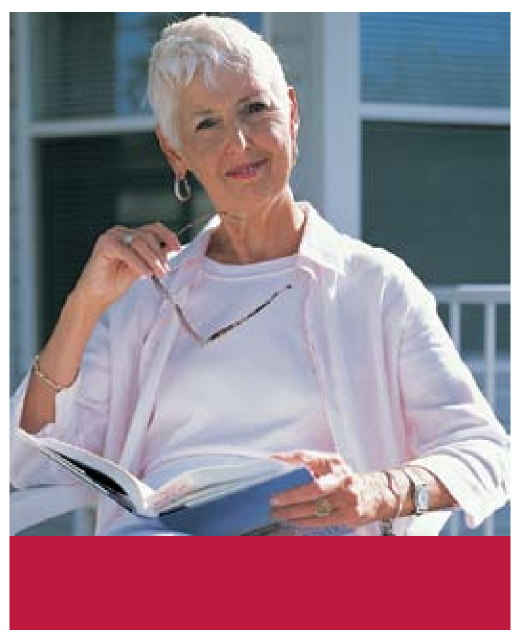
Evaluate the company issuing the annuity. Only life insurance companies can issue annuities, although they may be sold by other financial institutions such as banks and brokerage firms. Make sure the issuing company is licensed in your state and that the company is reputable, service oriented, and financially strong. Several services rate the financial strength of life insurance companies, such as A.M. Best, Fitch Ratings, Moody's, and Standard & Poor's. Ratings can be found in most public libraries or on a service's Web site (a small access fee may be charged).

Make sure your agent is licensed to sell annuities. To sell a fixed annuity requires only a license issued by your state insurance department. A variable annuity can be sold by a registered representative of a broker-dealer that is a member of the National Association of Securities Dealers (NASD). The representative also must be licensed by the state to sell variable insurance products.

After a Purchase

If you have a question or concern about your annuity contract after you have purchased it, talk to your agent or company representative. If you are having a problem with your agent, talk to a manager at the agency or contact the company represented by the agency. When contacting a company, direct your inquiry to the customer service department at the company's home office. Customer service offices are set up by most companies to handle inquires, solve problems, or direct people to an appropriate department. Your annuity contract will contain contact information.

If you continue to have problems with an issuing company, you can contact the department of insurance in your state. A state insurance department directory can be found at www.acli.com.



The American Council of Life Insurers (ACLI) is a Washington, D.C.-based trade association whose 373 member companies account for 93 percent of the life insurance industry's total assets in the United States. ACLI member companies offer life insurance; annuities; pensions, including 401(k)s; long-term care insurance; disability income insurance; reinsurance; and other retirement and financial protection products.

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