ROADMAP to

RETIREMENT

THE ROLE FINANCIAL PRODUCTS CAN PLAY

Prepared on behalf of:

OAKHARVEST FINANCIAL GROUP

www.oakharvestfg.com

Preface

First introduced in America in 1759, the concept of making a one-time payment in exchange for a lifetime of payments is as old as the concept of life insurance — only the annuity was developed to provide payments while a person is still alive.[1]

Retirees today often find that annuities can play an important role in their financial strategy and can be a very effective retirement income vehicle. When considering an annuity, you should choose one that is suitable for your personal financial situation and works in concert with your overall financial strategy. But how do you know which annuity might be right for you? The key is to understand what annuities are and how they work.

Before we start, keep in mind this brochure is being provided for your information. It is not, however, intended to provide specific legal or tax advice and cannot be used to avoid tax penalties or to promote, market, or recommend any tax plan or arrangement. Please note that this agency and its representatives do not give legal or tax advice. You are encouraged to consult your tax advisor or attorney.

So buckle up, start your engine and take this manual out for a spin.

The Basics

"Anyone who considers an annuity should research it thoroughly first, before deciding whether it's an appropriate investment for someone in their situation."[2]

Annuities are long-term financial vehicles designed to provide income in retirement. Put simply, an annuity is a contract you purchase from an insurance company. In exchange for the premium you pay, you receive certain fixed or variable interest crediting options that compound tax-deferred interest until withdrawn. When you're ready to receive income, an annuity offers a variety of guaranteed payout options through a process known as "annuitization."

There are several annuity contract options available today, including variable, immediate, fixed and fixed index. These choices can allow you to match very specific individual needs with a suitable product. Within each contract, you can select from a range of payout terms and death benefits, and you may have the possibility of purchasing optional riders for additional benefits. (For more about each annuity option, see "Annuity Models" beginning on Page 11.)

An annuity can be strategically positioned within your overall financial strategy for any number of personal objectives, such as income for your spouse after your death, a death benefit for your children or as help addressing inflation concerns. Coverage is available for two people within one contract, so you don't have to purchase a separate contract for your spouse.

Annuities earn interest on a tax-deferred basis, which means annuity owners do not pay taxes on interest credited until they start receiving payments or take a withdrawal. However, withdrawals will reduce the contract value and the value of any protection benefits. Withdrawals taken within the contract surrender charge schedule will be subject to a surrender charge. All withdrawals are subject to ordinary income tax and, if taken before age 59 ½, may be subject to a 10% additional federal tax. Withdrawals are taxed as ordinary income.

All annuity product guarantees and protection benefits are backed by the financial strength and claims-paying ability of the issuing insurer.

It's Personal: 3 Questions to Ask Yourself

An annuity is not suitable for everyone: It all comes down to personal choice. Your circumstances, income and financial resources, objectives, tolerance for market risk and retirement timeline are all very unique to you. There is no cookie-cutter financial product or strategy that is a perfect fit for every retiree. That's what makes preparing for retirement so difficult — trying to figure out what strategy can put you on the path toward meeting your specific needs.

Selecting an annuity comes down to the lifestyle you want and your retirement goals and objectives. Establishing your financial goals and objectives can help shed some light on which financial vehicle(s) may be appropriate to help you accomplish them.

Before choosing an annuity, you should ask yourself three questions:

- How much income do I need in retirement?
- How much income do I want in retirement?
- What roadblocks may affect my progress toward my financial goals?

Retiree Spending[3]

• 55% of retirees say their overall expenses are about what they expected

• 30% of retirees say their expenses are much higher or somewhat higher than expected

Question #1: How much income do I need in retirement?

Every individual is different when it comes to how much they'll spend in retirement. The number is influenced by a variety of factors: lifestyle, age, health, earnings during their working years, the amount in savings and more. However, studies show that retirees should expect to spend between 55% and 80% annually of what they earned when they were working.[4]

Most retirees tend to have the same five categories of expenses to consider:

Housing & Utilities

While your home equity value may fluctuate due to housing market prices, you should know if you will pay off your mortgage by the time you retire. You also should consider whether you plan to downsize to a smaller home — which may result in lower utility costs — or move into a retirement community.

Housing expenses may not decrease even after you pay off the mortgage. From a health care perspective, living in your own home may not always be an option if you become injured or ill and need assisted living or skilled nursing care. Additionally, you may find yourself in a situation where you or your spouse have medical issues requiring full-time nursing care, while the other spouse continues to live in the family home.

Whether it's employing in-home services or entering a senior living facility, it's important to understand the potential impact of these costs on your retirement savings. In any of these scenarios, a qualified financial professional can help you determine what residential options make sense financially.

Food, Clothing, Travel, Entertainment & Gifts

You need food and clothing before you retire — and you'll need it in retirement, too. Overall spending in these categories tends to decrease slightly for people ages 65 and older, but the drop isn't significant and probably won't make a big difference in your overall budget.[5]

Transportation

Your transportation needs may change as you get older. If you get to the point where driving is no longer comfortable or feasible, your transportation options may become more expensive. Of course, it's also worth noting that you likely will not have auto payments, gas or insurance bills to pay.

According to Warren Buffett, the perfect amount to leave children is "enough money so that they would feel they could do anything, but not so much that they could do nothing."

Health Care

Health care expenses are a top concern for many pre-retirees and retirees, especially as medical costs continue to rise. Factors to consider when planning for health care expenses include insurance premiums, how much you will pay out-of-pocket for doctor's visits and medical supplies, and even long-term care costs.

For many retirees, medical care is their biggest expense. A couple with both partners age 65 in 2019 could need up to $285,000 in today's dollars to cover premiums for health insurance coverage and out-of-pocket expenses during retirement. That number doesn't include any long-term care coverage.[6]

Maintenance Costs

Much like your car or home, many financial vehicles require "maintenance" fees or expenses. However, what many retirees may not realize is that even small differences in fees from one product to the next can translate into large differences in your asset accumulation over time. Your financial professional can help you identify fees — and explore ways to potentially reduce them.

Question #2: How much income do I want in retirement?

What do you want your money to do for you in retirement? Do you wish to provide a comfortable existence where your basic needs are met, or do you want to entertain and travel extensively? Would you like to leave a financial legacy for people or charitable causes you support, or are you inclined to spend more of your money now?

Consider Warren Buffett's philosophy that the perfect amount to leave children is "enough money so that they feel they can do anything, but not so much that they could do nothing." Most of us won't face Buffett's dilemma about how much to leave our loved ones, but the sentiment is evident: Don't live your life as if its value is only worth as much as you leave your children. If your goal is to live comfortably and leave an inheritance, now is the time to start planning.

Question #3: What roadblocks may affect my progress toward my financial goals?

Economic & Job Instability

In March of 2020, the coronavirus caused the stock market to plummet, millions filed for unemployment and trillions of dollars were distributed as part of a stimulus. The long-term effects of the virus remain to be seen, but it took the nation years to recover from the most recent recession in 2008. Some have suggested the bailouts and stimulus money distributed during the recession contributed to higher income taxes and interest rates, and a slow housing market recovery.

Taxes

Taxes may cause a wrinkle in financial strategies in part because regulations can be changed, repealed or backdated depending on the economy and who is in office. For retirement income, there are a variety of tax-efficient financial vehicles available that you may want to consider as part of your overall financial strategy. You should consult a qualified financial professional and your personal tax advisor before adopting a specific tax strategy for retirement.

Market Losses

For many people, a market downturn could be a significant blow to retirement. As you get closer to retirement and have less time to recover lost gains, you may want to consider limiting your exposure to market declines as you transition away from asset accumulation and into income distribution.

Please keep in mind that financial professionals must hold the proper securities registration and be currently affiliated with a broker-dealer or Registered Investment Adviser to recommend the liquidation of funds held in securities products, including those within an individual retirement account (IRA) or another retirement plan.

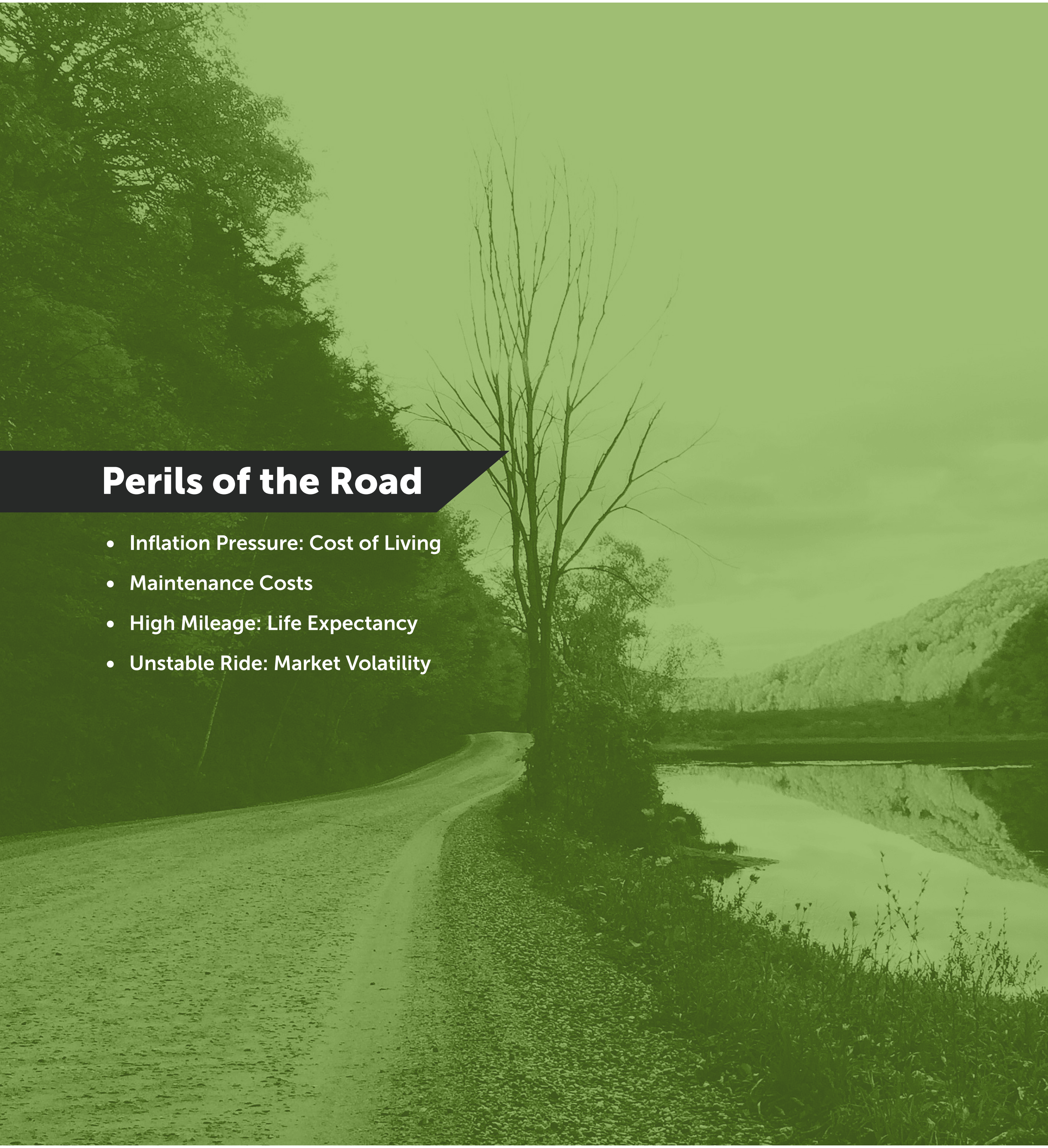
Planning for a Long Lifespan

Long-term inflation can have a significant impact on income — especially over a long lifespan. Why is inflation most detrimental to retirees? Inflation is responsible for the increased price of goods and services we use, including everything from groceries and gas to medical care. As costs increase, the amount of money we need to cover our fixed expenses also increases.

"More than 20% of adults over age 65 are either working or looking for work, compared with 10% in 1985."[7]

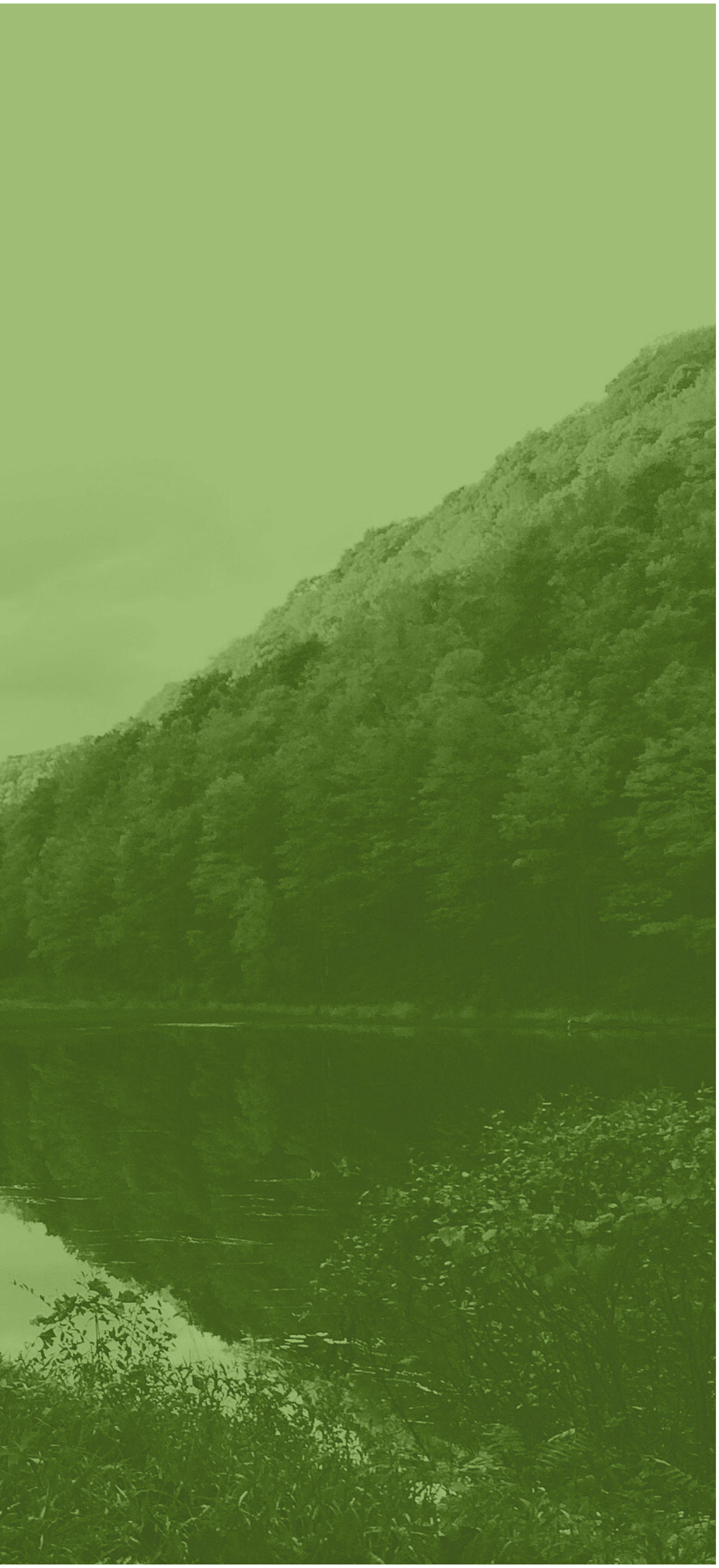
"The future ain't what it used to be."

-Yogi Berra, The Yogi Book: "I Really Didn't Say Everything I Said" by Yogi Berra.



Perils of the Road

- Inflation Pressure: Cost of Living
- Maintenance Costs
- High Mileage: Life Expectancy
- Unstable Ride: Market Volatility



To help maintain your desired lifestyle, you should prepare for a level of income that can help you offset the effects of inflation. For many years, a lot of retirees have relied upon the so-called "4% rule." This generally accepted rule suggests that you should be able to withdraw 4% from your retirement savings in the first year of retirement and then increase your withdrawal each year to account for inflation without running a big risk of running out of money. However, the thinking has changed over the years, and it has become more common for retirees to frequently adjust how much they withdraw, based on changes in wealth, age and market conditions.

The longer you live, the greater your chance of running out of money. If you start withdrawing from your investment portfolio and insurance contracts too early, withdraw too high a percentage or don't allow opportunities for growth potential within your financial strategy, you may spend down your retirement assets too soon.

If you're married, your ability to prepare adequately may be even more complex. You may need long-term income not only for yourself but a spouse as well, and if you or your spouse experience an illness or require long-term medical assistance, your need for income may be even greater.

Even more difficult to prepare for is the volatility of the market. The longer you live, the more likely you are to experience additional market and economic ups and downs. The accompanying table illustrates just how often dips, corrections and bear markets have occurred in the past, based on data from 1900 to 2018.

DJIA's history of declines, 1900-2018*

TYPE OF DECLINE	AVERAGE FREQUENCY	AVERAGE LENGTH	LAST OCCURRENCE
-5% or more	About 3 times a year	47 days	August 2015
-10% or more	About once a year	115 days	October 2011
-15% or more	About once every 2 years	216 days	August 2015
-20% or more	About once every 3 ½ years	338 days	March 2009

Source: American Funds. "What Past Market Declines Can Teach Us." https://www.capitalgroup.com/individual/planning/market-fluctuations/past-market-declines.html. Accessed Feb. 14, 2020.

**This data represents past performance only and should not be used to predict future market performance.*

The following examples demonstrate how retirement assets — once you start withdrawing money in retirement — can be greatly affected by the sequence of market returns. In these examples, Steve and Bill both retire with $500,000 invested and withdraw $30,000 a year over the following 10 years. The only difference is when each retired. Steve retired in 1990, and Bill retired in the year 2000.

These hypothetical examples are for illustrative purposes only, should not be deemed a representation of past or future results and are no guarantee of return or future performance. These examples do not represent any specific product and/or service and do not reflect investment fees or taxes, which would reduce the figures shown here.

Hypothetical Investment Return for Steve
Retired in 1990 and invested $500,000, withdrawing $30,000 annually

YEAR	MARKET RETURN*	WITHDRAWAL	ACCOUNT BALANCE
1990	-4.34%	$30,000	$449,602
1991	20.32%	$30,000	$504,865
1992	4.17%	$30,000	$494,667
1993	13.72%	$30,000	$528,419
1994	2.14%	$30,000	$509,085
1995	33.45%	$30,000	$639,340
1996	26.01%	$30,000	$767,829
1997	22.64%	$30,000	$904,873
1998	16.10%	$30,000	$1,015,728
1999	25.22%	$30,000	$1,234,328

**Source: https://tradingninvestment.com/stock-market-historical-returns/ – The Dow Jones Industrial Average is an index of 30 large, publicly traded companies based in the United States. Investors cannot invest directly in an index. Dividends are not included. Accessed March 5, 2020.*

Hypothetical investment return for Bill
Retired in 2000 and invested $500,000, withdrawing $30,000 annually

YEAR	MARKET RETURN*	WITHDRAWAL	ACCOUNT BALANCE
2000	-6.18%	$30,000	$440,954
2001	-7.10%	$30,000	$381,776
2002	-16.76%	$30,000	$292,819
2003	25.32%	$30,000	$329,364
2004	3.15%	$30,000	$308,794
2005	-0.61%	$30,000	$277,094
2006	16.29%	$30,000	$287,345
2007	6.43%	$30,000	$273,892
2008	-33.84%	$30,000	$161,359
2009	18.82%	$30,000	$156,081

**Source: https://tradingninvestment.com/stock-market-historical-returns/ – The Dow Jones Industrial Average is an index of 30 large, publicly traded companies based in the United States. Investors cannot invest directly in an index. Dividends are not included. Accessed March 5, 2020.*

Not only do market declines during retirement reduce your opportunity to reasonably earn back the depreciated assets, but if you are withdrawing income from your assets at the same time, it can be even more challenging to recover from market losses.

Unstable Ride: Market Volatility

Historically, stock and bond markets have generally moved out of tandem, so that whenever one market dropped, the other was typically performing well. As a result, a diversified investment portfolio still had the potential for growth, while also offering downside protection on a portion of the portfolio through more conservative holdings. Globally, the same was true. When domestic markets faltered, there was generally growth somewhere overseas and vice versa.

The fact that the new global economy has some investment categories moving in tandem can affect how long your retirement savings last. One thing to consider is incorporating an annuity that can offer the potential for interest accumulation to help meet the challenges of a long life and potentially the impact of long-term inflation on cost-of-living expenses and health care. It also can provide a source of steady and reliable income to help ensure that you can cover your essential daily living expenses.

Cost vs. Benefit: Finding the Right Balance

Annuities are commonly criticized for their administrative fees and surrender charges, but the fact is many financial vehicles contain some fee or charge.

Regardless of the financial vehicles you choose for your financial strategy, it's important to consider not only the costs you may incur but also the benefits you will receive in return.

Among the most common annuity fees are:

- **Mortality & Expense Charge (M&E)** — These charges generally pay for the sales commissions, administrative expenses and insurance guarantees (including the death benefit and income payouts for life) of the contract. In a variable annuity, M&E charges will be deducted from the value of the investment. With a fixed annuity, you generally won't see a deduction for these charges on your annual statement. These charges are built into the annuity's pricing and are reflected in the benefits and guarantees you receive.
- **Surrender Charges** – When an insurance company issues an annuity contract, it incurs costs in commissions to the selling agent, in processing the application, etc. Therefore, most insurance companies limit the amount of withdrawals you can take during the early years of a contract and impose a surrender charge on any withdrawals over that preset limit to help offset the costs incurred by the company. Surrender charges are generally applied during the first 10 to 14 years of the contract and can be significant, but over time the surrender charges typically reduce to zero. The amount of the surrender charges and how long they last will vary by product and by state.

Ultimately, you need to determine whether the fees in the annuity are worth the benefits you'll receive.

"Economic theory shows that life annuities can increase individual welfare by balancing the risk associated with lifespan uncertainty and the risk associated with unnecessary reduction in living standards."[8]

Retirement Income Needs

While an annuity can be an important part of your overall financial strategy, it's not a good idea to put your entire nest egg into an annuity. That's because annuities are designed to be long-term income accumulation and/or distribution vehicles. You may want to have income for today, retirement income for tomorrow and emergency income at any time. Generally, to accomplish this, you should consider diversifying your assets in a mix of investments and insurance products. It's also a good idea to have an easily accessible emergency fund you can access immediately in case you need it for any unexpected events.

When considering your retirement income needs, here are a few of the many categories to keep in mind.

Emergency Assistance

An emergency constitutes an immediate financial need, ranging from out-of-pocket expenses for medical care to losing your job. Many financial professionals suggest an emergency fund of three to six months of expenses.

Standard Essentials

Essential expenses tend to be constant from month to month, such as food, clothing, rent or mortgage payment, utilities, basic transportation, medical insurance and health care expenses. Retirees are spending increasingly more on these essential categories.[9]

Discretionary Options

The amount of discretionary income you have in retirement will depend on how well you've provided for your essentials. As a result of long-term inflation, if you had retired in January 1980 on $30,000 a year, your annual income would need to be $99,474.68 today to support the same lifestyle.[10]

You may want to consider an annuity for a portion of your overall financial strategy, in addition to Social Security and any pension you may receive, to provide a steady and reliable stream of income to help ensure that your essential living expenses in retirement will be covered. Adding an annuity to your plan can help protect a portion of your retirement income from the fluctuations in the stock market and allows you to do what you want with the rest of your nest egg.

Performance & Guarantees

When it comes to safeguarding your retirement income, financial professionals may recommend annuities as part of your overall financial strategy because they can offer you both the potential for interest accumulation and the assurance of steady and reliable income payments.

Incorporating a guaranteed income component within conservative, moderately conservative and moderate portfolios can increase the average sustainable income and possibly decrease shortfall income risk.[11]

Insurance and annuity product guarantees are subject to the claims-paying ability of the issuing insurer.

Annuity Models

In the past, retirees could typically count on three sources of retirement income that divided roughly into thirds: government entitlement programs (i.e., Social Security and Medicare), employer-sponsored plans and personal retirement savings.

With this traditional scenario, both the government entitlement programs and employer-sponsored plans were considered "fixed" — reliable income sources that may be adjusted for inflation. Only one-third, individual savings, was considered variable.

Today, however, the majority of the responsibility for retirement income has largely shifted to the individual. That's because Social Security officials are continually re-evaluating benefits. Employer-sponsored plans have evolved from guaranteed pension payouts to more defined contribution plans — which result in payouts in retirement based upon participation and long-term market performance.

You may want to consider a guaranteed, fixed-income component to your retirement income. Adding an annuity to your retirement income may be an opportunity to help ensure a portion of your retirement income will be guaranteed, backed by the claims-paying ability of the issuing insurer.

An annuity is a contract you purchase from an insurance company. For the premium you pay, you receive certain fixed or variable interest crediting options able to compound tax-deferred until withdrawn. When you are ready to receive income distributions, this vehicle offers a variety of guaranteed payout options through a process known as "annuitization."

Most annuities have provisions that allow you to withdraw a percentage of credited interest each year up to a certain limit without annuitizing the contract. However, withdrawals can reduce the value of the death benefit and excess withdrawals above the restricted limit may incur surrender charges, typically within the first 10 to 14 years of the contract.

Because annuities are designed as long-term retirement income vehicles, annuity withdrawals made before age 59 ½ are subject to a 10% additional federal tax. All withdrawals are subject to ordinary income taxes.

The Annuity Inventory

- Variable Annuity
- Immediate Annuity
- Fixed Annuity
- Fixed Index Annuity

Variable Annuity

A variable annuity comprises professionally managed portfolios that vary in both investment objectives and representative holdings. If you are working with a qualified investment advisor or Registered Representative, you may allocate your purchase payments across any number of these portfolios in whatever percentage matches your financial objectives and tolerance for market risk. Taxes on earnings from these portfolios are not due until distributed, and you may transfer assets between portfolios without having to pay taxes on gains.

However, because professional money managers oversee these various portfolios, the fees you pay for each portfolio, combined with the overall mortality and expense (M&E) and administrative fees, have the potential to be quite high. It's also important to remember that variable annuities participate directly in the market and are subject to market risk.

Many variable annuities also offer optional riders guaranteeing minimum annual income for a specific number of years or even for life, for an additional fee. Annuities with optional income riders tend to have fees commensurate with the additional risks as underwritten by the issuing insurer.

Optional Variable Annuity Income Riders:

- **Guaranteed Minimum Income Benefit (GMIB) —** guarantees you a minimum income stream.
- **Guaranteed Minimum Accumulation Benefit (GMAB) —** guarantees that your account value will accumulate to a certain amount at a specific date in the future.
- **Guaranteed Minimum Withdrawal Benefit (GMWB) —** guarantees you a minimum income stream without having to annuitize the contract.
- **For-Life Benefits —** allows you to receive a percentage of your original investment for as long as you live. Your annuity contract determines what percentage you receive.

Investing involves risk, including the potential loss of principal. No investment strategy can guarantee a profit or protect against loss in periods of declining values. Any references to protection benefits or steady and reliable income generally refer to fixed insurance products, never securities or investment products. Insurance and annuity product guarantees are backed by the financial strength and claims-paying ability of the issuing insurance company.

Immediate Annuity

With an immediate annuity, you use a lump sum of money to purchase a contract from an insurance company in return for a guaranteed series of payouts. This stream of income is guaranteed for a specific period of time or the rest of your (and even your spouse's) life — no matter how long you live. The amount of the payout is based on several factors:

- **How much money you use to buy the contract**
- **The interest rate environment at the time you purchase the contract**
- **The payout option you select (typically at the time the contract is issued)**
- **Your life expectancy (based on current age and gender)**
- **The date you select for your first payment (within one year of issue date)**
- **Any additional features you choose**

Immediate annuity income payouts may be either level or increasing periodic payments for a fixed term of years or until the end of your life, whichever is longer.

Your income payouts will be taxed at ordinary income tax rates rather than the lower capital gains rates.

One thing to take into consideration with an immediate annuity: Because there is no accumulation phase, you must annuitize immediately to receive income distributions, usually no later than one year after purchase. Once you annuitize with the life-only option, the transaction is irreversible and you no longer have access to your assets in a lump sum. When you die, any remaining contract value that could have been left to your beneficiaries is forfeited to the insurance company. You also may consider choosing a period-certain annuitization option, in which payments are made over a predetermined time period, such as 10, 15 or 20 years. If you die before the end of that time period, payments to your beneficiary continue until the period ends.

"Consumers can benefit from these products by having a steady stream of income regardless of how their investment assets perform or how long they live, while at the same time maintaining access to their assets for unexpected or other expenses."

(Source: U.S. Government Accountability Office. Dec. 10, 2012. "Retirement Security: Annuities with Guaranteed Lifetime Withdrawals Have Both Benefits and Risks, but Regulation Varies Across States." http://www.gao.gov/products/D03768. Accessed April 6, 2015.)

Fixed Annuity

A traditional fixed annuity provides a guaranteed interest rate for a specific number of years. Fixed annuities offer fixed interest rate periods, typically over one, three, five, seven or 10 years, as well as a variety of annuitization payout options — including the option for guaranteed income for life.

With a fixed annuity, you defer paying taxes on the interest earned in the contract until you begin taking withdrawals or receiving scheduled annuitization payments. Once you begin withdrawals, they will be taxed as ordinary income and, if you take withdrawals prior to age 59 ½, a 10% additional federal tax may apply. Tax deferral may allow your assets to grow faster than in an alternative financial vehicle that is taxed annually.

The fixed annuity can help you conservatively accumulate assets to help cover fixed living expenses in retirement.

Fixed Index Annuity

The fixed index annuity combines tax deferral and the potential for interest based on positive changes of an external index without actual participation in the market.

A fixed index annuity may offer a choice of indexes. The insurance company uses a crediting method to track the performance of the index(es) during a specified time period, which is typically one contract year but could be multiple contract years. At the end of each time period, the company calculates the indexed interest. If the result is positive, the annuity is credited interest up to a predetermined amount. If the result is negative, nothing happens, and the annuity's value doesn't decline (although the cost of any additional riders you purchase will reduce your annuity value). In addition to potential indexed interest, you may also have the option to receive fixed interest.

Like a traditional fixed annuity, under current federal income tax law, any interest earned in a fixed index annuity is tax-deferred until you begin receiving money from your contract. If you purchase a fixed index annuity with after-tax dollars, you will only pay ordinary income taxes on your interest earnings (not on premium payments) when you begin withdrawing money.

Purchasing an annuity inside a qualified plan (retirement plan) that provides tax deferral under the Internal Revenue Code provides no additional tax benefits. An annuity used to fund a tax-qualified retirement plan should be selected based on features other than the tax deferral. All of the annuity's features, risks, limitations and costs should be considered before purchasing an annuity inside a qualified retirement plan.

Some fixed index annuities allow you to withdraw credited interest without penalty up to a certain amount each year. However, withdrawals will reduce the contract value and the value of any protection benefits. Be aware that withdrawals in excess of the "free" amount each year and during the contract's surrender charge period may incur a surrender charge.

Most fixed index annuities have components that help determine how much interest can be credited in a given year, as of your contract anniversary date. The most common are:

- **Participation Rate.** A participation rate determines what percentage of the index increase is used to calculate your indexed interest. For example, if the insurance company sets the participation rate at 80%, your fixed index annuity will be credited with interest based on 80% of any increase in the value of the external index. For example, if the index goes up 10% one year, you get 80% of that — or 8% — credited as interest to your annuity.
- **Spread.** The spread is a percentage that is subtracted from any increase in the value of the index during the term period. For example, if the annuity has a 4% spread and the index increases 10%, then the annuity would be credited 6%.
- **Interest Rate Cap.** Some fixed index annuities set a maximum interest rate (or cap) that the contract can earn in a specified period. If the index increase exceeds the cap, the cap is used to calculate the credited interest. For example, if the cap is 10% and the index earns 12% for the year, you will receive interest equal to 10%.

A fixed index annuity is designed to provide a combination of benefits that can give you confidence in your retirement income strategy.

The interest credited on your contract may be affected by the performance of an external index. However, your contract does not directly participate in the index or any equity or fixed interest investments. You are not buying shares in an index. The index value does not include the dividends paid on any equity investments underlying an equity index or any interest paid on any fixed income investments underlying any bond index. These dividends and interest are not reflected in the interest credited to your contract.

Annuity Facts You Should Know

Death Benefits

If you pass away before you begin to receive scheduled annuity payouts, your beneficiary(ies) will receive a death benefit. Even if you pass away after annuity payouts have begun, it's still possible your beneficiary(ies) will receive a death benefit. The value and the manner in which they can receive the death benefit may vary based on the product selected and the insurance company through which it is issued.

Annuitization

Annuitization is the process of converting the account value of an annuity into a series of guaranteed periodic income payments, such as monthly or annual payments.

Guarantees

Because an annuity is issued by an insurance company, all guarantees related to fixed account rates, annuitization payouts and death benefits are backed by the financial strength and claims-paying ability of the issuing company.

Contract Structure

How you structure your annuity will affect its income payouts and death benefits. The following are all the participating entities involved in an annuity contract.

- **Insurance Company –** issues the contract, provides contract information and is responsible for all payout guarantees.
- **Owner –** purchases the annuity and makes all decisions regarding allocations, income distributions, annuitants and beneficiaries.

- **Annuitant –** typically the same person as the owner; annuity income payouts are based upon the life expectancy of the named annuitant (who generally must be younger than age 85 at the time the contract is issued).
- **Beneficiary –** the person who receives the contract's death benefit. Naming a beneficiary (person, charity or trust) is important to help the annuity potentially avoid probate.

Researching the Stability of Insurance Companies

Because annuity product guarantees are backed solely by the insurance company that issues the annuity contract, some buyers wish to do some research about the insurance company that is providing the annuity before making a purchase.

To inquire about an insurance company, you may contact the insurance company or your state insurance department.

A 1035 Exchange

In recent years, annuities have evolved into more effective retirement income vehicles than in the past. Therefore, you may currently own an annuity contract that may be less effective for accomplishing your goals than newer annuity contracts on the market today.

If you and your financial professional determine you would be better suited to replace or exchange a current annuity contract for a different one, you may be able to take advantage of what is called a "1035 Exchange," name after Section 1035 of the Internal Revenue Code. The IRS allows you to exchange an insurance contract you own for a new life insurance or annuity contract without paying tax on the income and interest earned on the original contract at the time of the exchange.[12]

However, you should be aware of the following requirements involved with making a 1035 Exchange:

- The current insurance contract must be directly exchanged for a new contract — you may not receive a check and apply the proceeds to the purchase of a new insurance or annuity contract.
- You may make a tax-free exchange, provided certain requirements are met, in only the following situations:
    - From a life insurance contract to another life insurance contract
    - From a life insurance contract to an annuity contract
    - From one annuity contract to another annuity contract
- A 1035 Exchange does not include the exchange of an annuity contract for a life insurance contract.

Considerations Regarding a 1035 Exchange:

- While surrender charges eventually expire on an existing contract, be aware that a new surrender charge period may be imposed when you trade in an old contract for new a contract, or may increase the period of time for which the surrender charge applies.
- You may have to pay higher annual fees for the new contract.
- When exchanging one contract for another, the new contract must be suitable for you and provide benefits that, when compared to the existing contract, better meet your financial goals and objectives.

Insurance professionals recommending an annuity 1035 Exchange are required to inform you of the pros and cons of the exchange. Your insurance professional should make a recommendation only if it is appropriate for you and only after evaluating your personal and financial situation, needs, tolerance for risk and ability to pay for the new contract.

Is an Annuity Right for You?

An annuity could play an important part in your overall financial strategy. When deciding whether an annuity is a good choice for your retirement plan, consider the following:

- Are you retired or nearing retirement?
- Do you currently have a financial strategy in place?
- Do you have predictable, reliable income streams or are you working with defined contribution plans, such as a 401(k) or IRA?

If you do not currently have predictable and reliable income streams to cover your basic expenses in retirement, you may want to consider an annuity for a portion of your overall financial strategy to provide supplemental income that can help offset the risk of outliving your money.

Together you and your insurance professional should have a thorough discussion about whether an annuity is suitable for your unique situation.

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Any comments regarding guaranteed income streams refer only to fixed insurance products. They do not refer, in any way, to securities or investment advisory products. All annuity contract and rider guarantees are backed by the financial strength and claims-paying ability of the issuing insurance company. Annuities are not a deposit of, nor are they insured by, any bank, the FDIC, NCUA or by any federal agency.

Please note that the information and opinions included herein from third parties have been obtained from sources believed to be reliable, but accuracy and completeness cannot be guaranteed. The information is not intended to be used as the sole basis for financial decisions, nor should it be construed as advice designed to meet the particular needs of an individual's situation. None of the information contained herein shall constitute an offer to sell or solicit an offer to purchase an annuity.

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