

## GLOSSARY OF TERMS

**ACCUMULATION PERIOD**—The period during which the owner of a deferred annuity contract makes payments into the contract and accumulates assets. Also known as accumulation or savings phase.

**ACCUMULATION VALUE**—The sum of premiums and earnings in an annuity contract, minus contract charges and withdrawals (and losses, if a variable vehicle). Also known as the contract or account value.

**ADMINISTRATIVE CHARGES**—Expenses that cover all of the services involved with maintaining a variable annuity contract, such as transfers among subaccounts, preparation of contract statements and mailings, and other customer services.

**ANNUAL CONTRACT FEE**—An annual fee paid to the insurance company for administering the contract. The fee is often waived for contracts with high account values.

**ANNUITANT**—The person(s) upon whose life annuity payments are based. Often, but not always, the annuitant and the owner are the same person.

**ANNUITIZATION**—The conversion of the accumulated value of an annuity into a stream of income, either for one or more lifetimes or a specific period of time (or some combination).

**ANNUITY**—A series of periodic payments.

**ANNUITY COMMENCEMENT DATE**—The date income payments begin. Also known as the annuity starting date.

**ANNUITY CONTRACT**—A legal agreement between the contract owner and the insurance company, which may be either a deferred or immediate annuity and may be in the form of either a group or an individual contract.

**ANNUITY INCOME PAYMENTS OR PAYOUTS**—A series of payments made over a specified period of time with the duration guaranteed by the life insurance company at the beginning of the period.

**ANNUITY PURCHASE RATE**—The cost of an annuity based on insurance company tables, which take into account various factors such as age and gender.

**ANNUITY UNIT VALUE**—The measurement used to determine the amount of variable annuity payments. The amount of the payment is determined by the number of annuity units times the annuity unit value at the time of the payment.

**A-SHARE VARIABLE ANNUITIES**—Variable annuity contracts that have up-front sales charges instead of surrender charges, and are often accompanied by lower mortality and expense (M&E) charges. Sales charges are calculated as a percentage of each purchase payment.

**ASSET ALLOCATION PROGRAMS**—A system of assigning variable annuity purchase payments to subaccounts based on a contract owner's financial goals and risk tolerance. Portfolio rebalancing programs redistribute the amount of money allocated to each subaccount when the target percentages move out of alignment over time as the value of some subaccounts changes faster than others.

**ASSET-BASED EXPENSES**—Variable annuity expenses, such as investment management fees and annual insurance charges, that are based on the value of the assets held in the insurance company's separate account.

**ASSUMED INTEREST RATE (AIR)**—The rate of interest an annuity provider uses to determine the amount of each variable annuity income payment. If the actual performance of the contract holder's underlying investment portfolio is higher than the AIR, payments will go up; if it is lower, payments will go down. Also known as the benchmark rate.

**BENEFICIARY**—The person designated under the contract to receive any payments that may be due upon the death of the owner or the annuitant.

**BREAKPOINT PRICING**—A system whereby the cost of up-front sales charges decreases depending on the cumulative amount of purchase payments that have been made.

**B-SHARE VARIABLE ANNUITIES**—Variable annuity contracts characterized by deferred sales charges, which typically range from 5-7% in the first year, and subsequently decline to zero after five to seven years. B-shares are the most common form of variable annuity contracts sold.

**CASH SURRENDER VALUE**—The amount that can be withdrawn from the contract after the deduction of any surrender charge. It is equal to the contract value minus the surrender charge. (The contract value is the sum of premiums and earnings minus contract charges and withdrawals, and losses, if a variable vehicle). Also known as cash value.

**CHARITABLE GIFT ANNUITY**—An annuity that involves the transfer of cash or property (including appreciated property) to a charitable organization in exchange for income payments for life or joint lives, with no period certain. The charity can fund its payment obligations using its own assets, or it can fund them by purchasing a commercial annuity.

**COMMUTATION**—A process provided under some annuities that allows annuity payments to be terminated and the remaining value to be withdrawn from the contract.

**CONTINGENT DEFERRED SALES CHARGE**—Back-end loads, charged on the liquidation of a variable annuity, which typically range from 5-7% in the first year, and subsequently decline to zero.

**CONTRACT DATE**—The date an annuity contract becomes effective.

**CONTRACT OWNER**—The person(s) who pays the premiums and has certain rights under the contract, such as making withdrawals, determining investment decisions, surrendering the contract, and changing the beneficiary or other terms of the contract.

**C-SHARE VARIABLE ANNUITIES**—Variable annuity contracts with no up-front or contingent deferred sales charges, which offer full liquidity to contract holders at any time. Also known as no-surrender-charge annuities.

**DEATH BENEFIT**—The payment made to the beneficiary upon the death of the contract owner or annuitant.

**DEFERRED ANNUITY**—An annuity contract that is purchased either with a single premium or with periodic payments to help save for retirement. The contract owner determines the point at which accumulated principal and earnings are converted into a stream of income.

**DEFINED BENEFIT PLAN**—An employer-administered pension plan that qualifies for special tax treatment under the Internal Revenue Code. With a deferred benefit plan, the retired employee receives lifetime payments based on salary, years of service, and age at retirement. The employer bears the investment risk.

**DEFINED CONTRIBUTION PLAN**—An employer-administered retirement plan in which contributions with respect to an employee's compensation are made to the plan. The employee bears the investment risk.

**DOLLAR COST AVERAGING**—A program for investing a fixed amount of money at set intervals with the goal of purchasing more shares at low values and fewer shares at high values. Variable annuity dollar cost averaging programs involve allocating a certain amount of money to one investment subaccount, such as a money market fund, and then having portions of that payment periodically transferred to other subaccounts.

**ENHANCED DEATH BENEFIT**—A death benefit that goes beyond the guaranteed minimum death benefit by locking in investment gains every few years or every year, or paying a minimum stated interest rate on purchase payments.

**ENHANCED EARNINGS BENEFIT**—A feature of some variable annuity contracts that provides beneficiaries with an additional death benefit amount, usually equal to a percentage of earnings.

**EXCLUSION RATIO**—The formula that determines which portion of an annuity payment is considered taxable and which is a tax-free return of principal.

**FIXED ACCOUNT**—Part of the insurance company's general account to which a variable annuity contract owner may allocate all or part of premium payments. A minimum rate of interest is guaranteed, usually for a period of one year. Also known as a fixed investment option.

**FIXED ANNUITIZATION**—A stream of income payments that is fixed and guaranteed.

**FIXED ANNUITY**—An annuity contract that guarantees that the contract owner will earn a stated rate of interest during the accumulation phase of a deferred annuity, and receive a defined amount of income on a regular schedule when the contract is annuitized.

**FLEXIBLE PREMIUM CONTRACT**—A contract that allows payments to be made at any time after the initial purchase payment.

**FREE-LOOK PERIOD**—A specified number of days (e.g. 10 days) during which an annuity contract owner may revoke the purchase of the contract.

**GENERAL ACCOUNT**—All the assets of the insurance company not allocated to separate accounts.

**GUARANTEED LIFETIME WITHDRAWAL BENEFIT (GLWB)**—A guarantee that promises that a certain percentage (usually 4-5%) of a guaranteed benefit base (often paid premiums) can be withdrawn each year for the life of the contract holder, regardless of market performance or the actual account balance.

**GUARANTEED MINIMUM ACCUMULATION BENEFIT (GMAB)**—A guarantee that ensures that the contract value of a variable annuity will be, at least, equal to a certain minimum amount after a specified number of years.

**GUARANTEED MINIMUM DEATH BENEFIT (GMDB)**—The basic death benefit offered under variable annuity contracts which specifies that if the owner, or in some contracts the annuitant, dies before annuity income payments begin, the beneficiary will receive a payment equal to (a) the greater of the contract value or (b) purchase payments less withdrawals.

**GUARANTEED MINIMUM INCOME BENEFIT (GMIB)**—A guarantee that ensures, under certain conditions, that the owner may annuitize the contract based on the greater of (a) the actual account value or (b) a payout base equal to premiums credited with a defined interest rate or the maximum anniversary value of the account prior to annuitization.

**GUARANTEED MINIMUM LIVING BENEFIT (GMLB)**—A benefit that protects against investment risks by guaranteeing the level of account values or annuity payments. There are three types—guaranteed minimum income benefits, guaranteed minimum accumulation benefits, and guaranteed minimum withdrawal benefits.

**GUARANTEED MINIMUM WITHDRAWAL BENEFIT (GMWB)**—A guarantee that promises that a certain percentage (usually 5-7%) of a guaranteed benefit base (often paid premiums) can be withdrawn annually until the base is completely recovered, regardless of market performance or the actual account balance, or for the lifetime of the contract owner or both spouses, depending on the type of product selected.

**GUARANTEE PERIOD**—The period during which the level of interest credited under a fixed annuity is guaranteed.

**IMMEDIATE ANNUITY**—An annuity that is purchased with a single lump sum. Income payments begin within a short period—less than 13 months. Immediate annuities can be either fixed or variable.

**INCOME FLOOR GUARANTEES**—Annuity payments supported by a floor which guarantees that subsequent payments will never be less than a given percentage of the original payment, such as 80%, regardless of the performance of the underlying investments.

**INCOME OR PAYOUT OPTIONS**—Different ways by which a contract owner can receive income from an annuity. These include a lump sum payment, systematic withdrawals, and annuitization.

**INDEXED ANNUITY (IA)**—An annuity that allows limited participation in gains tied to an index, usually the S&P 500, and that also provides a floor guarantee against downside market risk.

**INSURANCE CHARGES**—Charges that cover administrative expenses and the cost of the mortality and expense (M&E) risk.

**INVESTMENT MANAGEMENT FEE**—The fee paid in connection with the professional management of the assets of the investment funds underlying variable annuities.

**ISSUER**—The insurance company that issues the annuity contract.

**JOINT AND SURVIVOR ANNUITY**—A life annuity in which there are two annuitants, usually spouses, known as joint annuitants. Annuity payments continue as long as either annuitant is alive.

**LEVEL ANNUITY PAYMENTS**—Payments under a variable annuity contract that remain the same for a period of time, such as 12 months, and then change to reflect investment performance. Once changed, the payments remain the same for the next 12 months.

**LIFE ANNUITY**—Annuity payments that are guaranteed to continue for the life of the annuitant.

**LONGEVITY RISK**—The risk of outliving one's assets.

**L-SHARE VARIABLE ANNUITIES**—Variable annuity contracts that typically have shorter surrender periods, such as three or four years, but may have higher mortality and expense (M&E) charges.

**LUMP SUM OPTION**—A withdrawal option in which the annuity is surrendered and all assets are withdrawn in a single payment.

**MARKET RISK**—The risk of losing portfolio value due to the volatility of the stock market. Also known as financial market risk.

**MARKET VALUE ADJUSTMENT (MVA)**—A feature included in some annuity contracts that imposes an adjustment or fee upon the surrender of a fixed annuity or the fixed account of a variable annuity. The adjustment is based on the relationship of market interest rates at the time of surrender and the interest rate guaranteed in the annuity.

**MINIMUM CREDITED INTEREST RATE**—The minimum rate of interest that is guaranteed on a fixed annuity.

**MONTE CARLO SIMULATION**—A computerized analytical model which considers thousands of scenarios, using multiple data points such as inflation, interest rates, and market returns, and presents a range of probabilities that various outcomes might actually occur.

**MORTALITY AND EXPENSE (M&E) RISK CHARGE**—A fee that pays for the insurance guarantees, including the death benefit and the ability to choose a payout option that can provide lifetime income, at rates set in the contract at the time of purchase.

**NET SALES OR NET FLOWS**—Total variable annuity sales minus surrenders, withdrawals, inter- and intra-company exchanges, and benefit payments.

**NON-QUALIFIED ANNUITY**—An annuity that is not purchased as part of a retirement program that receives special tax treatment.

**PARTIAL WITHDRAWAL**—The withdrawal of an amount less than the entire cash surrender value of an annuity contract. Many contracts permit annual withdrawals of a certain amount that is free of a surrender charge.

**PAYOUT PERIOD**—The period during which the money accumulated in a deferred annuity contract, or the purchase payment for an immediate annuity, is paid out as income payments. Also known as payout phase.

**PERIOD CERTAIN**—A type of refund annuity that guarantees that if the annuitant dies before payments have been made for some minimum number of years, payments to the beneficiary will continue until the end of the guarantee period.

**PORTFOLIO REBALANCING**—A type of asset allocation program that periodically reallocates contract assets, in specified proportion, among fixed and variable investment options within a variable annuity contract.

**PREMIUMS**—The amounts of money paid into an annuity contract. Also known as purchase payments.

**PRIVATE ANNUITY**—An annuity that involves the transfer of property (such as real estate) from an individual or a revocable living trust in exchange for an unsecured promise by the transferee (an individual or a non-insurance entity, such as a trust) to make a periodic stream of fixed payments.

**PURE LIFE ANNUITY**—An annuity with payments that stop when the annuitant dies. Also known as a straight life annuity.

**QUALIFIED ANNUITY**—An annuity purchased with pre-tax dollars as part of a retirement program, such as a 401(k) plan, that receives special tax treatment.

**RATCHET GUARANTEED MINIMUM DEATH BENEFIT**—A type of enhanced death benefit that is equal to the greater of (a) the contract value, (b) premium payments less prior withdrawals, or (c) the contract value on a specified prior date.

**REFUND ANNUITY**—A type of annuity that guarantees that if the annuitant dies before the return of a specified amount of annuity income, some or all of the premiums will be refunded to the beneficiary.

**RETIREMENT INCOME PERIOD**—The period during which the money accumulated in a deferred annuity contract, or the purchase payment for an immediate annuity, is paid out as income payments.

**RISING FLOOR GUARANTEED MINIMUM DEATH BENEFIT**—A type of enhanced death benefit that is equal to the greater of (1) the contract value or (2) premium payments less prior withdrawals increased annually at a specified rate of interest.

**RISK POOLING**—The spreading (in the case of annuities) of longevity risk among a large group of individuals, some of whom die sooner than expected, some of whom will live longer than expected.

**SAVINGS PERIOD**—The period in which the owner of a deferred annuity makes payments and accumulates assets.

**SEPARATE ACCOUNT**—An account that is set apart from an insurer's general account and is legally insulated from the insurer's general creditors. Variable annuities are issued through separate accounts.

**SINGLE PREMIUM ANNUITY**—An annuity contract that is purchased with a single payment. All immediate annuities and some deferred non-qualified annuities are in this category.

**STEPPED-UP DEATH BENEFIT**—A death benefit that is increased regularly to protect investment gains.

**SUBACCOUNT**—The investment funds offered in variable annuity contracts are often called subaccounts. The term refers to their position as accounts held within the separate account of the insurance company offering the variable annuity.

**SURRENDER CHARGE**—The cost to a contract owner for withdrawals from the contract before the end of the surrender charge period. The surrender charge period typically is five to seven years.

**SYSTEMATIC WITHDRAWAL PLAN**—A distribution method that allows a variable annuity contract owner or other designated person to periodically receive a specified amount as a partial withdrawal from the annuity contract value prior to the annuity starting date. Unlike lifetime annuity payments, systematic withdrawals can continue only until the contract cash value is exhausted. The tax treatment of systematic withdrawals differs from that of annuity payments.

**TAX-QUALIFIED RETIREMENT PLAN**—A retirement plan, such as an IRA, 401(k), or 403(b), that meets specific requirements of the Internal Revenue Code as well as stipulations in various laws, such as the Employee Retirement Income Security Act (ERISA) of 1974, the Economic Growth and Tax Relief Reconciliation Act (EGTRRA) of 2001, and the Pension Protection Act (PPA) of 2006.

**TOTAL SALES OR TOTAL PREMIUM FLOWS**—The sum of new sales (all first-time buyers of a contract, including inter- and intra-company exchanges) and additional premiums from existing contract owners.

**TRANSFER**—The movement of assets from one subaccount to another.

**TRANSFER FEE**—The charge for transferring assets from one subaccount to another.

**UNBUNDLED CONTRACTS**—Annuity contracts that permit purchasers to choose and pay for certain optional features they want in their contracts.

**UNIT VALUE**—A measurement of the performance of the underlying funds in a variable annuity, similar to the share value of a stock. Each investment subaccount has a separate unit value. The unit value increases with positive investment performance in the subaccount, and decreases with negative investment performance and with asset management and insurance charges.

**VARIABLE ANNUITIZATION**—A stream of income payments that vary based on the investment performance of underlying subaccounts.

**VARIABLE ANNUITY**—An annuity whose contract value or income payments vary based on the investment performance of underlying subaccounts.

**VARIABLE ANNUITY PAYMENT FLOOR**—A guaranteed minimum amount or floor for each annuity payment.

**VARIABLE INVESTMENT OPTIONS**—The investment choices available to a variable annuity contract owner. These choices typically include stock, bond, and money market funds.

**WITHDRAWAL FEE**—An administrative fee charged on withdrawals.

**WITHDRAWALS**—Distributions from an annuity other than scheduled annuity payments.

**X-SHARE VARIABLE ANNUITIES**—Variable annuity contracts that credit an additional amount to the contract value.