INSURED RETIREMENT INSTITUTE

# Glossary of Annuity Product Terms

## A

**A-SHARE VARIABLE ANNUITIES** Annuity contracts in which sales charges are incurred at time of investment or premium payment. A-share contracts typically have no surrender charges.

**ACCUMULATION PHASE** The period in an annuity contract prior to annuitization when annuity owners can add money and accumulate tax-deferred assets.

**ACCUMULATION UNIT VALUE (AUV)** A variable annuity subaccount price per share during the accumulation phase. An AUV is the net asset value after income and capital gains have been included and subaccount management expenses have been subtracted.

**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, frequently the contract owner, to whom an annuity is payable and whose life expectancy is used to calculate the income payment.

**ANNUITIZATION** The conversion of the annuity accumulation value to a fixed or variable income stream for the life of the annuitant(s) or for a specified period.

**ANNUITY** A periodic income payable for the lifetime of one or more persons, or for a specified period. A contract in which an insurance company agrees to pay an income for life or for a specified number of years.

**ANNUITY COMMENCEMENT DATE** The date income payments begin, also known as the annuity start date.

**ANNUITY CONTRACT** A legal agreement between the contract owner and the insurance company.

**ANNUITY OWNER** The person or entity that has the rights to the contract, including withdrawals, surrender, change of beneficiary, or other specified terms.

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

**ANNUITY START** Date The beginning date of the series of annuity payments.

**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** Annuity units (variable) are the units in the separate account after the maturity date that is used to determine the amount of the annuity payment. The amount of the payment is the number of annuity units times the annuity unit value.

**ANNUITY UNIT VALUE** The number of annuity units in an account remains constant during the annuitant's lifetime. Each annuity unit value changes each payment period based on the following factors:
The investment performance of the account

> The assumed investment returns (AIR)
> Contract expenses during the period

**APPLICATION** A form supplied by a life insurance company on the basis of information received from the applicant. The form is signed by the applicant and is part of the insurance or annuity contract.

**ASSET ALLOCATION** In a variable annuity, distribution of assets across multiple classes, e.g., stocks, bonds, and cash, in order to meet an individual's financial goals. The objective of asset allocation is to reduce investment risk.

**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 INVESTMENT RETURN (AIR)** Variable annuity payments increase or decrease based on the net performance (returns after fees and expenses) of the underlying investments in relation to a benchmark assumed investment return. If the total investment return minus expenses exceeds the AIR, the payment increases. If the return minus expenses is less than the AIR, the payment decreases. If the return minus expenses equals the AIR, payments remain the same.

# B

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

**BAILOUT PROVISION** If a fixed annuity's interest rate falls below a rate specified in the annuity contract, this feature assures the free withdrawal of all funds from an annuity account.

**BENEFICIARY** A person, persons, or trust designated under the contract to receive any payments due in the event of the death of the owner or the annuitant.

**BONUS RATE** Extra interest accumulated in the first year of a deferred annuity that is added to the sum upon which interest is calculated in later years, also called a first-year bonus rate.

**BONUS SHARE (X-SHARE) VARIABLE ANNUITIES** A bonus amount, typically defined in the prospectus as a percentage of purchase payments, is allocated to the annuity accumulation value early in the contract period. This type of annuity typically has higher expenses to pay for the cost of the bonus.

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

# C

**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

**CASH REFUND ANNUITY** An annuity settlement payment, which provides that upon the death of the annuitant before payments totaling the purchase price have been made, the excess will be paid in one sum to designated beneficiaries.

**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 (the sum of premiums and earnings minus contract charges and withdrawals) minus the surrender charge.

**CASH VALUE (SURRENDER VALUE)** The amount available to the owner when a policy is surrendered. During the early policy years, in some contracts, the cash value equals the account value less a "surrender charge."

**CHARITABLE ANNUITY (GIFT ANNUITY)** A charitable gift annuity is a contract between a donor and a foundation, under which the foundation guarantees payment of an 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 ANNUITANT** In the case of the death of an annuitant prior to the beginning of annuity payments, the person who is designated to receive the payments in the original annuitant's stead.

**CONTINGENT BENEFICIARY** A person or persons named to receive contract benefits if the primary beneficiary is deceased.

**CONTINGENT DEFERRED ANNUITY** A retirement product option in an employer sponsored plan, typically composed of a balanced mutual fund coupled with a lifetime income feature that, subject to certain conditions, continues to make payments to an insured in the event systematic withdrawals from the fund reduce its value to zero.

**CONTINGENT DEFERRED SALES CHARGE** Costs imposed on the withdrawal of proceeds or liquidation of a variable annuity, which typically range from 5% to 7% in the first year, and subsequently decline to zero.

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

**CONTRACT OWNER** The purchaser of an annuity contract, and holder of all rights pertaining to the contract.

**COST BASIS** The initial payment/premium(s) paid to a non-qualified annuity is known as the cost basis in the contract. Since it was previously taxed, cost basis is not taxed upon withdrawal.

## D

**DEATH BENEFITS** The payment the investor's estate or beneficiaries receive if the contract holder dies prior to the annuity starting date. Types of death benefits: Greater of account value or premiums less withdrawals; rising floor, in which the insurance company guarantees a minimum return on premium deposits; ratchet, a benefit equal to the greater of (a) the contract value, (b) premiums less withdrawals, or (c) the contract value on a specified prior date.

**DEFERRED ANNUITY** The annuity contract during the time period prior to annuitization. The contract owner determines the point at which accumulated principal and earnings are converted into a stream of income.

**DEFERRED INCOME ANNUITY** An annuity product designed to make lifetime payments to an insured beginning 5 to 40 years in the future.

**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. The plan provides lifetime income through a group or individual annuity contract.

**DEFINED CONTRIBUTION PLAN** An employer-administered retirement plan in which the contribution, rather than the benefit, is defined. Under a 401(k) type of defined contribution plan, the employee is allowed to channel part of his/her income into the plan on a pre-tax basis. A percentage of employee contributions may be matched by the employer but the employee bears the investment risk. The final benefit consists solely of assets (including investment returns) that have accumulated in these individual accounts. Depending on the type of defined contribution plan, contributions may be made either by the company, the participant, or both. In some DC plans, distribution options in the form of life annuities are available.

**DISTRIBUTION** A payout made from a retirement plan or annuity contract. See also Lump-Sum Distribution and Annuity.

**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 to one investment subaccount, such as a money market fund, and then having portions of that payment periodically transferred to other subaccounts. Dollar cost averaging does not guarantee a profit or prevent a loss in declining markets.

## E

**EARLY WITHDRAWAL PENALTY** A 10% penalty tax for withdrawal of assets from a qualified retirement plan prior to age 59 ½. This 10% penalty tax is in addition to regular federal and (if applicable) state tax. Exceptions to the penalty, such as death and disability, may apply.

**EFFECTIVE ANNUAL YIELD** In a fixed deferred annuity, the annualized return based on the daily compounding and crediting of the annuity's interest.

**EFFECTIVE INTEREST RATE** The actual annual interest rate that accrues, including the effects of compounding.

**ENHANCED DEATH BENEFIT** A death benefit that goes beyond the guaranteed minimum death benefit by periodically locking in investment gains 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.

**ERISA** A federal law requiring plan sponsors to design and administer their plans in accordance with the Employee Retirement Income Security Act of 1974 (ERISA). Among its statutes, ERISA calls for proper plan reporting and disclosure to participants. Non-qualified annuities are not covered by ERISA.

**EXCESS INTEREST** Interest credited to a fixed annuity contract beyond the minimum guaranteed by the insurance company.

**EXCHANGE TRADED FUNDS (ETFS)** An investment fund traded on stock exchanges, much like stocks. An ETF holds assets such as stocks, commodities, or bonds, and trades close to its net asset value over the course of the trading day.

**EXCLUSION RATIO** The formula that determines which portion of an annuity payment is considered taxable and which is a tax-free return of principal. For variable annuities, this formula is similar, however, due to the fluctuating nature of variable payouts, this is recalculated annually and is reported as an exclusion amount.

**EXPENSE RATIO** The percentage of a fund's assets used to pay its annual expenses.

# F

**FIDUCIARY** A person who has undertaken to act for and on behalf of another in a relationship of trust and confidence. Fiduciaries are required under ERISA to make decisions based solely on the best interests of plan participants.

**FIXED ACCOUNT** An investment option in the issuing insurance company's general account that is offered in some variable annuity contracts. A minimum rate of interest is guaranteed, usually for a period of one year.

**FIXED ANNUITIZATION** A series of guaranteed income payments of a specified amount payable for the life of the annuitant(s) or a specified number of years.

**FIXED ANNUITY** A contract providing a specified rate of interest paid on the amount invested during the accumulation phase and a specified payment amount during the annuitization phase. The issuing company assumes the investment risk.

**FIXED INDEXED ANNUITY** An annuity on which credited interest is based upon the performance of an equity market index, such as the S&P 500. The principal investment is protected from losses in the equity market, while gains add to the annuity's returns.

**FIXED PERIOD ANNUITY** Payout option for a specified number of years instead of for a lifetime.

**FLEXIBLE PREMIUM ANNUITY** Contracts purchased with a series of payments over a period of time. The owner is usually allowed to change the amount or frequency of payments, subject to minimum annual amounts.

**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.

**FRONT-END LOAD** A percent of premium fee insurance companies charge at contract inception and each subsequent premium payment to cover the costs of establishing new accounts. Referred to as A-share pricing.

# G

**GENERAL ACCOUNT** The assets and liabilities of the insurance company not allocated to separate accounts.

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

**GUARANTEED INTEREST RATE** The minimum rate of interest the insurance company agrees to pay each year on a fixed annuity.

**GUARANTEED INVESTMENT CONTRACTS (GICS)** Group contracts with an insurance company at a fixed rate of interest.

**GUARANTEED LIFETIME WITHDRAWAL BENEFIT (GLWB)** An annuity option that provides a specified percentage of a guaranteed benefit base that 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 stated 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)** An annuity option guaranteeing that the owner may annuitize the contract at a stated future date, based on the greater of (a) the actual account value or (b) an amount 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 a certain percentage (usually 5% to 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.

# I

**I-SHARE VARIABLE ANNUITY** Also known as fee-based variable annuities in which an investor pays one fee to have the portfolio managed by an investment advisor. I-shares do not offer a sales commission to the advisor. However, the advisor assesses fees for the services, including the I-share contract, which is agreed upon by the client.

**IMMEDIATE ANNUITY** An annuity purchased with a single premium on which income payments begin within one year of the contract date. With fixed immediate annuities, the payment is based on a specified interest rate. With variable immediate annuities, payments are based on the value of the underlying investments. Payments are made for the life of the annuitant(s), for a specified period, or both (e.g., 10 years certain and life).

**INCOME FLOOR GUARANTEE** Annuity feature that guarantees 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** Methods by which a contract owner can receive income from an annuity. These include a lump-sum payment, systematic withdrawals, living benefits, and annuitization.

**INDEXED ANNUITY** (See Fixed Indexed Annuity.)

**INDIVIDUAL RETIREMENT ACCOUNT (IRA)** IRC Sec 408(a) defines an IRA as an Individual Retirement Account. Sec 408(b) defines an IRA as an Individual Retirement Annuity. With either definition, an IRA is a tax-advantaged personal savings plan that allows an individual to set aside money for retirement. All or part of the participant's contributions may be tax deductible, depending on the type of IRA chosen and the investor's personal financial circumstances. Distributions from most employer-sponsored retirement plans may be eligible to be rolled into an IRA to continue tax-deferred growth until the funds are needed. Generally, distributions are required to begin at age 70 ½.

**INITIAL INTEREST RATE** The rate of interest set by the insurance company each policy year based on the prevailing market rates.

**INSURANCE CHARGES** Costs which cover administrative expenses and 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.

**INVESTMENT ONLY VARIABLE ANNUITY** A variable annuity that does not offer any death or living benefits, or offers them only for an additional fee. Such product typically offer a wide range of subaccount investment options and/or pre-designed, outcome oriented investment strategies (e.g. inflation protection).

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

## J

**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.

## L

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

**LEVELIZED 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.

**LIFE EXPECTANCY** The average duration of the life remaining to a number of persons of a given age (cohort), according to a selected mortality table.

**LIFETIME INCOME** Income payments that continue throughout a person's life, irrespective of the duration.

**LIVING BENEFITS** The term applied to a series of annuity options that protect against investment risk by guaranteeing either withdrawal payments, account values, or annuity payments. There are three primary types—guaranteed minimum income benefits, guaranteed minimum accumulation benefits, and guaranteed minimum withdrawal benefits.

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

**LUMP-SUM DISTRIBUTION** The distribution at retirement of a participant's entire account balance within one calendar year due to retirement, death, or disability.

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

# M

**MARKET RISK** The risk of losing portfolio value due to the volatility of the stock market.

**MARKET VALUE ADJUSTMENT (MVA)** A feature included in some annuity contracts which 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.

**MONEY MARKET FUND** A mutual fund seeking to generate income for participants through investments in short-term fixed income securities.

**MONEY-PURCHASE PLAN** A type of defined contribution plan in which the employer's contributions are determined by a specific formula, usually as a percentage of pay. Contributions are not dependent on company profits.

**MONTE CARLO SIMULATION** A computerized analytical model that 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 RISK CHARGE (M&E)** A fee charged in variable annuities for insurance guarantees, including the death benefit, the guaranteed lifetime income options, and the guarantee that contract charges will not increase.

**MORTALITY TABLE** A table showing the incidence of death at specified ages that is used to determine average life expectancy.

# N

**NET ASSET VALUE (NAV)** The market value of all securities owned by a mutual fund, minus its total liabilities, divided by the number of shares issued.

**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 in which purchase payments are made with after-tax dollars. Earnings accumulate on a tax-deferred basis until withdrawn.

# O

O-Share Variable Annuities Annuity contracts which do not impose up-front sales charges, while, typically, possessing surrender charge periods similar to B-shares. Mortality and expense charges are assessed, and progressively decline throughout the surrender period.

# P

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

**PARTY-AT-INTEREST** An individual or group having direct interest in a contract, including the issuer, the contract owner, and the annuitant.

**PAYOUT PHASE OR PAYOUT PERIOD** The period during which the money accumulated in an annuity is paid out as regular income payments.

**PENSION ANNUITIES** An annuity incorporated in a pension or other qualified retirement plan set up by a corporation, labor union, government, or other organization for its employees, including profit-sharing plans, stock bonus and employee stock ownership plans, thrift plans, target benefit plans, money purchase plans, and defined benefit plans.

**PENSION BENEFIT GUARANTY CORPORATION (PBGC)** A federal agency established by Title IV of ERISA for the insurance of defined benefit pension plans. The PBGC provides payment of limited pension benefits if a plan terminates and is unable to cover all required benefits.

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

**PERSISTENCY BONUS** An enhancement to the policy's benefits, usually in the form of additional interest credits and/or reduced charges, for policies that remain in force for a certain period. The bonus may or may not be guaranteed in the contract.

**PORTFOLIO REBALANCING** A type of asset allocation program that periodically reallocates contract assets among investment options within a variable annuity contract.

**PREMATURE DISTRIBUTION OR WITHDRAWAL (PREMATURE DISTRIBUTION PENALTY)** Withdrawals made from deferred annuities and certain other tax-favored plans may be subject to an additional 10% federal income tax if the withdrawal is made before the contract owner reaches age 59 ½. Certain exemptions apply. The contract owner should seek legal and tax advice before making withdrawals prior to age 59 ½.

**PREMIUM BONUS** A premium bonus is an additional amount credited to the accumulation account of an annuity policy under certain conditions.

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

**PREMIUM TAXES** Some states charge a tax on the contributions made to an annuity, typically upon annuitization. The issuing company generally charges the annuity contract for any premium tax and other taxes based on premium it pays to the state.

**PRIMARY BENEFICIARY** The person or entity named as first in line to receive proceeds or benefits from a contract following the death of the contract holder or, in some contracts, the death of the annuitant.

**PRIVATE ANNUITY** A private annuity is an arrangement in which the client transfers property to an individual or entity in return for a promise of fixed periodic payments for the rest of the client's life. In private annuities, the person or entity assuming the payment obligation is not in the business of selling annuities.

**PROCEEDS** The net amount of money payable by the company at the death of the insured or at the maturity of a contract.

## Q

**QUALIFIED ANNUITIES** Qualified annuities are annuities purchased for funding an IRA, 403(b) tax-deferred annuity, or other type of tax-benefited retirement arrangements. An IRA or qualified retirement plan provides tax deferral. An annuity contract should be used to fund an IRA or qualified retirement plan to benefit from annuity features including lifetime income, living benefits, and the guaranteed minimum death benefit.

**QUALIFYING LONGEVITY ANNUITY CONTRACT (QLAC)** A deferred income annuity intended for purchase within a qualified plan (e.g. 401(k) or IRA) that meets IRS requirements that it a) provide distributions that begin at an advanced age, but not later than age 85; b) not be a variable contract under section 817, or an equity-indexed contract; and c) may include a return of premium death benefit, but may not include commutation rights, cash surrender value, or other similar feature.

## R

**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 contract that provides a lump sum at the death of the annuitant, which when added to total annuity payments equals the purchase price.

**REGISTERED INDEX-LINKED ANNUITY (RILA)** A Registered Index-Linked Annuity (RILA) is a variable annuity that credits interest based on the change in price of one or more market indexes. Call options are used to provide the investor with some upside potential and some downside protection. Generally, these products use a "buffer" strategy, where the investor is protected against the first x% of loss, or a "floor" strategy, where the investor is protected from losses after the first x%. Gains are capped based on the level of protection selected by the contract owner; the higher the level of protection, the lower the cap. See also "Structured Annuity."

**RENEWAL RATE INTEREST** Rate at time of annuity contract anniversary set at the end of each policy year.

**RESERVE** Actuarially determined amounts held by insurance companies, which are required to meet future contract obligations.

**RETIREMENT INCOME PERIOD OR PHASE** 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.

**REVERSE ANNUITY MORTGAGE** A reverse annuity mortgage is an arrangement in which a homeowner borrows against home equity and receives lifetime monthly payments from the lender.

**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.

**ROLLOVER** The action of moving plan assets from one qualified plan to another or to an IRA within sixty days of distributions, while retaining the tax benefits of a qualified plan.

# S

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

**SECTION 1035 EXCHANGE OR 1035 EXCHANGE** A tax-free exchange of:

- An existing life insurance policy for a new life insurance policy, or
- An existing life insurance policy for a new annuity policy, or
- An existing annuity policy for a new annuity policy.

A requirement in a 1035 exchange is that the owner is not in constructive receipt of the surrendered contract value. In cases in which the old and new carriers are different companies, this is accomplished by the owner assigning the contract to the new carrier, which takes delivery of the surrender proceeds, which are then applied to the new contract.

**SEPARATE ACCOUNT** The insurance company's investment portfolio that supports variable life and annuity contracts. It is an element of added protection to the investor that variable annuity assets are held in a separate account protected from the claims of insurance company creditors.

**SERVICE PROVIDER** A company that provides any type of service to the plan, including managing assets, recordkeeping, providing plan education, and plan administration.

**SIMPLIFIED EMPLOYEE-PENSION PLAN (SEP)** A defined contribution plan in which employers make contributions to individual employee accounts (similar to IRAs).

**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.

**SPLIT ANNUITIES** A split annuity is the combination of a single premium deferred annuity and a single premium immediate annuity. The immediate annuity pays a sum each month over a specified period. The deferred annuity accumulates on a fixed interest basis. The objective is that when the immediate annuity is depleted, the deferred annuity has reestablished the starting principal.

**STANDALONE LIFETIME BENEFIT (SALB)** A living benefit product that provides protection similar to that provided by the GLWB, while adding flexibility with the various types of assets that can be protected.

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

**STRAIGHT LIFE ANNUITY** An annuity income option that pays during the lifetime of the annuitant(s) and ceases at the death of the last surviving annuitant.

**STRUCTURED ANNUITY** A structured annuity is a variable annuity that credits interest based on the change in price of one or more market indexes. Call options are used to provide the investor with some upside potential and some downside protection. Generally, these products use a "buffer" strategy, where the investor is protected against the first x% of loss, or a "floor" strategy, where the investor is protected from losses after the first x%. Gains are capped based on the level of protection selected by the contract owner; the higher the level of protection, the lower the cap. See also Registered Index-Linked Annuity (RILA).

**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.

**SUBACCOUNT INVESTMENT OBJECTIVE** The category of securities representing the principal investment in a given subaccount, for example, aggressive growth, international, money market, or corporate bond.

**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.

**SURRENDER VALUE** The surrender value is the amount that is available for withdrawals or contract liquidation.

**SYSTEMATIC WITHDRAWAL PLAN** A distribution method that allows a variable annuity contract owner 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 continue until the contract value is exhausted. Systematic withdrawals are taxable to the extent they represent investment gain in the contract.

# T

**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 of 1974 (ERISA), the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), and the Pension Protection Act of 2006 (PPA). In some cases, funding of such plans is through fixed or variable annuities.

**TAX-SHELTERED ANNUITIES** A type of retirement plan for employees of tax-exempt organizations or schools, which are covered under Section 403(b) of the IRC. Tax-sheltered annuities are funded by pre-tax contributions made through salary reduction agreements. Employers may also make direct contributions on behalf of employees.

**TERM CERTAIN ANNUITY** An annuity that provides income payments for a specified number of years.

**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.

**TRUSTEE** The individual, group of individuals, bank, or trust company having fiduciary responsibility for holding plan assets.

# U

**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.

# V

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

**VARIABLE ANNUITY** An insurance company contract into which the buyer makes a lump-sum payment or series of payments. In return, the insurer agrees to make periodic payments beginning immediately or at some future date. Purchase payments are directed to a range of investment options, which may be mutual funds, or directly into the separate account of the insurance company that manages the portfolios. The value of the account during accumulation, and the income payments after annuitization vary, depending on the performance of the investment options chosen.

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

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

# X

**X-SHARE (BONUS) VARIABLE ANNUITIES** X-share variable annuity contracts credit an additional amount or bonus to the contract value, which is calculated as a percentage of purchase payments added to the contract at, or subsequent to, contract issue. Contract charges may be higher in X-share products.

# W

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

**WRAP-FEE** A comprehensive charge levied by an investment manager or investment advisor to a client for providing a bundle of services, such as investment advice, investment research and brokerage services. Wrap fees allow an investment advisor to charge one straightforward fee to their clients, simplifying the process for both the advisor and the customer.