HD VEST FINANCIAL SERVICES®

Guide to Buying Annuities

Buying an Annuity Contract at H.D. Vest

Before you buy any investment, it is important to review your financial situation, investment objectives, risk tolerance, time horizon, diversification needs, and need for liquidity. H.D. Vest wants to make sure that if you are considering purchasing an annuity contract, you have also considered other options available to you, including mutual funds and life insurance.

Annuity contracts are designed generally for long-term retirement savings and should not be considered a short-term investment option. Investing in pre-tax investment options such as IRAs, 403(b)s and 401(k)s should fully be taken advantage of before investing in an annuity contract.

While you will be able to have access to your money in an annuity contract by surrendering your contract or making a withdrawal, an annuity contract generally contains a surrender penalty, assessed by the issuing insurance company, for premature surrenders or withdrawals. Surrenders or withdrawals from an annuity contract before age 59 ½ may incur a 10% tax penalty in addition to ordinary income tax.

This information is intended only to provide a general background on annuity products, and should not be relied upon in connection with the purchase of any particular product. H.D. Vest offers a wide variety of annuity products from many insurance companies, and each of these has unique features. Important information about specific annuity products, including share classes, investment and payout options, the risks involved, and the fees, expenses and other costs that can affect the performance of your investment, can be found in the annuity contract and the product prospectus. Many insurance companies make these documents available on their websites, and they are also available from your H.D. Vest Advisor or directly from the insurance company.

These documents contain important disclosures, and you should read and carefully consider this information before investing.

All payments for the purchase of variable annuities through H.D. Vest should be made by check or ACH transfer payable to a variable annuity carrier or First Clearing, LLC – not to an H.D. Vest Advisor or his/her independent company. When you purchase a variable annuity in a brokerage account through H.D. Vest you will receive a confirmation of the transaction and an account statement referencing H.D. Vest. When you purchase a variable annuity directly from a variable annuity carrier, you will receive a confirmation and statement directly from that company and not H.D. Vest. If you believe you made an investment through H.D. Vest, but did not receive a confirmation, please call us at (866) 218-8206, option 2.

How Can this Guide Educate Me, and How Can I Educate Myself?

This guide will help you better understand annuity contracts in general and the costs associated with various annuity contract types and features, as well as how H.D. Vest and your Advisor are compensated when you invest in an annuity contract. Of course, this guide is not meant to replace the annuity prospectus, the underlying fund prospectuses, statements of additional information, or other offering material prepared by the insurance company. **Please read these documents carefully before purchasing an annuity contract. Some of these documents will also describe the annuity contract features that you can choose as you work with your H.D. Vest Advisor.**

As always, if you have any questions about your annuity investments, please contact your H.D. Vest Advisor.

What is an Annuity Contract?

An annuity contract is between you (the contract owner) and an insurance company.

You purchase an annuity contract by making either a single payment or a series of payments. Once an annuity contract has been purchased, the insurance company agrees to make periodic payments to you, beginning either immediately or at some future date. Depending on the insurance company's policy, you may have to begin making withdrawals, either systematically, or as an annuitization, when you reach a specific age (e.g., age 80 or 90) as described in the contract or offering material prepared by the insurance company. Not all of the annuity contracts and benefits described below are available in all states. Ask your H.D. Vest Advisor about what is available in your state.

Types of Annuity Contracts

Annuity contracts can be divided into two different types: immediate and deferred. With an immediate annuity, you can convert assets into income and start receiving income payments right away; with a deferred annuity, assets accumulate, tax-deferred, until withdrawals are made, usually during retirement.

Annuity contracts, both immediate and deferred, are offered in two ways: fixed and variable. Some annuity contracts are offered as a combination of fixed and variable. A variable annuity fluctuates depending on the investment performance of the investments selected. A fixed annuity contract is credited with a fixed or set interest rate, which is guaranteed by the insurance company. Throughout this guide, the word "guarantee" refers to guarantees that are backed by the claims-paying ability of the issuing insurance company. If the insurance company is unable to meet the claims, the payments may not be made. We also describe below another kind of fixed annuity called an Index Annuity. The following is a more detailed look at the various types of annuity contracts available today.

Immediate Annuities

An immediate annuity provides a stream of income for a specified period of time that you choose. You pay a single purchase payment, and income payments typically begin 30 days later. Once you've selected a payment plan (monthly, quarterly, semi-annual or annual), income payments will last for the length of time selected. Payment options include:

- period or term-certain annuitization where payments are made for a specified period or term such as 10 years;
- life annutization where payments last for the life or joint life of the contract annuitant(s); or
- life with period-certain annuitization where payments last the longer of the life of the annuitant(s) or the period-certain payments.

Upon death of the owner/annuitant of an immediate annuity, if the payment period has not ended and the contract payments are continued under the contract, the contract beneficiaries will receive the remainder of the required payments. Once the payment period has ended, the owner/annuitant will not receive any additional principal payment. These payout options typically cannot be changed once the client has selected them. An immediate annuity can be purchased on either a fixed or a variable basis.

Immediate Variable Annuities

Immediate variable annuities offer a stream of income payments that will change during the term of the payout period. These payments will vary up or down following the first payment depending on the performance of the underlying subaccounts owned in the contract. The underlying subaccounts are in professionally managed investment options that invest in the stock and/or bond markets. The investment options can provide you with potentially more income than immediate fixed annuities, but your income payments will be subject to market fluctuation.

Immediate Fixed Annuities

Immediate fixed annuities offer a fixed stream of income payments that do not change during the term of the payout period. Unlike immediate variable annuities, immediate fixed annuities generally do not provide any protection against inflation as payments made are fixed during the term of the immediate annuity.

Given the irrevocable nature of these contracts, investors should carefully consider their financial needs before they enter into one of these contracts.

Deferred Annuities

A deferred annuity allows you to accumulate money tax-deferred for long-term goals such as retirement. When you are ready to receive income from your annuity, you can withdraw funds as needed, or set up a regular payment schedule guaranteed by the insurance company, which would last over a given time period in the manner as for immediate annuities. Deferred annuities can be purchased on either a fixed or a variable basis. If you purchase an annuity within a tax-qualified retirement plan such as an IRA or 401(k), you will get no additional tax advantage from the annuity. Therefore, you should consider whether your annuity purchase would be more appropriate in a non-tax-qualified account.

You should consider buying an annuity in a tax-qualified retirement account only if it makes sense because of the annuity's other unique features and benefits, such as lifetime income payments, death benefit protection or an attractive interest rate on a fixed annuity. You should assess whether these other features and benefits of the annuity and the associated costs justify the purchase within a tax-qualified plan.

There are three general types of deferred annuities: fixed annuities, variable annuities and index annuities.

Deferred Fixed Annuities

A deferred fixed annuity contract has a guaranteed fixed interest rate for a stated period of time. Depending on the terms of the contract, the issuing insurance company may adjust the rate periodically. When you buy a fixed annuity contract, your money is placed in the general account of the insurance company. A specified rate of return (less any surrender charges) is guaranteed by the insurance company for a specified period of time and backed by its claims-paying ability. How the insurance company sets its rates depends on the terms of the annuity contract. Some annuity contracts offer multiple guaranteed interest periods with differing guaranteed interest rates. At the expiration of the period, you can choose to continue the annuity contract for the same period at a new guaranteed rate, or you can choose a different period at its new guaranteed rate. Depending on the annuity contract, other options may be available, such as making a withdrawal, surrendering the annuity contract without a surrender charge, or beginning to receive periodic payments.

If you make a withdrawal or surrender your contract before the expiration of the guaranteed interest period, this may cause an adjustment to the amount of interest credited to your annuity contract, and may even result in a negative return. Sometimes an insurance company guarantees the initial interest rate for a period of time, typically one year, but then resets the interest rate periodically, at its own discretion. In addition, if you make a withdrawal or surrender your contract during the surrender charge period, a surrender charge may be assessed (see the Annuity Fees and Charges section). Since fixed annuities offer a guaranteed minimum rate of interest, they generally are less volatile than variable annuities. The rate, once set for the period, is not affected by fluctuations in market interest rates or the insurance company's yearly profit. However, fixed annuities offer little flexibility, generally no adjustment against inflation, and less potential for growth than variable annuities. Please read the prospectus, contract and/or offering material, and consult with your H.D. Vest Advisor on the interest rates and the terms of the interest-rate guarantees, before purchasing a fixed annuity.

Deferred Variable Annuities

A variable annuity generally offers a diverse selection of investment options, usually referred to as subaccounts. These subaccounts have varying investment objectives and risk levels. The return on a variable annuity investment will depend on your investment allocation and the performance of the subaccounts you choose. You may experience a negative return in a variable annuity. If you make a withdrawal or surrender your contract during the surrender charge period, a surrender charge may be assessed. In addition, you can transfer your money from one investment option to another without paying tax on your investment income and gains. This is an important feature because it permits you to change your investment strategy (for example from moderate risk to conservative risk), or change from poorly performing subaccounts to other subaccounts, without surrendering the contract. Dividends, interest and capital gains remain invested, tax-deferred, until withdrawals are made, allowing you to control when income taxes are paid.

Excessive trading between subaccount investment options, otherwise known as market timing, is not a permitted activity. The insurance company may charge a fee for excessive transfers and freeze subaccount transfer privileges if market-timing activities occur. Often a variable annuity also includes a fixed account, which offers a guaranteed fixed interest rate for a stated period of time. This means that during the accumulation phase of a deferred variable annuity, you can allocate your investment not only to one or more variable investment option, but to the fixed account as well. It is generally inadvisable to purchase a variable annuity contract for the purpose of investing solely in the fixed account.

Deferred Index Annuities

A deferred index annuity is designed for those who wish to enjoy the potential benefits of owning an annuity with an interest rate based, in part, on any gains in an index. While not directly invested in equities, contracts are offered with a guaranteed minimum interest rate (ie., a floor), in case there is a downturn in the index. This annuity typically provides you with an interest rate that is related to the positive return, if any, in the index, such as the S&P 500, while guaranteeing that you will receive at least a stated minimum fixed return on your purchase payment (less any surrender penalties for premature surrender). In addition, the amount credited may be capped, or other limitations may apply.

Deferred index annuities generally have a holding period of five to 10 years. Liquidating or surrendering a contract early will typically reduce your return, may void any guarantees, and may result in a negative return if you surrender it before the expiration of the holding period. In addition, if you make a withdrawal or surrender your contract during the surrender charge period, a surrender charge may be assessed.

Annuity Fees and Charges

There are several types of fees and charges in an annuity contract. Be sure you understand all these expenses before you invest. They will reduce the value of your account and the return on your annuity.

If you withdraw money from an annuity contract or surrender the contract within a certain period of time after investing (the ‘’surrender charge period,” typically three to 10 years), the insurance company may assess a surrender charge, which is a type of redemption fee. Usually, the surrender charge is a percentage of the purchase payment withdrawn and declines gradually over the surrender charge period. For example, a 7% charge might apply in the first year after investing, 6% in the second year, 5% in the third year, and so on, until the surrender charge no longer applies. New surrender charge periods usually start with each new purchase payment invested in the annuity, so new purchase payments may extend the surrender charge period beyond the original surrender charge period established at the purchase date.

However, many contracts will allow you to withdraw part of your account value each year — generally your annual interest earned, cumulative earnings, or up to 10% or 15% of your purchase payment — without paying a surrender charge. Some annuities do not have a surrender charge period or surrender charges. Your H.D. Vest Advisor can discuss any surrender period and charges associated with the annuity you are considering. When choosing an annuity contract, you should consider all charges and benefits — not just surrender charges.

Fixed Annuity Fees and Charges

When you buy a fixed annuity, your money is placed in the general account of the insurance company. When the insurance company sets the interest rate to be credited to an annuity contract, it usually considers not only the prevailing market rates, but also the costs of issuing and maintaining the annuity contract. In addition to the surrender charges discussed above, some annuity contracts assess annual contract fees, such as an account maintenance fee. Your H.D. Vest Advisor is paid a commission for selling the fixed annuity to you. The insurance company pays this commission out of its assets, which include any profits it makes on the annuity contracts.

Variable Annuity Fees and Charges

In addition to the surrender charges mentioned above, variable annuities have other expenses you should be aware of. These fees and charges will reduce the value of your account and the return on your investment. They can include:

- **Mortality and expense (M&E) risk charge**
  This charge is equal to a certain percentage of your account value, typically from 1.00% to 1.60% per year. The M&E risk charge can be used by the insurance company to offset the costs of selling the variable annuity, such as a commission paid to your H.D. Vest Advisor for selling the variable annuity to you, and to compensate the insurance company for the insurance risks that it assumes under the insurance contract.

- **Administrative fees**
  The insurer may deduct charges to cover record keeping and other administrative expenses. This may be charged as a flat account maintenance fee (perhaps $25 or $30 per year) and/or as a percentage of your account value (typically about 0.15% per year). Some insurance companies waive the flat account maintenance fee on larger account values.

- **Subaccount expenses**
  You will also pay fees and expenses imposed by the underlying investment options in a variable annuity. The fees and expenses of the subaccounts include annual operating expenses such as management fees, 12b-1 (distribution) fees, cost of shareholder mailings, and other expenses. These expenses can range from 0% annually for money-market subaccounts to as much as 2% annually for certain equity subaccounts. For a detailed explanation of these expenses, see the prospectus for the underlying funds.

- **Fees and charges for other features**
  Certain features offered by some variable annuities — such as a stepped-up death benefit, a bonus credit feature, a guaranteed minimum income benefit, a guaranteed minimum withdrawal benefit, a guaranteed minimum accumulation benefit, or an earnings enhancement benefit — often carry additional fees and charges. Some of the features and options will be discussed below. Often the variable annuity contract will provide that once you have elected a particular benefit, you cannot later have that benefit removed. Therefore, before making any selection you should discuss the long-term consequences with your

H.D. Vest Advisor, including the long-term costs of such benefits.

Other charges, such as fees for transferring part of your account from one investment option to another, may also apply, and certain additional restrictions may be imposed upon your contract when you elect these features. You can find a description of the charges for any variable annuity that you are considering in its prospectus.

Index Annuity Fees and Charges

Surrender charges and annual contract charges may apply to an index annuity. For complete information on how the interest rate will be credited and on the fees and charges associated with an index annuity, please consult your H.D. Vest Advisor. Your H.D. Vest Advisor is paid a commission for selling an index annuity. The insurance company pays this commission out of its assets. See the discussion of fixed annuity fees and charges section above.

Types of Variable Annuity Contract Structures

Insurance companies offer many types of contract structures to meet various investor needs. The structures offered vary in many ways, including the surrender charge period and surrender charges. Insurance companies can offer variable annuity contracts with no surrender charge period (often called C-share annuities), surrender charge periods of three to four years (L-share annuities), and surrender charge periods of six to seven years (B-share annuities). Bonus credit annuities offer a bonus credit of 2% to 6%, based on the amount invested in the annuity, and can have even longer surrender charge periods of seven to 10 years. This is discussed more fully below.

Generally, annuities impose the surrender charge during the initial period that begins after the contract is purchased. However, some will begin a new surrender charge period with each subsequent payment. Once the surrender charge period ends, the contract is out of surrender and no further surrender charges will apply to withdrawals. However, gains on withdrawals are still subject to income tax; if taken prior to age 59 ½ , a 10% IRS penalty tax may apply.

M&E expenses are an ongoing cost, typically listed as an annual cost and applied daily to the contract. Generally, the M&E fees are represented differently across the share classes and have an inverse relationship to surrender charges. The cumulative effect on the M&E fees should be considered in conjuction with risk tolerance, investment objectives, age, and time horizon in determining the appropriate share class to purchase. H.D. Vest offers both B and C share classes, as well as several options to purchase a premium bonus or a shortened surrender charge.

B Share Annuities do not have an initial sales charge, but do have a surrender (commonly known as a contingent deferred sales charge (CDSC)) charge. You will pay this sales charge when you make a partial or full surrender from the annuity during the CDSC period. The product prospectus will specify the terms of the surrender schedule. A typical B share surrender charge ranges from 5% to 9% and decreases until it reaches zero. B share annuities generally offer the lowest ongoing cost as the M&E charges are lower than other share class options. B shares are generally the most appropriate choice for investors with no short-liquidity concerns and/or with a need for long-term optional riders. Some insurance carriers may offer the following optional features that may be purchased for an additional cost.

Premium Bonus – This feature offers a premium enhancement or purchase payment credit that provides the purchaser with an upfront return on their principal. The amount of the credit will vary by contract. In all cases, purchase payment credits are treated as earnings for distribution purposes and may be subject to income tax. The premium bonus will typically range from 3% to 6%, and will cost an additional 0.40% to 0.70%. This cost will go away after the CDSC period is completed. Example: You purchase a variable annuity contract that offers a bonus credit of 5% on the initial purchase payment. You make a purchase payment of $20,000. The insurance company issuing the contract adds a bonus credit of $1,000 to your account, raising the total initial amount of the contract to $21,000.

You need to carefully consider the net benefit that the bonus feature can offer you and whether or not the additional fee paid for the bonus outweighs the benefit that the bonus provides. The fees may equal or exceed the bonus received and the CDSC period may be extended. In some products, the bonus credit does not “vest” until after a period of time or “vests” in increasing percentages over a period of time. In other products, the bonus credit is credited immediately but may be recaptured if the contract is surrendered or a withdrawal is made during a specified period of time.

Shortened Surrender Charge – This feature provides the flexibility of a shorter declining CDSC schedule of generally four years. The cost for this additional feature will range from 0.35% to 0.50%. This cost will go away after the CDSC period is completed. Shortened surrender charge options may be appropriate for investors willing to pay higher annual costs for greater liquidity. When purchasing an optional long-term income rider, and a shortened surrender charge option, you should consider the long-term nature of the rider when deciding whether or not you want to pay an additional cost for a shorter CDSC period. Your H.D. Vest Advisor will receive lower compensation if you elect an optional shortened surrender charge feature.

C Share Annuities – This feature provides more liquidity for investors by allowing cash surrenders without the front-end or back-end surrender charges associated with other variable annuities. Because of this liquidity, C shares are best suited for investors willing to pay higher ongoing annual costs for greater liquidity. For investors with longer-term objectives or who purchase an optional long-term income rider, a share class with lower long-term costs may be more suitable. If your H.D. Vest Advisor elects a contract that provides more liquidity, he or she will generally receive a lower commission.

These annuity contract structures vary in features, the fees and expenses charged, and the compensation paid to your H.D. Vest Advisor. Please ask your Advisor to explain the contract structures available to make sure that any contract you purchase matches your investment time horizon and financial goals.

Variable Annuity Features

Variable annuities offer many features you may want to consider. They may be included as part of the contract, or they may be optional features or riders that you elect at the time of purchase. Each optional feature typically carries a charge. This approach gives you the ability to select and pay for only the features you need. Because very often you will not be able to change your initial selection later, you should carefully consider these optional features before making a selection.

Optional features that can be added to contracts include guaranteed minimum death benefits, a bonus credit, guaranteed minimum living benefits, guaranteed minimum accumulation benefits and guaranteed minimum withdrawal benefits. These features do not guarantee against day-to-day market fluctuations, and may be affected by subsequent additions or withdrawals during the accumulation phase of your annuity contract. However, they do provide additional features that may be valuable to you. These features may require limitations on the investment options you can choose.

There is no guarantee that this insurance feature, if purchased, will ever come into effect. Therefore, it is possible that you will receive no additional benefit for having incurred the additional expenses and contract restrictions associated with these riders. **It is important to note that the benefit base is not a cash or account value and so is not indicative of the market value of your contract at any given point in time during the accumulation phase.**

Guaranteed Minimum Death Benefit (GMDB)

Deferred annuity contracts usually provide for a death benefit if the owner and/or the annuitant dies while the contract is still in the accumulation phase. The payout structure of the death benefit varies by contract. The benefit can be payable as a lump sum or as annuity payments that generally must be paid in a specified period of time. If a spouse is the sole beneficiary, the spouse may have the additional option of continuing the contract tax-deferred.

Variable annuity contracts have traditionally offered a GMDB during the accumulation period. The GMDB is generally equal to the greater of (a) the contract value or (b) purchase payments less prior withdrawals. Many variable annuity contracts allow you, for an additional charge, to “step-up” or “ratchet” the death benefit up to the contract value on a specified date (e.g., annually or every five years). In addition, some contracts will raise the GMDB floor at a specified rate (e.g., 5% annually) for an additional charge.

Guaranteed Minimum Income Benefit (GMIB)

A GMIB is typically offered as an optional feature or rider to a variable annuity contract for an additional charge, generally ranging from 0.30% to 0.75% of the contract's account value per year. Contracts with GMIBs have a waiting period, typically seven to 10 years, before the benefit can be exercised. Age limits may also apply. For some contracts, if the benefit is exercised, only fixed annuity payments are available; others offer variable annuity payments as well.

The GMIB 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 purchase payments credited with some interest rate (usually between 3% and 7%) or the maximum anniversary value of the account prior to annuitization. The benefit guarantees that under the stated conditions, the contract owner will receive a minimum cash flow beginning at a future date as described above. However, there is no guarantee that this insurance feature, if purchased, will ever come into effect.

Guaranteed Minimum Withdrawal Benefit (GMWB)

A GMWB guarantees that you will receive a minimum withdrawal amount from your contract each year. This minimum amount may guarantee the return of your initial investment through systemic withdrawals over time and/or for your life. The amount of withdrawal that can be taken each year is typically between 4% and 7%. These withdrawals may be taken immediately or deferred until a later time. This feature often includes a step-up provision during a deferral period that is based on an annual interest rate (usually between 5% and 7%) and/or the contract value at specified periods (i.e., annually or quarterly). Once withdrawals begin, the step-up provisions may change. Many GMWBs offer a joint option that allows the guarantee to be based on the life of both spouses. This feature does not require you to make withdrawals from your contract, and the withdrawals may be started and stopped at any time. It is important to note that a withdrawal exceeding the guaranteed annual amount may have a detrimental effect on the benefit base. The cost for this feature typically ranges from 0.40% to 1.25%.

Guaranteed Minimum Accumulation Benefit (GMAB)

A GMAB guarantees that after a specified period of time you will receive a minimum contract value. This minimum amount may be the amount of the initial premium or the initial premium with a growth or step-up component. This growth component may be based on the performance of the underlying investments or on a set percentage of the initial premium. The specified time period for these benefits ranges from five to 10 years. At the end of the specified period, if your contract value is less than a guaranteed amount, the insurance carrier will add the difference into your contract. The cost for this feature typically ranges from 0.50% to 0.90%.

Some variable annuities may offer other optional features. Please review their costs and benefits with your H.D. Vest Advisor.

Free Look Provision

You have the right to cancel your annuity contract within the free look provision period (usually 10 days following delivery of your annuity contract or whatever period is required by your state). If you exercise this provision, you will receive a refund in accordance with the terms of the contract and your state's regulations. In some instances, if the market value of the contract has declined during the free look period, you may not receive your entire initial purchase payment.

Loans and Withdrawals

Loans and withdrawals have a negative impact on cash values and may also diminish any death benefit, guaranteed minimum living benefit, value of riders, or other features of your contract. Some contracts may also require a minimum value to keep an existing contract in force and you, the owner of the contract, have the responsibility to maintain such minimums to preserve the features of the contract.

Loans are generally not available from an annuity contract, except in certain qualified plans. If the annuity is part of a qualified plan, the loan must be repaid prior to the employee's termination from the employer or the amount will be considered a withdrawal, and will be subject to the penalty and taxes previously discussed. Please refer to your annuity contract for a complete description of these options.

Annuity Tax Issues

Although annuities generally allow your investment to be held on a tax-deferred basis, you should be aware of certain tax issues before you purchase an annuity. For example:

- Gains or earnings on withdrawals from annuities, including partial withdrawals and surrenders, may be taxable. Generally, a withdrawal or distribution from an annuity consists of both an earnings component (taxable) and a principal component (non-taxable return of investment). If you take a taxable withdrawal before age 59½, you may have to pay a 10% penalty to the IRS on the amount of the gain in your contract, in addition to your normal income taxes.
- Taxable distributions from an annuity are generally taxed at the contract owner's ordinary income-tax rate and do not get the benefit of lower tax rates received by certain capital gains and dividends under current tax laws.
- If an annuity contract is owned by a non-natural entity (such as a corporation, partnership or LLC), the contract is generally not eligible for tax-deferral.
- IRS Revenue ruling 2008-24 applies to situations where an annuity holder uses a portion of the cash value of an existing annuity contract to purchase another annuity commonly called a partial exchange. Withdrawals made from either contract within 12 months following the exchange will invalidate the tax-free nature of the exchange, unless you meet certain exceptions allowed by the ruling.
- The death of a contract owner (and, in some cases, the death of an annuitant) may result in taxable distributions that must be made from the contract within a specified period of time.
- Upon the death of the owner/annuitant of a contract, gains may be taxable to the beneficiary; the annuity assets may be included in the owner's estate; there is no step-up in the tax basis; and annuity assets will bypass probate, unless the contract owner's estate is the named beneficiary or no beneficiary is named. You should review your beneficiary designations periodically. Designations can be changed during the term of the annuity. Upon death of the owner or annuitant, the insurance company should be notified immediately and settlement options reviewed.

- The tax-deferral benefit offered by annuities provides no additional tax benefit if they are held in tax-qualified accounts such as an IRA, 403(b) or 401(k). Special rules governing annuities issued in connection with a tax-qualified retirement plan restrict the amount that can be contributed to the contract during any year, the time when amounts can be paid from the contract, and the amount of any death benefit that may be allowed. In addition, the rules provide for different results when distributions, including death benefits, are made from these types of annuity contracts.
- Certain state and local governments impose premium taxes. These taxes currently range from 0% to 5%, depending upon jurisdiction. The insurance company is responsible for paying these taxes and will determine the method used to recover premium tax expenses incurred. The insurance company may deduct any applicable premium taxes from the contract value, either upon death, surrender or annuitization, or at the time purchase payments are made, but no earlier than when the insurance company has a tax liability under state law.

If you have purchased your annuity as an investment plan for an IRA account, the IRA custodian will be responsible for any tax reporting with respect to the annuity. Since distributions from an IRA must be reported, distributions will be paid and reported from the custodial account, which may include other assets in addition to your annuity contract. Therefore, if you wish to take a distribution from your annuity, you should first contact your H.D. Vest Advisor, not the insurance company.

Please consult your tax advisor and consider all the tax consequences before purchasing an annuity.

Tax-Free Exchange of Annuities

Section 1035 of the Internal Revenue Code allows you to exchange an existing annuity contract for a new one without paying any taxes on the income and investment gains in the original variable annuity account. The "1035 exchange" can be useful if another annuity has features that you prefer, such as a larger death benefit, different annuity payout options, or a wider choice of investments.

However, you may be required to pay surrender charges on your original annuity if you are still in the surrender charge period. In addition, a new surrender charge period generally begins when you exchange into the new annuity. This means that, for a significant period (as much as 10 years), you typically will be subject to a surrender charge (which can be as high as 9% of your withdrawals) if you withdraw funds from the new annuity. If your original contract has decreased in value below its death benefit, you will be giving up the difference by surrendering the contract. Further, the new annuity may have higher annual fees and charges than your existing annuity, which can reduce your returns.

What Should I Consider Before Investing in an Annuity?

Annuities are long-term investments designed to meet retirement and other long-range goals. Annuities are not suitable for pursuing short-term investment goals, because substantial taxes and charges from the insurance company may apply if you withdraw your money early. Variable annuities also involve investment risks.

Before investing in any annuity contract, you should learn about the specific annuity you are considering. Variable annuities are sold by prospectus. Request a prospectus or any other available material from the insurance company or from your H.D. Vest Advisor, and read it carefully before you invest. The prospectus contains important information about the annuity contract — including risks, fees and charges, investment options, death benefits, annuity payout options, and other important information. You should compare the benefits and costs of the annuity to other annuities and to other types of investments, such as mutual funds and life insurance, which could be more appropriate for your situation.

Before you decide to purchase an annuity, consider the following questions:

- Are you taking advantage of all your other tax-deferred opportunities, like 401(k)s and IRAs?
- Will you use the annuity primarily to save for retirement or a similar long-term goal?
- Are you investing in the annuity through a retirement plan or IRA (which would mean that you are not receiving any additional tax-deferral benefit from the variable annuity)? Are there features and benefits in the annuity contract, other than tax-deferral, that make an annuity purchase appropriate?
- Are you willing to take the risk that your account value may decrease if the underlying investment options in a variable annuity perform poorly?
- Do you understand the features of the variable annuity?
- If you are considering a fixed annuity, do you understand how interest will be credited to the annuity contract?

- Do you understand all of the fees and expenses that the annuity charges?
- Do you intend to keep your money in the annuity long enough to avoid paying any surrender charges if you have to withdraw money?
- If a variable annuity offers a bonus credit, will the bonus outweigh any higher fees and charges that the product may carry?
- Are there features of the annuity that you could purchase separately at a lower cost?
- Have you consulted with a tax Advisor and considered all the tax consequences of purchasing an annuity, including the effect of annuity payments on your tax status in retirement or death-benefit payments to your beneficiaries?
- If you are exchanging one annuity for another, do the benefits of the exchange outweigh the costs — such as any surrender charges you will have to pay if you withdraw your money before the end of the surrender period for the new annuity?

Insurance Company Ratings and What They Mean

The insurance company guarantees many features in the annuity, including rates of return for fixed accounts and the features previously discussed, like the GMDB, GMIB or GMWB. Therefore, the financial strength of the issuing insurance company is very important.

Several independent, nationally recognized rating agencies regularly review the financial records of insurance companies to assess their strength and claims-paying ability. The stronger and more secure the insurance company, the more likely it is that the insurance company will be able to pay the benefits offered. However, even a strong rating does not ensure that the insurance company will be able to meet all of its obligations under the annuity contracts. For information about insurance company ratings, ask your H.D. Vest Advisor to provide the ratings, or contact the following rating agencies: A.M. Best Company (ambest.com), Duff & Phelps Credit Rating Company (dufflIc.com), Standard & Poor's Corporation (standardandpoors.com) and Moody's Investor Service (moodys.com). These ratings do not relate to the past performance or potential performance of the annuity's subaccounts.

How Compensation is Paid to H.D. Vest and Your Advisor

For helping you choose an annuity, H.D. Vest and your Advisor are paid in ways that vary based on the type of annuity, the issuing insurance company and the amount invested.

- As mentioned above, H.D. Vest is paid by the insurance company if we sell you an annuity. Under an agreement with the insurance company, H.D. Vest is paid based on the amount of the purchase payments. Your H.D. Vest Advisor's initial compensation is based on a compensation formula applied to the purchase payments. This type of compensation is typically referred to as a commission. Commissions typically range from 1% of purchase payments to 6% of purchase payments. For example, a $10,000 transaction in an annuity would pay a commission ranging from $100 to $600. A portion of this commission is credited to the Advisor.
- H.D. Vest also receives ongoing payments, known as residuals or trail commissions, on invested assets that are held in your variable annuity for more than one year. These ongoing payments are set by the insurance company, and H.D. Vest generally pays a portion of the trail commissions to H.D. Vest Advisors. Trail commissions generally range from 0% to 1% per year on invested assets. Invested assets of $10,000 would equate to a maximum trail of $100 per year assuming there is no growth in the annuity value. In general, the greater the commission paid, the lower the trail; and the lower the commission, the greater the trail.
- Commissions and trails paid to H.D. Vest vary by share class and may vary by insurance carrier. Within each variable annuity there are usually multiple commission options an Advisor can select, which may influence the features offered to you. In addition, when an Advisor selects a shortened surrender charge option or premium bonus, they may not have all the same commission options available on a standard B share, and the upfront commission may be reduced and/or deferred. For example, your H.D. Vest Advisor may elect to receive a higher upfront commission without using a shortened surrender charge feature versus a lower upfront commission and higher deferred commission, with the shortened surrender

charge feature. The annual fees and charges on the contract are not affected by the commission option selected by your Advisor. However, the annual fees and charges on the contract will vary depending on the share class selected and the options chosen.

- The compensation formula to determine the amount of payment from H.D. Vest to your H.D. Vest Advisor is the same for all annuities. Some insurance companies pay H.D. Vest higher compensation for sales of their annuities than other companies.

Feel free to ask your Advisor how he or she will be compensated for any annuity transaction.

H.D. Vest's Relationships with Insurance Companies

The annuity prospectus contains detailed disclosures about sales charges and ongoing fees. You should review this information carefully before investing, and ask your Advisor any questions you have about how H.D. Vest is compensated in connection with your investment.

H.D. Vest has reviewed numerous insurance companies' products, and has made them available for Advisors to offer their clients. Within this universe, a select group of companies has agreed to provide payments to help H.D. Vest with the educational, training, record-keeping, and other costs associated with bringing these products to H.D. Vest customers. These payments are calculated as a percentage of sales and/or assets. The amount paid from insurance companies can range from 0.05% to 0.35% on sales, and 0.05% to 0.15% on assets under management each year. For example, for every $10,000 in annuity value, H.D. Vest might receive up to $35 at the time of initial purchase, and up to $15 annually if these assets stay invested. H.D. Vest may also receive additional lump sum payments, which could be significant in amount.

In exchange for sharing costs, the insurance companies receive enhanced access to H.D. Vest's sales force, and may interact with H.D. Vest Advisors during training events, conference calls, and meetings. They also receive heightened visibility through the distribution of sales literature and newsletters, and by means of links, information, and lists posted on H.D. Vest's intranet pages.

All of these above-referenced payments are in addition to the sales charges and ongoing payments disclosed in the fee tables found in the product prospectus. Over the course of managing your relationship, your Advisor may recommend products from these insurance companies. Advisors do not, however, receive any portion of, or any additional compensation as a result of, these payments or compensation arrangements between H.D. Vest and the product sponsors. Advisors may, however, separately receive reimbursement for marketing expenses, client functions, and attendance at due diligence, training, and education meetings sponsored by H.D. Vest or the product sponsors. If you have any questions about these practices, please contact your H.D. Vest Advisor.

The following insurance companies (or their affiliates) paid H.D. Vest for training and support, account administration or record-keeping services during the past year: The Hartford Insurance Group, Sun Life of Canada (US), Lincoln Benefit Life, Lincoln Financial Distributors, AIG/American General, John Hancock Distributors, MetLife Investors USA Insurance Company, MetLife Investors Insurance Company, The Hartford/PLANCO, Allianz Life, and Wells Fargo Funds.

For more complete information about variable annuity products or to obtain a variable annuity prospectus, please ask your H.D. Vest Advisor. Investors should consider the contract and the underlying portfolios' investment objectives, risks, and charges and expenses carefully before investing. This and other important information is contained in the prospectuses. You should read and consider the information in the prospectuses carefully before investing.

To learn more about annuities, ask your H.D. Vest Advisor, or visit the following websites:

National Association for Variable Annuities:
www.navanet.org

Financial Industry Regulatory Authority: www.finra.org

Securities and Exchange Commission: www.sec.gov

H.D. Vest Investment Services℠: www.hdvest.com

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