Annuities

An annuity is a series of payments that acts similarly to a savings plan to provide primary or supplementary retirement income. An insurance company pays annuity benefits while you are alive (except for fixed-period annuities).

You can convert some life insurance policies into annuities by taking the cash value of the insurance policy and buying the annuity contract that best suits your needs.

An annuity also has a tax advantage. For example, a deferred annuity accumulates tax-deferred interest until you withdraw the funds. DFS regulates life insurance agents and companies that sell annuities.

Kinds of Annuities

There are several ways to categorize annuities, and any one annuity may fit into several categories.

Immediate Annuities

With an immediate annuity, you pay a single premium and immediately start receiving payments at the end of each payment period, which is usually monthly or annually.

Deferred Annuities

With a deferred annuity, you pay one or more premiums over what is often called the accumulation period. The premiums you pay and the interest credited to the premiums goes into a fund called an accumulation fund. There may be a minimum guaranteed interest rate at which your money will accumulate during the accumulation period.

The annuity payments you will receive begin at a future point in time called the maturity date. You will receive payments during a time period called the payout period or annuitization phase. You do not pay income taxes on the interest earned during the accumulation period unless you draw on its cash value. These taxes are deferred until the payout period.

Fixed Annuities

A fixed annuity provides fixed-dollar income payments backed by the guarantees in the contract. You cannot lose your investment once your income payments begin. The amount of those payments will not change. With fixed annuities, the company bears the investment risk.

Equity Indexed Annuities

These are a form of annuity, either immediate or deferred, that earns interest or provides benefits that are linked to an external equity index, such as Standard and Poor's 500 Composite Stock Price Index. When you purchase an equity-indexed annuity, you own an insurance contract—not shares of any stock or index.

Variable Annuities

Variable annuity investments are securities, and fluctuate with economic conditions. The value of a variable annuity depends upon the value of the underlying investment portfolios associated with the annuity. You, the owner or annuitant, bear the investment risk for the value of the security. The value of the annuity will increase or decrease with the investment performance of the security. The annuity's value will decrease, however, with a poor investment performance.

In fact, you can lose your investment!

A product receives the classification of a variable annuity if the value during either the accumulation period or the payout period depends on the value of the security.

Some variable annuities provide a choice of either a variable payout or a fixed payout.

DFS and the U.S. Securities and Exchange Commission regulate the issuers of variable annuities. Licensed life insurance agents who sell variable annuities must also be registered with the Florida Office of Financial Regulation and a self-regulatory organization, such as the New York Stock Exchange (NYSE) or National Association of Securities Dealers (NASD).

With a tax-sheltered fixed or variable annuity, you defer income taxes on the interest earned until the payout period. You may also defer taxes on the income used to make premium payments until the funds are withdrawn. There may be a limit on the amount of income you can defer, depending on the tax-sheltered plan selected. These contracts, also known as qualified or "tax qualified," must meet the conditions outlined by the Internal Revenue Service. A nonqualified annuity is a product with premiums paid from after-tax dollars. For more information, call the Consumer Helpline toll-free at 1-877-MY-FL-CFO (1-877-693-5236).

Common Annuity Product Provisions

You should carefully compare the following features, depending on the type of annuity you are considering.

Accumulation period: Time between the purchase of the annuity contract and the payout period when annuity premiums are paid—be sure that the contract will allow the annuity payouts to begin when you will need them.

Administrative/maintenance fees: Deductions taken from premiums or the accumulation fund.

Agent commissions: Level of commission earned by agents who sell the annuity - this level is usually a percentage of the annuity premium. In general, a higher commission results in less money to provide your benefits, and a lower commission results in greater benefits, such as a higher credited interest rate or lower surrender charges.

Annuitization phase: Period of time when you receive payments, defined by the annuity contract.

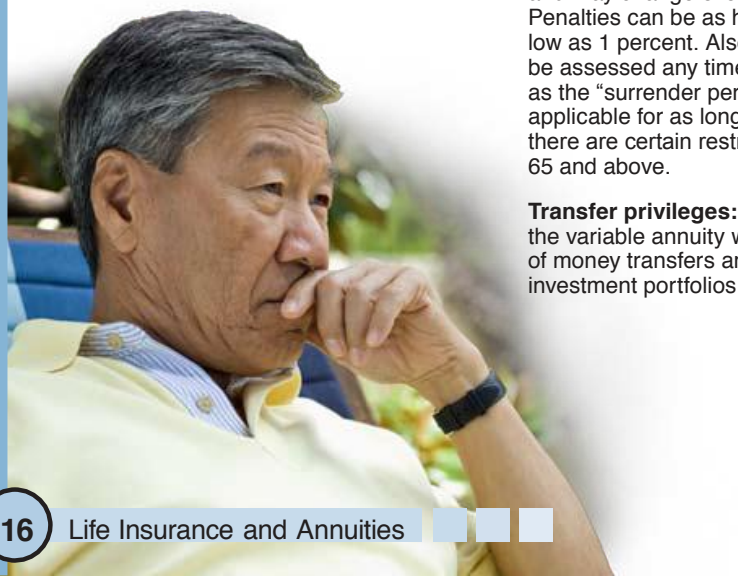
Bailout provision: Provision offered by some companies that allows you to withdraw all your money without penalty if the interest rate drops below a specified rate.

Contractually guaranteed bonuses: Bonus interest credit offered by some annuities. Make sure you understand the conditions necessary to earn the credits.

Expense charges, fees and loading: Administrative fees the company deducts from your premiums or the accumulation fund.

Free withdrawal provisions: Allowance provided by deferred annuity contracts to withdraw a limited amount of funds on an annual basis without a surrender penalty - the IRS Code may charge a penalty for those younger than 59 ½ who make such withdrawals. Decisions to make an early withdrawal may include early retirement or a financial need.

Guaranteed minimum interest rate: Lowest interest rate a company may credit to a fixed annuity accumulation fund, as stated in the contract.



Initial credited interest rate: Interest rate credited on the premium when first issuing the policy - the company may guarantee this rate for an initial guarantee period of one or more years. Otherwise, the rate is not guaranteed, which means it may change at the company's discretion.

Interest rate credited on renewal: Interest rate credited on the premium dollars paid into a policy after the first year - companies may advertise a high initial interest rate, but after the first anniversary credit a much lower interest rate. Ask your agent how the renewal interest rate compares with the initial interest rate.

Issue age range: Age range during which the company will issue a policy to a consumer.

Market value adjustment (MVA): A feature of some annuity contracts in which the value could be affected by changing interest rates on other investments.

Minimum premium required: Minimum premium level required by some annuities for initial and subsequent premiums.

Monthly income per $1,000: Rates for annuity payout plans in terms of a monthly income per $1,000 applied - the company multiplies the value of the accumulation fund by this rate to determine the monthly payments that you will receive during the annuitization phase or payout period.

Surrender charge schedule: Penalty imposed by most annuity contracts for withdrawals or surrenders made during the early years of the policy - the amount of these charges varies widely among insurance companies and may change over the life of the contract. Penalties can be as high as 25 percent or as low as 1 percent. Also, these penalties may be assessed any time during what is known as the "surrender period," which can be applicable for as long as 20 years. However, there are certain restrictions for senior's age 65 and above.

Transfer privileges: Generally, the issuer of the variable annuity will permit a limited number of money transfers among the underlying investment portfolios free of charge.

Tax-qualified annuity: Contract that allows you to defer income taxes on the interest earned in an annuity—it also allows you to deduct your premium payments from your taxable income when filing your tax return with the IRS.

Waiver of surrender charges if confined to a nursing home: Rider or policy provision allowing you to withdraw your money without penalty if you become disabled and confined to a hospital, nursing home or extended care facility for a specified period—policies usually require that you purchase them before you reach a certain age to be able to use this option. Ask your agent and check your contract for restrictions.

Note: Many companies will now allow the date that you may begin to receive payments to be changed. For more information please ask your agent or refer to your contract.

Benefit Payment Plans

Payments for annuities come in four basic plans: life income, fixed period, fixed amount, and joint and last survivor. These appear in deferred annuities, as well as some life insurance contracts, usually as options for payments of the death benefit proceeds.

Life Income

This payout plan includes three basic variations:

Life Only:

- Payments are made only until your death.
- Pays the most income for each dollar of premium paid into the fund.
- Payments stop when the annuitant dies. If you die before payment of all the funds, the company keeps the excess.

Certain and Life:

- Payments are made during a predetermined time frame, called the period certain
- If you die before this period expires, your beneficiary receives payments until the end of the period.
- If you live beyond this time frame, payments will continue until your death.

Installment Refund:

- You, the annuitant, receive a lesser payment amount than you'd receive with the "life only" variation.
- The beneficiary receives the balance of the unpaid account value, if any, upon your death.

Fixed Period

With this plan, the company guarantees payments for the number of years allowed by your contract and selected by you. This number is called the years certain and is frequently 10 or 20 years. If you die before the specified number of years, the company pays the remainder of the contract to your beneficiary or estate.

Fixed Amount

With this plan, you receive payments in the amount you choose until the funds are exhausted. If you die before the payment of all funds, the company pays the remaining proceeds to your beneficiary or estate in a lump sum.

Joint and Last Survivor

This plan makes payments as long as the two people named in the policy are alive. When one dies, the amount of the payments may diminish according to the terms of the contract.

Group Versus Individual Annuities

Insurance companies are marketing an increasing number of annuities on a group basis. Group annuities typically benefit from economies of scale, which means the insurer passes on cost savings for marketing and administering the product to the consumer.

Group annuities fund many tax-sheltered retirement programs. These programs, whether sponsored by employers, unions or other groups, often draw a multistate membership. Differences in state laws, however, sometimes create difficulties for groups providing benefits for members from different states under a single contract.

Many states, including Florida, enacted laws to eliminate conflicts that might prevent a group from providing benefits to its members. These laws allow out-of-state contracts in which groups may issue contracts in one state and send coverage certificates to members in other states.

The terms of such annuities are subject to the laws of the jurisdiction where the master contract is issued, not Florida law. The annuities are then marketed to individuals in Florida. To be permitted to issue individual annuity certificates through such a group, the insurer is required by law to provide proof to DFS that some savings can be expected. But the amount saved may or may not offset the loss of the protections of Florida law. Be very careful when you are offered an annuity as part of an out-of-state group.

Consumers with questions about group annuities should contact their insurance agent or company or call the Consumer Helpline toll-free at 1-877-MY-FL-CFO (1-877-693-5236).

Other Types of Annuities

Market Value Adjustment Annuities

These annuities contain a provision that changes the amount of money you can withdraw from the policy by a formula in the contract. This formula reflects changes in the investment environment.

No Cash Value Annuities

These annuities do not provide any cash surrender values until the maturity date. You should not consider this type of annuity unless you feel certain you will not need your money in a lump sum but as monthly income beginning at the maturity date.

What to Consider Before Buying an Annuity

Annuity products primarily offer a source of income, either now or at a set future date, such as your retirement. If this is not what you are seeking, then you should consider other types of investments. An annuity involves

a long-term commitment. Other more appropriate investments exist for those seeking short-term opportunities (i.e., less than a decade). You might wish to consult a trusted financial adviser who has no vested interest in your investment choice.

Many annuity marketing programs encourage you to move funds from maturing certificates of deposit into annuities. These are not comparable investment instruments because they have different purposes and time frames. Be sure you invest your money in a way that best suits your needs.

Contact DFS to check on the license and complaint history of an investment professional you are considering working with. Call the toll-free Consumer Helpline at 1-877-MY-FL-CFO (1-877-693-5236).

There is a wide range of annuity products currently available. One agent may not have access to all possible contracts, but you can talk to as many agents as you choose. You should also shop around before investing your money.

Florida law requires insurance companies and agents offering annuity products to clearly document the basis for selling the product, including consideration of a purchaser's financial and tax status, as well as investment objectives. You should consider all of the consequences if you currently have funds in an annuity and the opportunity arises to move the funds into a new annuity with a new surrender charge schedule. Also, the guaranteed minimum interest rate in the new contract may be lower. Be sure you consider both the advantages and disadvantages of the replacement.

You should review the complete plan, considering such factors as the guaranteed interest rate, the surrender charges, and the administrative and maintenance fees. A high interest rate during the first year is not always the better choice. This is especially true if the interest rates drop to a low minimum rate the next year with high surrender charges and additional fees. Ask your agent for the company's history on crediting its interest rates and check to see how credited interest rates vary between new issues and renewal years. Ask for the required disclosure material used with the plan that interests you.

The advertising material should reflect the actual payouts of the contract. Insurance companies can provide you a computer-generated illustration providing a customized projection for the contract under consideration. Be sure that you receive all pages of the illustration and that you read and understand all the features.

Also, be sure you understand which values the contract guarantees and which values are not guaranteed, but are merely projections or estimates. Ask the agent or broker about the type of investments offered by the company and whether these are secure. The company may also address this in its advertisements.

Your Rights and Responsibilities

Your Rights

You have the right to receive a policy summary that includes a "Cost Index" and a "Buyer's Guide to Life Insurance" from a company or agent. Both publications fully explain the use of cost and payment indexes. This does not apply to variable life insurance policies.

You have the right to receive either a policy summary or a "free look" period (at least 14 days for life insurance and 21 days for annuities) to decide whether to keep a policy or contract. You may still receive a full refund if you have paid a premium and decide to return the policy during this period. You should return the policy to the company by certified mail (return receipt requested) within the specified period.

You have the right to a 30-day grace period during which you may pay overdue premiums. Your policy remains in force during this grace period. This provision applies to life insurance only.

You have the right to receive a prospectus when considering a variable life or annuity contract. Upon request, an agent or company must provide you with a prospectus that contains extensive information about the investments backing the variable life or annuity contract you are considering.

Your Responsibilities

You are responsible for evaluating your needs and making sure the insurance company and policy contract you choose can fit those needs. You are responsible for shopping around and comparing costs and services.

You are responsible for reviewing and understanding the surrender charges that may be imposed if the policy is surrendered.

You are responsible for finding out the licensure status of an insurance or securities agent and company. To verify a license, call the Consumer Helpline toll-free at 1-877-MY-FL-CFO (1-877-693-5236).

You are responsible for reading your policy or contract and making sure you understand what it covers.

You are responsible for keeping your insurance and annuity policies and records in a safe place. Keep copies in a safe deposit box or with a friend or attorney.

You are responsible for telling your beneficiaries about the contracts you own and where the policies are located.

You are responsible for reviewing your coverage periodically to be sure it meets your needs.

You are responsible for filling out your application truthfully and disclosing all pertinent information. An incorrect answer on an application could result in a claim being denied.

Insurance Discrimination Against Victims of Abuse

Florida law prevents insurance companies from discriminating against victims of domestic violence or abuse. If you are denied insurance, if your rates are raised, or if the insurer refuses to pay a claim, demand in writing that the insurer explain in writing why it took this action. If you believe you have been discriminated against, call the Florida Domestic Violence Hotline at 1-800-500-1119 or the Battered Women's Justice Project at 1-800-903-0111. You can also file a complaint through the Department of Financial Services Consumer Helpline toll-free at 1-877-MY-FL-CFO (1-877-693-5236), or go to the Department's Web site at www.MyFloridaCFO.com.

Protecting Your Privacy

Your Insurers and Financial Institutions

Under federal law, some banks and insurance companies may have the right to share sensitive and personal information about you with other entities and business interests - without your permission. As the policyholder, you must take the lead in protecting your personal information.

Many companies will send you a privacy notice that will give you the opportunity to tell them that you want your personal information kept confidential. Unless you complete and return these forms, your personal financial and medical information may be shared with other companies. You may have to complete these forms on an annual basis.

When you receive a privacy notice form, read it carefully before signing it to avoid unintentionally giving the company permission to share information about you. If you have questions or concerns about these forms, call the Consumer Helpline toll-free at 1-877-MY-FL-CFO (1-877-693-5236).

Medical Privacy and the Medical Information Bureau

The Medical Information Bureau (MIB) is a data bank of medical and nonmedical information on nearly 15 million Americans, collected from the MIB's 800 insurance company members.

The companies send the MIB information you have written on applications, enrollment forms, and requests for upgrading coverage for health, life or disability insurance. The MIB also records information from medical exams, blood and lab tests, and hospital reports, when such information is legally obtainable.

If you have been denied life or disability insurance and wonder why, your file at the MIB may be the answer. You have the right to make sure the information in your MIB file is correct. Call the MIB at (866) 692-6901 and ask for a copy of your records, or access its Web site at www.mib.com.

Insurance Fraud Costs Us All!

Insurance fraud costs each Florida family an additional $1,500 per year* in increased premiums. In fact, it can inflate your premiums by as much as 30 percent, according to the National Insurance Crime Bureau. This includes the money you pay for life, auto, health, homeowners and other types of insurance. You can protect your personal and family pocketbook by learning about the many different types of fraud schemes and scams.

Some common examples include:

Failure to forward premiums — An insurance agent convinces a consumer to pay each premium by a check written directly to the agent or in cash. The agent then pockets these payments, leaving the consumer without coverage.

Rogue agent commits churning — An agent tricks an unknowing consumer into draining the cash value of one policy to buy a new policy with the same insurer.

Applicant fraud — An applicant deliberately provides false information to a life insurance company in hopes of obtaining a lower premium or to prevent the applicant's rejection.

Understatement of risk or "cleansheeting" — An agent omits pertinent health information from a consumer's application to make a sale that might not otherwise meet the insurance company's risk-management requirements.

Deceptive claims — A financially strapped consumer files false claims on credit disability and health insurance policies after staging an accident and exaggerating a pre-existing injury.

If you suspect insurance fraud, call the Department of Financial Services' toll-free Fraud Hotline at 1-800-378-0445.

**Source: The Coalition Against Insurance Fraud*

Glossary

Accelerated Death Benefit

Allows the owner to receive a percentage of the face amount of a policy if the insured is diagnosed as "terminally ill" or confined to a nursing home and wants to use proceeds of the policy for immediate needs. (Terminally ill usually means that a person is expected to live for a short period of time. Individual policies will have their own definition of "terminally ill.")

Accidental Death Benefit

Also known as a "double indemnity," this policy provision pays an additional amount should the insured's death occur by accident. In some circumstances, policies will pay up to three times the face amount should death occur by a specific type of travel accident, such as a plane crash. Some pay a partial benefit for dismemberment, i.e., loss of an eye or limb.

Amendment

An attachment that modifies certain policy benefits.

Annuitant

The person who receives the annuity payments during his or her lifetime.

Automatic Premium Loan

An optional provision that allows for the automatic payment of unpaid premiums by a policy loan. You may only obtain such a loan if your life insurance policy has sufficient cash value. This feature acts as a safeguard if you forget or cannot make a particular payment.

Beneficiary

The person or entity who receives the insurance money when the insured dies.

Benefit

The payment made by the insurance company in accordance with your policy.

Cash Value (or Cash Surrender Value)

The money available to borrow as a life insurance policy loan or withdraw upon surrender of the policy before maturity.

Churning

A fraudulent practice in which insurance agents mislead consumers into giving up the cash value of, or taking loans against, current life policies to buy new coverage with the same company. These schemes usually include the misrepresentation or omission of pertinent information about the consumer's existing policy and how it will be affected by the use of its value to fund the new policy.

Cost Index

A system for comparing the costs of similar life insurance plans. A policy with a smaller index number is usually a better buy than a comparable policy with a larger index number.

Disappearing (or Vanishing) Premiums

A provision that enables the policyholder to use excess cash deposits to allow for the discontinuance or disappearance of premium payments at some future date. It offers no guarantees, however, as to when you will have enough excess deposits to allow for this occurrence. The rate of return on the policy affects its ability to pay for itself.

Dividend

Money paid annually to a policyholder as a partial return on the paid premium. Many times, you may use the dividends to increase cash values and death benefits.

Endorsement

An addition to a policy that modifies its benefits.

Evidence of Insurability

A signed health questionnaire or a physical examination, depending on a company's requirement.

Excess Interest

Interest credited beyond the contractual guarantee. Please note that this can change at the company's discretion.

Extended Term Insurance

A nonforfeiture option where the cash value is used to buy term insurance equal to the face amount of the original policy for as long a period of time as the cash value will provide (see "nonforfeiture options").

Face Amount (Face Value)

The dollar amount stated on the specification page of a policy and paid by the company upon policy maturity or death. It does not include dividends or additional amounts payable under special provisions, such as an accidental death.

Free Look

A 14-day or longer period that allows you to decide whether to keep a life insurance policy. Annuities require a 21-day free-look period. You can receive a full refund if you change your mind during this period. Be sure to return the policy by certified mail (return receipt requested) within the freelook period to obtain the refund.

Grace Period

A 30-day period in which you may pay an overdue premium while keeping your policy in force.

Guaranteed Insurability

An option that allows you to buy additional life insurance at specified times without evidence of insurability, such as a questionnaire or physical exam.

Lapsed Policy

A policy terminated for nonpayment of premium following the grace period.

Level Premium Insurance

A policy with a fixed payment plan over a specified period.

Loading

Administrative fees you pay when buying life insurance or an annuity.

Maturity

The period when the insurance contract becomes payable to the policyholder.

Mortality Charge

The cost of a life insurance risk based upon a mortality table used by the insurance company.

No-Lapse Guarantee

A feature of flexible premium (universal) life contracts that sets a minimum premium requirement for guaranteed death benefits.

Nonforfeiture Options

Policy values you may choose if there is still cash value after stopping payment of premiums. These include cash surrender value, reduced paid-up insurance (RPU) and extended term insurance (ETI).

Nonparticipating Insurance

Insurance on which you are paid no dividends.

Participating Insurance

Insurance that entitles the policyholder to share in the company's surplus earnings.

Policy Loan

The amount that you can borrow against a life insurance policy's cash value.

Premium

The amount of money, usually in installments, a policyholder pays for an insurance policy or annuity. Payment plans vary depending on the type of policy or annuity.

Premium Waiver Provision

A contract provision that takes effect if the named insured (or in some policies, the person paying the premiums) becomes disabled. The disabled party will not have to pay premiums for the duration of the disability, even for a lifelong one.

Prospectus

A statement about a security (such as most variable insurance plans) disclosing extensive information about a company's investments and investment strategies.

Reduced Paid-Up Insurance

A nonforfeiture option where the cash value is used to buy a reduced amount of insurance with no further premiums while still continuing coverage for the same length of time as the original policy. This is required in every cash value policy issued in Florida.

Reinstatement

The restoration of a lapsed policy to its original premium-paying status after you pay past-due premiums and interest.

Rider

An attachment to an insurance policy that adds benefits to the original contract for an additional cost.

Stock Life Insurance Company

A publicly traded company whose board of directors is elected by its stockholders. A stock company's policies may or may not pay dividends, depending on the terms of the contract.

Stock Mutual Life Insurance Company

A life insurance company owned by its policyholders, who elect a board of directors. Policyholders usually receive dividends from the company's surplus earnings.

Surrender

Turning in a policy to the company in exchange for its cash value.

Surrender Charge

A charge you pay if you cash in your policy. Certain annuities and life insurance policies are subject to surrender charges upon cash surrender.

Twisting

A fraudulent practice in which insurance agents mislead consumers into giving up the cash value of current life policies to buy new coverage with a different company. Like churning, these schemes usually involve the misrepresentation or omission of pertinent information about the consumer's existing policy.

Viatical Investor

The individual(s) who buys and agrees to a viatical purchase agreement contract.

Viatical Settlement Contract

A written agreement between a viatical settlement provider and a policyholder (viator) that establishes terms under which the provider will pay the policyholder in exchange for the cancellation rights of the policyholder.

Waiver of Surrender Charges

A policy provision allowing the annuitant or owner of an annuity to surrender the contract with no penalty or surrender charges if he or she becomes terminally ill, disabled and/or confined to a hospital, nursing home or extended care facility for a specified period.