ODI

Ohio Department of Insurance

ohio shopper's guide series

Annuity Contracts

This guide:

Explains annuity contracts and their purpose

Describes various contracts being sold today

Details your choices for paying premiums and receiving benefits

1-800-686-1526

www.ohioinsurance.gov

John R. Kasich – Governor

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Additional information can be found at the Ohio Department of Insurance Web site **www.ohioinsurance.gov**

Editor's Note: Words in **teal** are defined in the glossary on page 20.

Chapter 1:
Annuity Basics

Annuity

Basics

The Purpose of This Guide

The Ohio Shopper's Guide to **Annuity** Contracts can help you understand annuities. You will discover that the best reason for buying an annuity contract is to provide yourself with an income after you retire.

You will find there are many different types of annuity contracts and many options. You'll see that available options often work together and how your choices can help tailor a contract to meet your specific needs.

Think of this guide as a quick reference. Annuities are complex and cannot be fully discussed here. Books have been written in great detail on the subject.

If you have a question about a specific contract, ask your agent or the insurance company. If it's still not clear, call the Office of Consumer Services at the Ohio Department of Insurance. An insurance analyst will assist you.

Call the Department of Insurance toll-free: 1-800-686-1526.

Many Options Available

This guide is primarily about the choices you can make when buying an individual annuity. Employer group annuities offer certain tax advantages, but you may have fewer options because the contract is negotiated by your employer.

See page 15 for more about group annuities you may be able to purchase, depending on where you are employed.

You'll have many choices when buying an individual annuity. Your choices should depend on your goals for retirement income the contract will provide.

You may want a life income for yourself and your spouse. Or you might want to fill a gap in earnings between retirement and the start of a pension plan. There may be other reasons to buy, but annuities are most appropriate in providing a retirement income.

Choosing the right annuity is like building a house. You select your home's location, the number of bedrooms and bathrooms, and other choices that will suit you and your family. In the same way, you can build the annuity contract that is best for your needs.

When you are considering an annuity contract, your options could include

How you pay **premiums**
- Single
- Periodic

Type of contract
- Fixed or variable
- Individual or group

When benefit payments start
- Immediate
- Deferred

How long you receive benefits
- As long as you live
- Some other defined period

Tax status of premiums
- Money has been taxed as income
- Money has not been taxed

Depending on the kind of annuity you buy, some of your decisions can be delayed until after you buy the contract.

What is an Annuity?

An annuity is a series of income payments made to you at regular intervals in return for premiums you have paid. The most appropriate use of income payments from an annuity is for retirement.

Income payments are generated through a contract with a life insurance company. These payments are funded by principal (the premiums you pay) and earnings (which accumulate on the invested principal).

- An annuity has some advantages over other types of investment products.
- Earnings on accumulated funds are tax-deferred.
- The contract guarantees an income you can receive for life.
- You can often choose a lump sum payment instead of periodic payments.
- Your contract may allow you to borrow from the annuity.

Not Life Insurance

Annuity contracts are usually sold by life insurance companies, but annuities are not life insurance. They do not provide life insurance protection.

Life insurance provides benefits to your family if you die. An annuity helps you accumulate money for future income needs. Don't buy an annuity as a savings account or for any short-term purpose. The most appropriate use for income payments from an annuity contract is to fund your retirement.

What is an Annuity?

Annuity Words & Phrases

If you pay the premiums for an annuity, you are the **contractholder** or owner. A person who receives annuity income is known as the **annuitant**. The annuitant and contractholder are often the same person.

The period between the purchase of the contract and receipt of income is called the **accumulation phase**. You may be able to pay premiums in a lump sum or over a period of time.

Income payments are made to you during the annuity phase or **payout phase**. You choose how benefits are paid, according to the options in your contract. You may want regular payments for as long as you live or some other specified period of time.

Choosing regular income payments for life or some other defined period is called annuitization. If your contract provides it, you can select a lump sum payment instead. Once you decide how you want to receive benefit payments and the payments have started, you most likely will not be able to change your mind.

Choices When You Buy

Choices When You Buy

There are many ways to fund an annuity.

You purchase an annuity with premium payments. Your total benefit amount may depend on

- The amount of premiums paid,
- The length of the guaranteed benefit payment period,
- The earnings on your premiums, and
- The insurer's expenses.

You can pay premiums in one of three ways:

- With a single premium,
- With periodic level (equal) amounts, or
- With periodic flexible (unequal) amounts.

Single premium

You can buy either an immediate or a deferred annuity (see page 6) with a single premium payment.

Recent retirees who have a need for income might purchase a single-premium **immediate annuity** with money from a savings account, profit-sharing, the sale of a house, or an employer's retirement plan.

Ohio law says if you buy a single premium deferred annuity you must sign a disclosure form. This form helps protect you by explaining that your income payments won't start right away. The agent must give you the form when you buy and the completed form becomes part of your application.

You might choose a single-premium deferred annuity if you have the money to invest and you anticipate a need for regular income payments in the future.

An identical single premium should produce larger benefit payments for a deferred annuity than it would for an immediate annuity. That's because the premium on a deferred annuity earns interest for some time before benefits are paid out. An immediate annuity begins its payout phase right away and does not have the same chance to earn interest.

Periodic Level Premiums

If you choose to make fixed periodic level payments, you will pay equal amounts at regular intervals. Your premium payments continue until benefits begin or some other date specified in the contract.

Any periodic premium annuity is always deferred - the benefits begin at a future date. The contract can specify a guaranteed benefit amount you will receive when the payout phase begins.

Periodic Flexible Premiums

Payments for a periodic **flexible premium annuity** are made over time and the annuity is always deferred. This feature lets you vary the premium amount.

In fact, you might not be required to make a payment every year. The contract can specify a minimum and a maximum amount of premium.

If your income changes greatly from year to year, such a contract may be an option for you. Perhaps the annual premium amount you can guarantee paying is not enough to provide you with sufficient benefits. By paying more in high-income years, your total premium payments could fund an annuity that meets your needs.

The final guaranteed benefit amount for this contract cannot be determined in advance. Although you can contact the company to find out the approximate amount at any time during the accumulation phase.

Fixed vs. Variable Rates

Fixed Rate vs. Variable Annuities

At the time you buy an annuity contract, you'll select between fixed rate and variable. This determines how earnings are credited in your contract.

Fixed rate annuities increase in value by earning interest. Choosing a fixed rate contract guarantees you will receive a return on your premium.

- Older fixed rate annuities generally increase through a fixed guaranteed interest rate.
- Newer contracts may have a minimum fixed guaranteed rate, and could receive additional interest rate credits based on the company's earnings.
- Credited rates can be guaranteed for a specific period of time, such as one or more years.
- Generally, the longer a credited rate is guaranteed, the higher it will be.

In a **variable annuity** no interest rate is guaranteed.

- You share in the risk of investing.
- Your return can be higher than with a fixed rate annuity, but it can also be lower.

When You Start Receiving Benefits

At the time you purchase a contract you may be able to choose when benefit payments begin. You'll select between an immediate or **deferred** annuity.

Receiving Benefits

Immediate Annuities

Immediate annuity contracts require a single premium payment. Benefit payments normally must begin within one year after the annuity is purchased.

Let's say you've decided you want benefit payments from your immediate annuity every month. You can usually get your first payment one month after you pay the premium.

If you want annual payments, your benefits generally will start one year after you pay the single premium.

You might buy an immediate annuity just before retiring if you want to guarantee a stream of payments over your lifetime.

This type of annuity is simply a way to convert a sum of money into a steady flow of income over a period of time.

> Some contracts let you take a lump sum payment after the annuity matures. But a lump sum could total fewer dollars than annuitization, which is a series of income payments. Read your contract. Find out if a lower interest rate is credited for a lump sum payment than if you annuitize.

Deferred Annuities

When you choose to start the payout phase at some future date, you have a deferred annuity.

You might buy a deferred annuity during your working years to provide retirement income. You could schedule benefits to begin on the date you anticipate retiring.

You can usually alter the date when benefit payments begin. The contract will specify what you must do to make such a change, but any change in the date will likely also change each benefit payment amount.

Deferred fixed annuities specify that you will earn interest on funds held by the company during the deferral period.

The contract will usually guarantee a minimum interest rate, but the actual credited interest rate will vary and be declared by the company from time to time. Declared rates can never be lower than the guaranteed minimum rate specified in the contract.

How Long Benefit Payments Continue

When choosing an annuity, you select a length of time during which you are guaranteed of receiving benefits.

An annuity certain is a fixed term annuity that makes payments for a specified length of time no matter whether the annuitant lives or dies. A temporary life annuity pays benefits until the end of a specified period of time or the death of the annuitant, whichever happens first. A life annuity provides benefits at least until the annuitant's death. These basic types have many variations.

Annuity Certain

An annuity certain provides a fixed number of benefit payments of a fixed amount. The specified time over which benefits are paid is called the period certain.

Even if you are alive at the end of the period certain, the payments stop. If you should die before the period certain ends, your **beneficiary** would receive the rest of the annuity payments.

Such a contract can help if you have the need for an income that will last for a limited period of time only. An annuity certain can provide income until some other source of income - such as a pension - becomes available.

Generally, you should not consider an annuity certain as a sole source of retirement income.

Replacement is buying an annuity to take the place of one you already had. Ohio law requires you to sign a replacement form, which the agent must give you when you buy. If the new contract is with a different company, the agent must notify the old company. The old company has the right to try and persuade you not to switch. Once you've received the new contract, you'll have 20 days to decide if you want to keep it. These first 20 days make up what is known as the **free look** period.

Temporary Life Annuity

A temporary life annuity pays benefits until the end of a specified period of time or the annuitant's death, whichever happens first. When either of these events takes place, the benefits stop. No beneficiary is named with this type of contract.

As an example, if you were to buy a 10-year temporary life annuity, the contract would pay benefits for a maximum of 10 years only. If you were to die six years after the annuity payments begin, benefits would stop. People who buy an annuity of this kind often use the payments to fill an expected gap in income. For instance, you may need an income between the end of an earning period and the start of a pension.

A temporary life annuity pays for a limited period of time. Individual benefit payments are generally larger than with an annuity that has a longer payout period and is purchased for the same premium at the same age.

Life annuities

A life annuity contract guarantees benefits will be paid for at least as long as you live. Your life expectancy is considered when premium and benefit amounts are calculated. Usually, only life insurance companies can sell life annuities.

Insurers that issue annuities use annuitant **mortality tables** to determine rates. These are similar to life insurance mortality tables but show an important difference when compared to life insurance tables. In general, people who buy annuities are expected to live longer.

Types

of

Annuities

You can choose from many types of life annuity contracts.
- Straight life
- Life income with period certain
- Life income with refund
- Joint and survivor

Straight Life Annuity
With a straight life annuity, you receive benefit payments for as long as you live. This contract does not provide for a beneficiary; payments stop when you die. You are assured you cannot outlive benefit payments - the payments continue for as long as you live.

Since this contract pays nothing after the death of the annuitant, it requires a lower premium than other types of life annuities with the same benefit amount.

Of the life annuity options available, straight life can produce the largest benefit payment for your principal. That's because you could live longer than the mortality tables indicate. People who need a high retirement income and do not have any dependents may be most likely to purchase a straight life annuity.

Life Income Annuity With Period Certain
A life income annuity with period certain guarantees payments under two circumstances:
- First, annuity benefits are paid as long as you live, and
- Payments are made for at least a specified period of time (period certain), even if you die before the end of that time

You select the guaranteed period available under the contract (such as five or ten years) and you name a beneficiary.

If you die before the period certain ends, your beneficiary receives the annuity payments for the remainder of the period. If you are alive at the end of the period, payments continue for the rest of your life.

Due to the guaranteed period, the insurer must make at least a minimum number of payments with this contract. This means premiums are usually higher than for a straight life annuity with the same benefit amount and purchased at the same age.

Life Income With Refund Annuity
This contract pays benefits for life and guarantees benefits will at least equal the annuity's purchase price. It may be known simply as a **refund annuity**.

Benefit payments are made as long as you live. If you die before the total benefit paid equals the purchase price, your beneficiary receives a refund.

The amount of the refund is the difference between what has been paid in benefits and the contract's purchase price.

The beneficiary generally can receive the refund in either a lump sum or a series of payments.

A refund annuity guarantees a minimum benefit amount, so premiums are usually higher than for a straight life annuity with the same benefit amount and purchased at the same age.

Joint and Survivor Annuity

The joint and survivor annuity provides for payments to two or more people. Benefits continue until all of the annuitants have died.

Married couples are likely to purchase these contracts. After one spouse dies, benefit payments continue to the remaining spouse for the rest of his or her life.

Joint and survivor annuities can specify that benefit payment amounts stay the same throughout the payout phase. Contracts that decrease the amount after the death of the first annuitant are also available. Premiums will generally be less for a contract that decreases the benefit amount.

There is a better chance of a long payout phase when more than one life is covered. So joint and survivor annuities generally have higher premiums than comparable life income annuities issued to one person.

Using Pre-Tax Dollars vs. After-Tax Dollars

In general, tax rules depend on the type of annuity you have. Use good sense: consult your personal tax advisor for your specific situation.

Individual Annuities

Earnings are subject to taxes anytime you receive money from an annuity (except with a Roth IRA: see page 13).

As long as you do not remove money during the accumulation phase, earnings credited to your annuity are tax-deferred. Taxes will apply, however, if you take a loan, a partial withdrawal, or surrender the contract.

Money you receive during the accumulation phase is regarded as fully taxable, until all the interest you have earned to that point is considered withdrawn.

You then begin to receive what is regarded as return of principal, which may or may not be taxable. During the payout phase, benefit payments are considered part principal and part earnings.

With life annuities, your life expectancy is calculated to determine the portion of earnings in each payment. You pay taxes on this percentage of the benefit only.

If you outlive that life expectancy, the principal portion of all your benefit payments will equal the premiums you paid. Every payment you receive after that is considered 100% earnings and is fully taxable.

Employer Group Annuities

If you paid premiums with pre-tax payroll deductions, you will pay taxes on money you receive from the annuity at any time.

Earnings and principal both will be taxed whenever you receive money.

Your contract may not allow distributions during the accumulation phase. If your contract does allow withdrawals or loans, however, all the money you receive could be taxable.

Once the payout phase begins, all the money in each benefit payment is fully taxable.

Common

Provisions

Common Provisions

Different annuity options meet the needs of different people. Other than the provisions described on the previous pages, annuities have additional positive and negative features you should consider. The provisions described here are all common but every one is not available in every contract. Also note the descriptions here are examples only; any features included in your contract will be defined in the contract.

Administrative Fees

Every insurer that sells annuities charges fees which are connected to the contract. These fees cover the company's costs of administering the annuity.

Withdrawal Privilege

Many deferred annuities offer limited **withdrawal privileges** during the accumulation phase.

This feature generally allows the owner - after the first year - to take out a small percentage (such as 10%) of the annuity fund each year without penalty. In other words, you would not pay a **surrender charge**. If you withdraw a larger percentage than the contract allows, however, you will pay surrender charges.

Although the insurance company will not charge you for limited withdrawals as specified in the contract, you may be required to pay tax penalties on at least a portion of the money. Review Using pre-tax vs. after-tax dollars on page 9.

Surrender Charge

Most deferred annuities carry a surrender charge. A typical contract could have a surrender charge in effect over the first 10 years, but decreasing in amount each year. Read your contract - it will explain how the surrender charge applies to your annuity.

A deferred annuity is a long-term investment. The surrender charge encourages growth of your fund. It also allows the insurer to cover the expense of selling and issuing you the contract. The charge is usually a percentage of either the fund's accumulated value or the total premiums you paid.

Surrender charges are generally waived under certain circumstances:
- The death of the annuitant,
- Disability of the annuitant, or
- Annuitization.

Contract Loans

A **loan provision** may be included in an annuity contract. In general, this feature allows you to borrow up to a specified amount of the annuity's accumulated value. Since it is a loan, interest will accumulate and it most likely will be to your advantage to repay it.

Like the withdrawal privilege, a loan provision can give some liquid features to an annuity.

A contract loan normally will be subject to current taxes. Review Using pre-tax vs. after-tax dollars on page 9.

Return of Principal Guarantee

Surrender of the contract should be avoided whenever possible, but circumstances may leave you no choice.

If you must surrender your annuity, this feature assures you that the company will pay you no less than the total dollars you've paid in premiums - minus any prior partial withdrawals you've taken. It applies even if the amount is greater than the cash surrender value defined by the contract.

Guaranteed Settlement Option Rates

Nearly every annuity offers guaranteed settlement option rates for the available payout choices (see How long benefit payments continue on pages 6-9). These rates are fairly low.

At the time you **annuitize**, most companies will pay current (higher) settlement option rates. Other companies may offer the rates currently available on their single **premium immediate annuities**.

No annuity is "risk free" or "guaranteed safe." A contract is only as sound as the company that sells it. The Ohio Life and Health Insurance Guarantee Association (OLHIGA) provides some protection if your insurance company goes out of business. OLHIGA pays part or all of the company's unpaid claims. The limit paid for annuities is $100,000. That's the total amount you could collect from OLHIGA no matter how many annuities you had purchased from that company.
Note: Variable products are not covered.

Bailout Provision

Some fixed annuities include a bailout provision which waives the surrender charge if the contract's declared renewal interest rate falls below a point called the bailout rate. This feature protects you and helps force companies to offer competitive rates.

If the declared renewal rate drops below the bailout rate, you can surrender the contract for the full annuity value without paying a surrender charge.

The time during which a waiver of surrender charge applies could be

- For a specified period of time after the declared renewal rate falls below the bailout rate,
- Until an interest rate exceeding the bailout rate is declared, or
- For as long as you hold the contract.

Medical Bailout

If your annuity contract has a medical bailout, any surrender charge is waived in the event you are confined to a nursing home or other long-term care facility. This feature may also waive the surrender charge if you are diagnosed as terminally ill.

Read your contract! Your contract will list all its features and provisions. Read and understand its terms and conditions. If you don't understand something in the contract, ask for help from the agent, the company, or your attorney.

Common

Provisions

Death Benefit

Annuities usually include a **death benefit** feature. This provision applies if the annuitant or the contract owner dies before the payout phase starts.

The death benefit provided by an annuity contract is not like that in a life insurance policy. An annuity's death benefit returns the premiums (less any withdrawals and company charges) to the beneficiary.

If the contract's accumulated value is greater than the total premiums paid, the beneficiary receives the accumulated value.

If the annuitant dies after benefit payments have started, further payments depend on the payout option that was selected.

Account Value Enhancement (Bonus)

While not a common feature, some contracts offer enhancements to the account value.

These enhancements can include

- An annuitization bonus: encourages you to keep your funds with the company at maturity,
- A persistency bonus: encourages you to keep your funds with the company regardless of annuitization, or
- A large account value bonus: encourages you to make larger payments to the annuity.

Types of Annuities

Equity-Indexed Annuity

The equity-indexed annuity earns interest or provides benefits which are linked to an external stock or bond index.

Equity-indexed contracts combine two features not found together in other annuity types: a guaranteed minimum interest rate and the potential for higher earnings based on the performance of the external index.

In general, equity-indexed annuities have several features in common, including

- Contracts are divided into periods of time or terms,
- Certain features can be renewed from one term to the next,
- Your gain each term is limited to a percentage of the index's increase or a dollar amount, and
- The company may calculate your earnings in many different ways.

The value of any index varies from day to day and cannot be predicted. When you buy an equity-indexed annuity, you own an insurance contract. You are not buying shares of any stock or index.

> Companies can tie their equity-income annuity contracts to many different stock and bond indices. One that is commonly used is the Standard & Poor's 500 Index also called the S & P 500.

IRAs
A common vehicle for funding retirement is an Individual Retirement Annuity (IRA). Banks and other financial institutions can sell IRAs. Only an annuity contract sold through an insurance company can provide annuitization, or a stream of income for life.

Traditional IRAs
A traditional IRA permits you each year to contribute a set dollar amount (or 100% of your earned income, whichever is less) and deduct a portion from your taxable income. You can contribute an additional amount for a non-employed spouse.

You may be able to deduct all or part of your contribution to a traditional IRA when you file taxes. Your income level and whether certain retirement saving plans are available through your employer determine if and how much you can deduct.

If you contribute to a traditional IRA before April 15 and are eligible, you can deduct all or part of the amount from your taxable income for the previous year. Money used to make IRA contributions in this way will be taxed when you withdraw from the fund.

The accumulating interest in your traditional IRA account isn't taxable until you withdraw money. In general, you should not take money from the fund until you've retired.

But new regulations permit you to withdraw a limited amount before age $59\frac{1}{2}$ without penalty if you use the money to pay for a first home or higher education.

Other withdrawals you make before age $59\frac{1}{2}$ are usually fully taxable. They also are generally subject to a 10% nondeductible penalty tax. You must start distribution by April 1 the year after you reach age $70\frac{1}{2}$ - or you'll be subject to a 50% penalty tax.

Types of IRAs

Roth IRAs
A Roth IRA offers different tax incentives and more flexible features than traditional IRAs. However, it is available only to people within certain income limits. As is the case with any annuity contract you consider, you should consult a tax expert about your particular situation.

Contributions to your Roth IRA can not be deducted from your taxable income. But if you keep a Roth IRA for at least 5 years, all distributions you receive including earnings - are considered tax-free. You can make cash contributions to a Roth IRA even after you've reached age $70\frac{1}{2}$.

You are not required to take distributions during your lifetime. This allows a continuation of Roth IRA funds between generations.

Provided your Roth IRA has existed for five years or more, distributions as described below are considered free from federal income tax:

- To you if you have reached age $59\frac{1}{2}$,
- To you if you become disabled, or
- To your beneficiary in the event of your death.

A withdrawal from your Roth IRA to pay for a first home or certain higher education expenses is also tax-free. Distributions under any other circumstances are fully taxable and subject to a 10% penalty.

Two-Tiered Annuity

Some companies offer what is known as a two-tiered annuity. The contract credits you with a favorable interest rate during the accumulation phase, a rate that compares well with other annuities.

But a two-tiered annuity could pay much less. If you make a partial or total surrender, or choose a short payout phase, you will earn a lower rate. You could be charged a substantial amount for a withdrawal.

Such features allow this annuity to pay a competitive rate during the accumulation phase. You will earn and receive the higher rate only if you **annuitize**.

When comparing a two-tiered annuity with other annuity contracts, don't get confused! Look at the rates to be paid in both tiers of the two-tiered contract.

Variable Annuity

Unlike fixed annuities, variable annuities and multifunded annuities might not guarantee benefit payment amounts. The annuity owner shares some part of the investment risk with the insurance company. The benefit amounts paid reflect the company's investment gains or losses.

Such contracts are considered securities, so they can be sold only by agents who are registered with the National Association of Securities Dealers (NASD). The agent must provide a prospectus either before or at the time of the sale.

Variable Annuities

Variable annuities provide contract values that can change according to the investment performance of a special fund called a separate account. The insurer normally puts money directly into separate account investments such as stocks, mutual funds, real estate, etc., according to the investment guidelines.

The company keeps track of each annuity's value within the separate account fund. Your shares in the fund are called accumulation units.

The number of accumulation units you can buy depends on the separate account's fund value at any given time. If the value is high, the value of an accumulation unit is also high. When this is the case, your premium will purchase less units than when the fund's value is low.

Accumulation units buy annuity units, which provide a specified benefit amount. Before the initial payout, the number of annuity units you can purchase is determined. Once the payout phase begins, this number does not change.

Each benefit payment amount depends on the number of annuity units you own and the value of each unit. Annuity units are revalued regularly, based on the separate account fund investment value.

A variable annuity's disadvantage is the lack of a guarantee, which leaves you open to risk. The advantage is your sharing risk gives you a chance for higher earnings than with a fixed annuity. Benefit payments can vary with the annuity units' value or can remain fixed, possibly at your option. Generally, variable annuity payout methods are the same as those available for fixed annuities.

Market-Value Adjusted Annuity

In a contract of this type, your surrender value during an interest rate guarantee period is altered by both a surrender charge and a market value adjustment. The market value adjustment reflects changes in the interest rate level from the start of the period through the time you surrender the contract.

These contracts generally have long current interest rate guaranteed periods, such as 3-10 years. There is no market value adjustment when the period ends, but there may still be a surrender charge.

Some annuities of this type have capped market value adjustment formulas so the adjustment amount is limited in both directions, up and down.

Employer Group Annuities

One method employers use to provide retirement income for their workers is the group annuity.

- Such a contract might be paid in full by either the employer or the employee, or the cost may be split. Some familiar methods may include: 401(k) - if your employer offers one for this purpose
- 403(b), also known as a Tax Sheltered Annuity or TSA - if you work for certain tax-exempt organizations such as churches, hospitals, and schools

The kind of annuity your employer offers may govern whether any contributions you make to an IRA can be deducted from your taxable income.

Employer Group Annuities

A group annuity builds with non-taxable earnings during the accumulation phase, like all annuities.

But employer group contracts can offer an extra tax advantage over some other annuities. While you may have already paid income tax on money used to purchase certain contracts, employer group annuities are usually funded with pre-tax payroll deductions.

This means your current taxable income is reduced by the amount you pay in premiums each year. (Note: Social Security taxes are withheld regardless.)

Many employer group contracts won't let you make early withdrawals until you reach age $59\frac{1}{2}$, retire, quit your job, or become disabled.

If you annuitize you can select from the payout options available under the group annuity. Your employer has chosen the range of options, but they are generally like those in individual annuities.

When you receive benefit payments through this type of contract, taxes will be due on both the principal and the earnings.

Since you will likely be in a lower income bracket after you've retired, your tax on the principal should be less than if you had paid income taxes on the money when you were working.

Questions

to

Ask

Questions to Ask Before You Buy

Ask yourself

- How much retirement income will I need in addition to Social Security, pension, savings, and any other income or investment sources?
- Will I need income for myself only or for someone else as well?
- How much can I afford to pay in premiums?
- How will the annuity contract fit in with my total financial planning?
- How long can I leave money in the annuity?
- When will I need income payments?

Ask the agent or company

- Is this a single premium or installment premium contract?
- Are any administrative charges deducted from my premium or contract value?
- How is the interest rate determined?
- Is there a guaranteed minimum interest rate?
- How long is the company's credited (current) interest rate guaranteed?
- How often does the company change the credited rate?
- What is the company's history regarding renewal of the credited rate?
- Are there surrender charges or other penalties if I want to end the contract early?
- Can I get a partial withdrawal without paying fees or losing interest?
- Are charges waived for larger withdrawals if I am confined to a nursing home or diagnosed with a terminal illness?
- Is there a death benefit and how does it work?
- What are the options for benefit payments?

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Consumer Complaint

Please note: This complaint form, all documents you send us, and any document received by our office as a result of handling your complaint may be a public record, subject to Ohio's Public Records Act. This law requires all public records to be available for inspection by anyone, upon request. **WARNING: All documentation we receive will be imaged, then destroyed. Make copies of your documents and send the copies to us. Do not send original records.**

If completing this form by hand, please use black or blue ink. DO NOT USE PENCIL.

Name

Address | County

City | State | Zip | Phone

Insured's Name (if different)

Name of Insurance Company

Policy or ID Number (if your ID is your Social Security Number, give only the last four digits)

Group or Employer Name

Name and Address of Agent/Broker (if involved)

Type of Insurance (check only one)
☐ Auto ☐ Home ☐ Health
☐ Credit Life/Credit Disability ☐ Life ☐ Dental
☐ Disability Income ☐ Annuity ☐ Other

Small Business Owners: Name of business
If you are a small business employer, please check here ☐

Type of Problem (check one or more):
☐ Claim dispute or delay ☐ Claim denial
☐ Cancellation or non-renewal ☐ Payment not credited ☐ Policy not received
☐ Cash surrender/cash value not received ☐ Misrepresentation ☐ Open enrollment ☐ Other

If this is a health insurance complaint, please attach the most recent response you received from the company.
Health Insurance Claim # | Date of Service

If the problem is a claim dispute regarding auto, home, or other property Insurance:
Date and Location of Accident or Loss | Claim #

Briefly describe your complaint. Please attach copies of all relevant documents.

If you need more space, please attach additional sheets.

How would you like to see your complaint resolved?

Please sign and date: To the best of my knowledge the above statement is correct. I understand that a copy of this form and any attachments may be sent to the insurance company or agent involved. I authorize the insurance company to release all the medical records relating to this complaint to the Ohio Department of Insurance, and I authorize the Ohio Department of Insurance to release medical records relating to this complaint to the insurance company or agent as necessary in order to resolve this complaint. I represent that I have the proper authority to execute this release.

Your Signature | Date

Glossary

Accumulation phase - The period of time prior to annuitization.

Annuitant - A person who receives benefit payments from an annuity.

Annuitize - A method of receiving annuity benefits through a series of income payments for life or some other defined period of time.

Annuity - A contract with a life insurance company which guarantees an income for life or some other defined period in exchange for premiums you pay.

Back-end load - Company expenses that are charged at the time benefits begin.

Beneficiary - When provided in a contract, the person who receives benefit payments if the annuitant dies.

Contractholder - A person who pays premiums for an annuity. Often the same person as the annuitant.

Death benefit - A provision in certain annuity contracts that pays the beneficiary when the annuitant dies before the payout phase begins.

Deferred annuity - A contract that begins the payout phase at some future date.

Equity-indexed annuity - A contract that combines a guaranteed minimum interest rate with earnings linked to the performance of an external stock or bond index.

Fixed rate annuity - A contract that specifies your funds will earn a specified interest rate and guarantees a return on your premium.

Flexible premium annuity - A contract in which the amount of each premium payment you make can vary.

Front-end load - Company expenses that are charged at the beginning of a premium payment period.

Free look - A period specified in the contract (such as 10 days) during which you can decide whether to keep an annuity or return it for a full refund of your premium. Your free-look period is 20 days when you buy an annuity contract to replace one you already had.

Glossary

Guaranteed interest rate - A minimum rate of interest specified in a fixed annuity. The actual rate the insurance company credits your contract at any given time may be higher but can never be lower.

Immediate annuity - A contract that begins the payout phase within one year after you pay the single premium.

Level premium annuity - A contract in which the amount of each premium payment you make stays the same.

Loan provision - A feature in certain annuity contracts that allows you to borrow up to a specified percentage of the value. Contract loans are usually subject to taxes.

Morality Tables - Statistics that project ones life expectancy based on many variables.

Payout phase (also called the annuity phase) - The period of time when benefit payments are being made to the annuitant.

Premium - The money you pay to fund an annuity contract.

Refund Annuity - Refunds part or all of the premiums paid if the insured dies before the start of the liquidation period.

Surrender charge - A fee the insurance company will charge you if you cash in (surrender) an annuity before the payout phase begins, or if you make a withdrawal larger than specified in the contract.

Variable annuity - Traditionally, a contract with no minimum guarantee (some newer products do include guarantees). Because the benefit amount depends on the insurance company's investment gains or losses, you share some part of the investment risk with the insurer.

Withdrawal privilege - A provision in many annuity contracts that allows you to withdraw an amount less than the surrender value, without paying a surrender charge. Any withdrawal may be subject to taxes and penalties.

Private Rating Firms

Many private firms specialize in rating the finances and services of insurance companies. Each has its own rating methods and grades companies based on the firm's judgement of how well the insurer is doing. The firms use various grading systems, so you must understand the system used before you put your faith in any report.

Some of the more popular firms are shown here along with a phone number and Internet address. You may be charged for the reports you get.

A.M. Best Company
Phone: (908) 439-2200
Web site: www.ambest.com

Fitch Inc.
Phone: (800) 753-4824
Web site: www.fitchratings.com

Moody's Investor Service
Phone: (212) 553-0377
Web site: www.moodys.com

Standard & Poor
Phone: (212) 208-1527
Web site: www.standardandpoor.com

It's a good idea to make sure the insurance company is licensed in Ohio. You can

- Visit the Department of Insurance web site: **www.ohioinsurance.gov**
- Or call Consumer Services: **1-800-686-1526**

Very important: read your contract!
The list on the previous page is not a complete list of annuity contract terms. Your insurance company may define these terms differently, or define other terms which have not been included in this guide. Read your contract to understand the terms your company uses and how the company defines those terms.

Private Rating Firms

To request consumer publications
or ask questions about insurance, please call the
Ohio Department of Insurance consumer lines:

Medicare issues... 1-800-686-1578

Other types of insurance...1-800-686-1526

Fax (614) 644-3744

For many Department services and publication updates, please visit our web site...

www.insurance.ohio.gov

The Ohio Department of Insurance is an Equal Opportunity Employer.

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John R. Kasich
Governor

Mary Taylor
Lt. Governor / Director