APA-1
11/96

TRANSMITTAL SHEET FOR NOTICE OF INTENDED ACTION

Control 482 Department or Agency Department of Insurance*

Rule No. Chapter 482-1-129

Rule Title: Annuity Disclosure

_____New X Amend _____Repeal _____Adopt by Reference

Would the absence of the proposed rule significantly harm or endanger the public health, welfare, or safety? N/A*

Is there a reasonable relationship between the state's police power and the protection of the public health, safety, or welfare? N/A*

Is there anther, less restrictive method of regulation available that could adequately protect the public? N/A*

Does the proposed rule have the effect of directly or indirectly increasing the costs of any goods or services involved and, if so, to what degree? N/A*

Is the increase in costs, if any, more harmful to the public than the harm that might result from the absence of the proposed rule? N/A*

Are all facets of the rulemaking process designed solely for the purpose of, and so they have, as their primary effect, the protection of the public? N/A*

****

Does the proposed rule have an economic impact? N/A*

If the proposed rule has an economic impact, the proposed rule is required to be accompanied by a fiscal note prepared in accordance with subsection (f) of Section 41-22-23, Code of Alabama 1975.

****

Certification of Authorized Official

I certify that the attached proposed rule has been proposed in full compliance with the requirements of Sections 27-2-17 and 27-7-43, Code of Alabama 1975, and that it complies with all applicable filing requirements of the Alabama Insurance Code.*

Signature of certifying officer Jim L. Ridling

Jim L. Ridling
Commissioner of Insurance

Date: June 17, 2014

**Note:* *The Alabama Department of Insurance is exempt from the Alabama Administrative Procedures Act pursuant to Section 41-22-2(e), Code of Alabama 1975.*

APA-2
11/96

Alabama Department of Insurance

NOTICE OF INTENDED ACTION

AGENCY NAME: Alabama Department of Insurance

RULE NO. & TITLE: Chapter 482-1-129: Annuity Disclosure.

INTENDED ACTION: Amend chapter.

SUBSTANCE OF PROPOSED ACTION: The Commissioner of Insurance is proposing to make various minor changes to the regulation to incorporate the 2011 changes made in the NAIC's Annuity Disclosure Model Regulation.

TIME, PLACE, MANNER OF PRESENTING VIEWS: Interested persons may submit data, views, or arguments in writing at any time prior to the date stated below to the Alabama Department of Insurance, Attention: Legal Division, Post Office Box 303351, Montgomery, Alabama 36130-3351, or orally by appearing at the public hearing, Suite 502, RSA Tower, 201 Monroe Street, Montgomery, Alabama, beginning at 10:00 AM, August 6, 2014.

FINAL DATE FOR COMMENT AND COMPLETION OF NOTICE:
August 6, 2014

CONTACT PERSON AT AGENCY: Reyn Norman
General Counsel

Jim L. Ridling
Jim L. Ridling
Commissioner of Insurance

ALABAMA DEPARTMENT OF INSURANCE
INSURANCE REGULATION

CHAPTER 482-1-129

ANNUITY DISCLOSURE

Table of Contents

482-1-129-.01 Authority. This chapter is ~~issued based upon the authority granted the commissioner~~ adopted under the authority of Sections 27-2-17, 27-15-1 et seq., and 27-12-1 et seq., Code of Alabama 1975.

Author: Commissioner of Insurance
Statutory Authority: Code of Alabama 1975, §§ 27-2-17, 27-15-1 et seq. and 27-12-1 et seq.
History: New September 23, 2003, Effective October 11, 2003; Revised ____________, 2014, Effective ____________, 2014

482-1-129-.02 Purpose. The purpose of this chapter is to provide standards for the disclosure of certain minimum information about annuity contracts to protect consumers and foster consumer education. The chapter specifies the minimum information which must be disclosed, ~~and~~ the method for disclosing it and the use and content of illustrations, if used, in connection with the sale of annuity contracts. The goal of this chapter is to ensure that purchasers of annuity contracts understand certain basic features of annuity contracts.

Author: Commissioner of Insurance
Statutory Authority: Code of Alabama 1975, §§ 27-2-17, 27-15-1 et seq. and 27-12-1 et seq.
History: New September 23, 2003, Effective October 11, 2003; Revised ____________, 2014, Effective ____________, 2014

482-1-129-.03 Applicability and Scope. This chapter applies to all group and individual annuity contracts and certificates except:

~~(1) Registered or non-registered variable annuities or other registered products;~~

~~(2)~~ (1) Immediate and deferred annuities that contain no non-guaranteed elements~~;~~.

~~(3)~~ (2)(a) Annuities used to fund any of the following:

1. An employee pension plan which is covered by the Employee Retirement Income Security Act (ERISA)~~;~~.

2. A plan described by Sections 401(a), 401(k) or 403(b) of the Internal Revenue Code, where the plan, for purposes of ERISA, is established or maintained by an employer~~,~~.

3. A governmental or church plan defined in Section 414 or a deferred compensation plan of a state or local government or a tax exempt organization under Section 457 of the Internal Revenue Code~~; or~~.

4. A nonqualified deferred compensation arrangement established or maintained by an employer or plan sponsor.

(b) Notwithstanding Paragraph (a), the chapter shall apply to annuities used to fund a plan or arrangement that is funded solely by contributions an employee elects to make whether on a pre-tax or after-tax basis, and where the insurance company has been notified that plan participants may choose from among two (2) or more fixed annuity providers and there is a direct solicitation of an individual employee by a producer for the purchase of an annuity contract. As used in this subsection, direct solicitation shall not include any meeting held by a producer solely for the purpose of educating or enrolling employees in the plan or arrangement~~;~~.

(3) Non-registered variable annuities issued exclusively to an accredited investor or qualified purchaser as those terms are defined by the Securities Act of 1933 (15 U.S.C. Section 77a et seq.), the Investment Company Act of 1940 (15 U.S.C. Section 80a-1 et seq.), or the regulations promulgated under either of those acts, and offered for sale and sold in a

transaction that is exempt from registration under the Securities Act of 1933 (15 U.S.C. Section 77a et seq.).

(4)(a) Transactions involving variable annuities and other registered products in compliance with Securities and Exchange Commission (SEC) rules and Financial Industry Regulatory Authority (FINRA) rules relating to disclosures and illustrations, provided that compliance with Rule 482-1-129-.05 shall be required unless, or until such time as, the SEC has adopted a summary prospectus rule or FINRA has approved for use a simplified disclosure form applicable to variable annuities or other registered products.

(b) Notwithstanding subparagraph (a), the delivery of the Buyer's Guide is required in sales of variable annuities, and when appropriate, in sales of other registered products.

(c) Nothing in this paragraph (4) shall limit the commissioner's ability to enforce the provisions of this chapter or to require additional disclosure.

~~(4)~~(5) Structured settlement annuities~~;~~.

~~(5) Charitable gift annuities; and~~

~~(6) Funding agreements.~~

Author: Commissioner of Insurance
Statutory Authority: Code of Alabama 1975, §§ 27-2-17, 27-15-1 et seq. and 27-12-1 et seq.
History: New September 23, 2003, Effective October 11, 2003; Revised ____________, 2014, Effective ____________, 2014

482-1-129-.04 Definitions. ~~For the purposes of~~ The following definitions shall apply in this chapter:

(1) BUYERS GUIDE. The National Association of Insurance Commissioner's approved Annuity Buyer's Guide.

~~(1)~~ (2) CHARITABLE GIFT ANNUITY. A transfer of cash or other property by a donor to a charitable organization in return for an annuity payable over one or two lives, under which the actuarial value of the annuity is less than the value of the cash or other property transferred and the difference in value constitutes a charitable deduction for federal tax purposes, but does not include a charitable remainder trust or a charitable lead trust or other similar arrangement where the charitable organization does not issue an annuity and incur a financial obligation to guarantee annuity payments.

~~(2)~~ (3) CONTRACT OWNER. The owner named in the annuity contract or certificate holder in the case of a group annuity contract.

~~(3)~~ (4) DETERMINABLE ELEMENTS. Elements that are derived from processes or methods that are guaranteed at issue and not subject to company discretion, but where the values or amounts cannot be determined until some point after issue. These elements include the premiums, credited interest rates (including any bonus), benefits, values, non-interest based credits, charges or elements of formulas used to determine any of these. These elements may be described as guaranteed but not determined at issue. An element is considered determinable if it was calculated from underlying determinable elements only, or from both determinable and guaranteed elements.

~~(4)~~ (5) FUNDING AGREEMENT. An agreement for an insurer to accept and accumulate funds and to make one or more payments at future dates in amounts that are not based on mortality or morbidity contingencies.

~~(5)~~ (6) GENERIC NAME. A short title descriptive of the annuity contract being applied for or illustrated such as "single premium deferred annuity."

~~(6)~~ (7) GUARANTEED ELEMENTS. The premiums, credited interest rates (including any bonus), benefits, values, non-interest based credits, charges or elements of formulas used to determine any of these, that are guaranteed ~~and determined~~ or have determinable elements at issue. An element is considered guaranteed if all of the underlying elements that go into its calculation are guaranteed.

(8) ILLUSTRATION. A personalized presentation or depiction prepared for and provided to an individual consumer that includes non-guaranteed elements of an annuity contract over a period of years.

(9) MARKET VALUE ADJUSTMENT or "MVA" FEATURE. A positive or negative adjustment that may be applied to the account value and/or cash value of the annuity upon withdrawal, surrender, contract annuitization or death benefit payment based on either the movement of an external index or on the company's current guaranteed interest rate being offered on new premiums or new rates for renewal periods, if that withdrawal, surrender, contract annuitization or death benefit payment occurs at a time other than on a specified guaranteed benefit date.

~~(7)~~ (10) NON-GUARANTEED ELEMENTS. The premiums, credited interest rates (including any bonus), benefits, values, dividends, non-interest based credits, charges or elements of formulas used to determine any of these, that are subject to company discretion and are not guaranteed at issue. An element is considered non-guaranteed if any of the underlying non-guaranteed elements are used in its calculation.

~~(8)~~(11) STRUCTURED SETTLEMENT ANNUITY. A "qualified funding asset" as defined in section 130(d) of the Internal Revenue Code or an annuity that would be a qualified funding asset under section 130(d) but for the fact that it is not owned by an assignee under a qualified assignment.

Author: Commissioner of Insurance
Statutory Authority: Code of Alabama 1975, §§ 27-2-17, 27-15-1 et seq. and 27-12-1 et. seq.
History: New September 23, 2003, Effective October 11, 2003; Revised __________, 2014, Effective __________, 2014

429-1-129-.05 Standards for the Disclosure Document and Buyer's Guide.

(1)(a) Where the application for an annuity contract is taken in a face-to-face meeting, the applicant shall at or before the time of application be given both the disclosure document described in ~~Subsection~~ paragraph (2) and the Buyer's Guide ~~contained in the Appendix~~, if any.

(b) Where the application for an annuity contract is taken by means other than in a face-to-face meeting, the applicant shall be sent both the disclosure document and the Buyer's Guide no later than five (5) business days after the completed application is received by the insurer.

1. With respect to an application received as a result of a direct solicitation through the mail:

a. Providing a Buyer's Guide in a mailing inviting prospective applicants to apply for an annuity contract shall be deemed to satisfy the requirement that the Buyer's Guide be provided no later than five (5) business days after receipt of the application.

b. Providing a disclosure document in a mailing inviting a prospective applicant to apply for an annuity contract shall be deemed to satisfy the requirement that the disclosure document be provided no later than five (5) business days after receipt of the application.

2. With respect to an application received via the Internet:

a. Taking reasonable steps to make the Buyer's Guide available for viewing and printing on the insurer's website shall be deemed to satisfy the requirement that the Buyer's Guide be provided no later than five (5) business day of receipt of the application.

b. Taking reasonable steps to make the disclosure document available for viewing and printing on the insurer's website shall be deemed to satisfy the requirement that the disclosure document be provided no later than five (5) business days after receipt of the application.

3. A solicitation for an annuity contract provided in other than a face-to-face meeting shall include a statement that the proposed applicant may contact the insurance department of the state for a free annuity Buyer's Guide. In lieu of the foregoing statement, an insurer may include a statement that the prospective applicant may contact the insurer for a free annuity Buyer's Guide.

~~(c)~~4. Where the Buyer's Guide and disclosure document are not provided at or before the time of application, a free look period of no less than fifteen (15) days shall be provided for the applicant to return the annuity contract without penalty. This free look shall run concurrently with any other free look provided under state law or regulation.

~~(d) Where the annuity contract for which application is made explicitly provides for a free look period of no less than fifteen (15)~~

~~days, the Buyer's Guide and disclosure document may be delivered either with the contract or at any time prior to delivery of the contract.~~

(2) At a minimum, the following information shall be included in the disclosure document required to be provided under this chapter:

(a) The generic name of the contract, the company product name, if different, and form number, and the fact that it is an annuity~~;~~.

(b) The insurer's legal name, ~~and~~ physical address, website address and telephone number~~;~~.

(c) A description of the contract and its benefits, emphasizing its long-term nature, including examples where appropriate:

1. The guaranteed~~,~~ and non-guaranteed ~~and determinable~~ elements of the contract, and their limitations, if any, including for fixed indexed annuities, the elements used to determine the index-based interest, such as the participation rates, caps or spread, and an explanation of how they operate~~;~~.

2. An explanation of the initial crediting rate, or for fixed indexed annuities, an explanation of how the index-based interest is determined, specifying any bonus or introductory portion, the duration of the rate and the fact that rates may change from time to time and are not guaranteed~~;~~.

3. Periodic income options both on a guaranteed and non-guaranteed basis~~;~~.

4. Any value reductions caused by withdrawals from or surrender of the contract~~;~~.

5. How values in the contract can be accessed~~;~~.

6. The death benefit, if available and how it will be calculated~~;~~.

7. A summary of the federal tax status of the contract and any penalties applicable on withdrawal of values from the contract~~; and~~.

8. Impact of any rider, ~~such as~~ including, but not limited to, a guaranteed living benefit or long-term care rider.

(d) Specific dollar amount or percentage charges and fees shall be listed with an explanation of how they apply.

(e) Information about the current guaranteed rate or indexed crediting rate formula, if applicable, for new contracts that contains a clear notice that the rate is subject to change.

(3) Insurers shall define terms used in the disclosure statement in language that facilitates the understanding by a typical person within the segment of the public to which the disclosure statement is directed.

Author: Commissioner of Insurance
Statutory Authority: Code of Alabama 1975, §§ 27-2-17, 27-15-1 et seq. and 27-12-1 et seq.
History: New September 23, 2003, Effective October 11, 2003; Revised ____________, 2014, Effective ____________, 2014

482-1-129-.06 Standards for Annuity Illustrations.

(1) An insurer or producer may elect to provide a consumer an illustration at any time, provided that the illustration is in compliance with this rule and:

(a) Is clearly labeled as an illustration.

(b) Includes a statement referring consumers to the disclosure document and Buyer's Guide provided to them at time of purchase for additional information about their annuity.

(c) Is prepared by the insurer or third party using software that is authorized by the insurer prior to its use, provided that the insurer maintains a system of control over the use of illustrations.

(2) An illustration furnished an applicant for a group annuity contract or contracts issued to a single applicant on multiple lives may be either an individual or composite illustration representative of the coverage on the lives of members of the group or the multiple lives covered.

(3) The illustration shall not be provided unless accompanied by the disclosure document referenced in Rule 482-1-129-.05.

(4) When using an illustration, the illustration shall not:

(a) Describe non-guaranteed elements in a manner that is misleading or has the capacity or tendency to mislead.

(b) State or imply that the payment or amount of non-guaranteed elements is guaranteed.

(c) Be incomplete.

(5) Costs and fees of any type shall be individually noted and explained.

(6) An illustration shall conform to the following requirements:

(a) The illustration shall be labeled with the date on which it was prepared.

(b) Each page, including any explanatory notes or pages, shall be numbered and show its relationship to the total number of pages in the disclosure document (e.g., the fourth page of a seven-page disclosure document shall be labeled "page 4 of 7 pages").

(c) The assumed dates of premium receipt and benefit payout within a contract year shall be clearly identified.

(d) If the age of the proposed insured is shown as a component of the tabular detail, it shall be issue age plus the numbers of years the contract is assumed to have been in force.

(e) The assumed premium on which the illustrated benefits and values are based shall be clearly identified, including rider premium for any benefits being illustrated.

(f) Any charges for riders or other contract features assessed against the account value or the crediting rate shall be recognized in the illustrated values and shall be accompanied by a statement indicating the nature of the rider benefits or the contract features, and whether or not they are included in the illustration.

(g) Guaranteed death benefits and values available upon surrender, if any, for the illustrated contract premium shall be shown and clearly labeled guaranteed.

(h) The non-guaranteed elements underlying the non-guaranteed illustrated values shall be no more favorable than current non-guaranteed elements and shall not include any assumed future improvement of such elements. Additionally, non-guaranteed elements used in calculating non-guaranteed illustrated values at any future duration shall reflect any planned changes, including any planned changes that may occur after expiration of an initial guaranteed or bonus period.

(i) In determining the non-guaranteed illustrated values for a fixed indexed annuity, the index-based interest rate and account value shall be calculated for three different scenarios: one to reflect historical performance of the index for the most recent ten (10) calendar years; one to reflect the historical performance of the index for the continuous period of ten (10) calendar years out of the last twenty (20) calendar years that would result in the least index value growth (the "low scenario"); one to reflect the historical performance of the index for the continuous period of ten (10) calendar years out of the last twenty (20) calendar years that would result in the most index value growth (the "high scenario"). The following requirements apply:

1. The most recent ten (10) calendar years and the last twenty (20) calendar years are defined to end on the prior December 31, except for illustrations prepared during the first three (3) months of the year, for which the end date of the calendar year period may be the December 31 prior to the last full calendar year.

2. If any index utilized in determination of an account value has not been in existence for at least ten (10) calendar years, indexed returns for that index shall not be illustrated. If the fixed indexed annuity provides an option to allocate account value to more than one indexed or fixed declared rate account, and one or more of those indexes has not been in existence for at least ten (10) calendar years, the allocation to such indexed account(s) shall be assumed to be zero.

3. If any index utilized in determination of an account value has been in existence for at least ten (10) calendar years but less than twenty (20) calendar years, the ten (10) calendar year periods that define the low and high scenarios shall be chosen from the exact number of years the index has been in existence.

4. The non-guaranteed elements, such as caps, spreads, participation rates or other interest crediting adjustments, used in calculating the non-guaranteed index-based interest rate shall be no more favorable than the corresponding current elements.

5. If a fixed indexed annuity provides an option to allocate the account value to more than one indexed or fixed declared rate account:

(i) The allocation used in the illustration shall be the same for all three scenarios.

(ii) The ten (10) calendar year periods resulting in the least and greatest index growth periods shall be determined independently for each indexed account option.

6. The geometric mean annual effective rate of the account value growth over the ten (10) calendar year period shall be shown for each scenario.

7. If the most recent ten (10) calendar year historical period experience of the index is shorter than the number of years needed to fulfill the requirement of paragraph (8), the most recent ten (10) calendar year historical period experience of the index shall be used for each subsequent ten (10) calendar year period beyond the initial period for the purpose of calculating the account value for the remaining years of the illustration.

8. The low and high scenarios: (i) need not show surrender values (if different than account values); (ii) shall not extend beyond ten (10) calendar years (and therefore are not subject to the requirements of paragraph (8) beyond subparagraph (a)1; and (iii) may be shown on a separate page. A graphical presentation shall also be included comparing

the movement of the account value over the ten (10) calendar year period for the low scenario, the high scenario and the most recent ten (10) calendar year scenario.

9. The low and high scenarios should reflect the irregular nature of the index performance and should trigger every type of adjustment to the index-based interest rate under the contract. The effect of the adjustments should be clear; for example, additional columns showing how the adjustment applied may be included. If an adjustment to the index-based interest rate is not triggered in the illustration (because no historical values of the index in the required illustration range would have triggered it), the illustration shall so state.

(j) The guaranteed elements, if any, shall be shown before corresponding non-guaranteed elements and shall be specifically referred to on any page of an illustration that shows or describes only the non-guaranteed elements (e.g., "see page 1 for guaranteed elements").

k. The account or accumulation value of a contract, if shown, shall be identified by the name this value is given in the contract being illustrated and shown in close proximity to the corresponding value available upon surrender.

l. The value available upon surrender shall be identified by the name this value is given in the contract being illustrated and shall be the amount available to the contract owner in a lump sum after deduction of surrender charges, bonus forfeitures, contract loans, contract loan interest and application of any market value adjustment, as applicable.

m. Illustrations may show contract benefits and values in graphic or chart form in addition to the tabular form.

n. Any illustration of non-guaranteed elements shall be accompanied by a statement indicating all of the following:

(a) The benefits and values are not guaranteed.

(b) The assumptions on which they are based are subject to change by the insurer.

(c) Actual results may be higher or lower.

o. Illustrations based on non-guaranteed credited interest and non-guaranteed annuity income rates shall contain equally prominent comparisons to guaranteed credited interest and guaranteed annuity income rates, including any guaranteed and non-guaranteed participation rates, caps or spreads for fixed indexed annuities.

p. The annuity income rate illustrated shall not be greater than the current annuity income rate unless the contract guarantees are in fact more favorable.

q. Illustrations shall be concise and easy to read.

r. Key terms shall be defined and then used consistently throughout the illustration.

s. Illustrations shall not depict values beyond the maximum annuitization age or date.

t. Annuitization benefits shall be based on contract values that reflect surrender charges or any other adjustments, if applicable.

u. Illustrations shall show both annuity income rates per $1,000.00 and the dollar amounts of the periodic income payable.

(7) An annuity illustration shall include a narrative summary that includes the following unless provided at the same time in a disclosure document:

(a) A brief description of any contract features, riders or options, guaranteed and/or nonguaranteed, shown in the basic illustration and the impact they may have on the benefits and values of the contract.

(b) A brief description of any other optional benefits or features that are selected, but not shown in the illustration and the impact they have on the benefits and values of the contract.

(c) Identification and a brief definition of column headings and key terms used in the illustration.

(d) A statement containing in substance the following:

1. For other than fixed indexed annuities:

This illustration assumes the annuity's current nonguaranteed elements will not change. It is likely that they will change and actual values will be higher or lower than those in this illustration but will not be less than the minimum guarantees. The values in this illustration are **not** guarantees or even estimates of the amounts you can expect from your annuity. Please review the entire Disclosure Document and Buyer's Guide provided with your Annuity Contract for more detailed information;

2. For fixed indexed annuities:

This illustration assumes the index will repeat historical performance and that the annuity's current non-guaranteed elements, such as caps, spreads, participation rates or other interest crediting adjustments, will not change. It is likely that the index **will not** repeat historical performance, the non-guaranteed elements **will** change, and actual values will be higher or lower than those in this illustration but will not be less than the minimum guarantees.

The values in **this** illustration are **not** guarantees or even estimates of the amounts you can expect from your annuity. Please review the entire Disclosure Document and Buyer's Guide provided with your Annuity Contract for more detailed information.

(e) Additional explanations as follows:

1. Minimum guarantees shall be clearly explained.

2. The effect on contract values of contract surrender prior to maturity shall be explained.

3. Any conditions on the payment of bonuses shall be explained.

4. For annuities sold as an IRA, qualified plan or in another arrangement subject to the required minimum distribution (RMD) requirements of the Internal Revenue Code, the effect of RMDs on the contract values shall be explained.

5. For annuities with recurring surrender charge schedules, a clear and concise explanation of what circumstances will cause the surrender charge to recur.

6. A brief description of the types of annuity income options available shall be explained, including:

(i) The earliest or only maturity date for annuitization (as the term is defined in the contract).

(ii) For contracts with an optional maturity date, the periodic income amount for at least one of the annuity income options available based on the guaranteed rates in the contract, at the later of age seventy (70) or ten (10) years after issue, but in no case later than the maximum annuitization age or date in the contract.

(iii) For contracts with a fixed maturity date, the periodic income amount for at least one of the annuity income options available, based on the guaranteed rates in the contract at the fixed maturity date.

(iv) The periodic income amount based on the currently available periodic income rates for the annuity income option in item (ii) or item (iii), if desired.

(8) Following the narrative summary, an illustration shall include a numeric summary which shall include at minimum, numeric values at each of the following durations:

(a) First ten (10) contract years, or the surrender charge period if longer than ten (10) years, including any renewal surrender charge periods.

(b) Every tenth contract year up to the later of thirty (30) years or age seventy (70).

(c) Either of the following:

1. Required annuitization age.

2. Required annuitization date.

(9) If the annuity contains a market value adjustment, hereafter MVA, the following provisions apply to the illustration:

(a) The MVA shall be referred to as such throughout the illustration.

(b) The narrative shall include an explanation, in simple terms, of the potential effect of the MVA on the value available upon surrender.

(c) The narrative shall include an explanation, in simple terms, of the potential effect of the MVA on the death benefit.

(d) A statement, containing in substance the following, shall be included:

> When you make a withdrawal the amount you receive may be increased or decreased by a Market Value Adjustment (MVA). If interest rates on which the MVA is based go up after you buy your annuity, the MVA likely will decrease the amount you receive. If interest rates go down, the MVA will likely increase the amount you receive.

(e) Illustrations shall describe both the upside and the downside aspects of the contract features relating to the market value adjustment.

(f) The illustrative effect of the MVA shall be shown under at least one positive and one negative scenario. This demonstration shall appear on a separate page and be clearly labeled that it is information demonstrating the potential impact of a MVA.

(g) Actual MVA floors and ceilings as listed in the contract shall be illustrated.

(h) If the MVA has significant characteristics not addressed by subparagraphs (a) - (f), the effect of such characteristics shall be shown in the illustration. Appendix A provides an example of an illustration of an annuity containing an MVA that addresses subparagraphs (a) - (f) above.

(10) A narrative summary for a fixed indexed annuity illustration also shall include the following unless provided at the same time in a disclosure document:

(a) An explanation, in simple terms, of the elements used to determine the index-based interest, including but not limited to, the following elements:

1. The Index(es) which will be used to determine the index-based interest.

2. The Indexing Method - such as point-to-point, daily averaging, monthly averaging.

3. The Index Term - the period over which indexed-based interest is calculated.

4. The Participation Rate, if applicable.

5. The Cap, if applicable.

6. The Spread, if applicable.

(b) The narrative shall include an explanation, in simple terms, of how index-based interest is credited in the indexed annuity.

(c) The narrative shall include a brief description of the frequency with which the company can re-set the elements used to determine the index-based credits, including the participation rate, the cap, and the spread, if applicable.

(d) If the product allows the contract holder to make allocations to a declared-rate segment, then the narrative shall include a brief description of:

1. Any options to make allocations to a declared-rate segment, both for new premiums and for transfers from the indexed-based segments.

2. Differences in guarantees applicable to the declared-rate segment and the indexed-based segments.

(11) A numeric summary for a fixed indexed annuity illustration shall include, at a minimum, the following elements:

(a) The assumed growth rate of the index in accordance with subparagraph (i) of paragraph (6).

(b) The assumed values for the participation rate, cap and spread, if applicable.

(c) The assumed allocation between indexed-based segments and declared-rate segment, if applicable, in accordance with subparagraph (i) paragraph (6).

(12) If the contract is issued other than as applied for, a revised illustration conforming to the contract as issued shall be sent with the contract, except that non-substantive changes, including, but not limited to changes in the amount of expected initial or additional premiums and any changes in amounts of exchanges pursuant to Section 1035 of the Internal Revenue Code, rollovers or transfers, which do not alter the key benefits and features of the annuity as applied for will not require a revised illustration unless requested by the applicant.

Author: Commissioner of Insurance
Statutory Authority: Code of Alabama 1975, §§ 27-2-17, 27-15-1 et seq. and 27-12-1 et seq.
History: New __________, 2014, Effective __________, 2014

~~482-1-129-.06~~ 482-1-129-.07 **Report to Contract Owners.** For annuities in the payout period ~~with changes in~~ that include non-guaranteed elements, and for deferred annuities in the accumulation period ~~of a deferred annuity~~, the insurer shall provide each contract owner with a report, at least annually, on the status of the contract that contains at least the following information:

(1) The beginning and end date of the current report period~~;~~.

(2) The accumulation and cash surrender value, if any, at the end of the previous report period and at the end of the current report period~~;~~.

(3) The total amounts, if any, that have been credited, charged to the contract value or paid during the current report period~~; and~~.

(4) The amount of outstanding loans, if any, as of the end of the current report period.

Author: Commissioner of Insurance
Statutory Authority: Code of Alabama 1975, §§ 27-2-17, 27-15-1 et seq. and 27-12-1 et seq.
History: New September 23, 2003, Effective October 11, 2003; Revised ____________, 2014, Effective ____________, 2014

~~482-1-129-.07~~ 482-1-129-.08 **Penalties.** In addition to any other penalties provided by the laws of this state, an insurer or producer that violates a requirement of this chapter shall be guilty of a violation of Section 27-12-1 et seq., Code of Alabama 1975.

Author: Commissioner of Insurance
Statutory Authority: Code of Alabama 1975, §§ 27-2-17, 27-15-1 et seq. and 27-12-1 et seq.
History: New September 23, 2003, Effective October 11, 2003; Revised ____________, 2014, Effective ____________, 2014

~~482-1-129-.08~~ <u>482-1-129-.09</u> **Separability.** If any provision of this chapter or its application to any person or circumstance is for any reason held to be invalid by any court of law, the remainder of the chapter and its application to other persons or circumstances shall not be affected.

Author: Commissioner of Insurance
Statutory Authority: Code of Alabama 1975, §§ 27-2-17, 27-15-1 et seq. and 27-12-1 et seq.
History: New September 23, 2003, Effective October 11, 2003; Revised ____________, 2014, Effective _____________, 2014

~~482-1-129-.09~~ <u>482-1-129-.10</u> **Effective Date.** This chapter shall become effective upon its approval by the Commissioner of Insurance and upon its having been on file as a public document in the office of the Secretary of State for ten days and shall apply to contracts sold on or after the effective date.

Author: Commissioner of Insurance
Statutory Authority: Code of Alabama 1975, §§ 27-2-17, 27-15-1 et seq. and 27-12-1 et seq.
History: New September 23, 2003, Effective October 11, 2003; Revised ____________, 2014, Effective _____________, 2014

~~APPENDIX-BUYER'S GUIDE TO FIXED DEFERRED ANNUITIES~~

~~[The face page of the Fixed Deferred Annuity Buyer's Guide shall read as follows:]~~

~~Prepared by the National Association of Insurance Commissioners~~

~~The National Association of Insurance Commissioners is an association of state insurance regulatory officials. This association helps the various insurance departments to coordinate insurance laws for the benefit of all consumers.~~

~~This guide does not endorse any company or policy.~~

~~Reprinted by. . .~~

~~It is important that you understand the differences among various annuities so you can choose the kind that best fits your needs. This guide focuses on fixed deferred annuity contracts. There is, however, a brief description of variable annuities. If you're thinking of buying an equity-indexed annuity, an appendix to this Guide will give you specific information. This Guide isn't meant to offer legal, financial or tax advice. You may want to consult independent advisors. At the end of this Guide are questions you should ask your agent or the company. Make sure you're satisfied with the answers before you buy.~~

~~WHAT IS AN ANNUITY?~~

~~An annuity is a contract in which an insurance company makes a series of income payments at regular intervals in return for a premium or premiums you have paid. Annuities are most often bought for future retirement income. Only an annuity can pay an income that can be guaranteed to last as long as you live.~~

~~An annuity is neither a life insurance nor a health insurance policy. It's not a savings account or a savings certificate. You shouldn't buy an annuity to reach short-term financial goals.~~

~~Your value in an annuity contract is the premiums you've paid, less any applicable charges, plus interest credited. The insurance company uses the value to figure the amount of most of the benefits that you can choose to receive from an annuity contract. This guide explains how interest is credited as well as some typical charges and benefits of annuity contracts.~~

~~A deferred annuity has two parts or periods. During the accumulation period, the money you put into the annuity, less any applicable charges, earns interest. The earnings grow tax-deferred as long as you leave them in the annuity. During the second period, called the payout period, the company pays income to you or to someone you choose.~~

~~WHAT ARE THE DIFFERENT KINDS OF ANNUITIES?~~

~~This Guide explains major differences in different kinds of annuities to help you understand how each might meet your needs. But look at the specific terms of an individual contract you're considering and the disclosure document you receive. If your annuity is being used to fund or~~

~~provide benefits under a pension plan, the benefits you get will depend on the terms of the plan. Contact your pension plan administrator for information.~~

~~This Buyer's Guide will focus on individual fixed deferred annuities.~~

~~Single Premium or Multiple Premium~~

~~You pay the insurance company only one payment for a single premium annuity. You make a series of payments for a multiple premium annuity. There are two kinds of multiple premium annuities. One kind is a flexible premium contract. Within set limits, you pay as much premium as you want, whenever you want. In the other kind, a scheduled premium annuity, the contract spells out your payments and how often you'll make them.~~

~~Immediate or Deferred~~

~~With an immediate annuity, income payments start no later than one year after you pay the premium. You usually pay for an immediate annuity with one payment.~~

~~The income payments from a deferred annuity often start many years later. Deferred annuities have an accumulation period, which is the time between when you start paying premiums and when income payments start.~~

~~Fixed or Variable~~

~~Fixed~~

~~During the accumulation period of a fixed deferred annuity, your money (less any applicable charges) earns interest at rates set by the insurance company or in a way spelled out in the annuity contract. The company guarantees that it will pay no less than a minimum rate of interest. During the payout period, the amount of each income payment to you is generally set when the payments start and will not change.~~

~~Variable~~

~~During the accumulation period of a variable annuity, the insurance company puts your premiums (less any applicable charges) into a separate account. You decide how the company will invest those premiums, depending on how much risk you want to take. You may put your premium into a stock, bond or other account, with no guarantees, or into a fixed account, with a minimum guaranteed interest. During the payout period of a variable annuity, the amount of each income payment to you may be fixed (set at the beginning) or variable (changing with the value of the investments in the separate account).~~

~~HOW ARE THE INTEREST RATES SET FOR MY FIXED DEFERRED ANNUITY?~~

~~During the accumulation period, your money (less any applicable charges) earns interest at rates that change from time to time. Usually, what these rates will be is entirely up to the insurance company.~~

~~Current Interest Rate~~

~~The current rate is the rate the company decides to credit to your contract at a particular time. The company will guarantee it will not change for some time period.~~

~~• The initial rate is an interest rate the insurance company may credit for a set period of time after you first buy your annuity. The initial rate in some contracts may be higher than it will be later. This is often called a bonus rate.~~

~~• The renewal rate is the rate credited by the company after the end of the set time period. The contract tells how the company will set the renewal rate, which may be tied to an external reference or index.~~

~~Minimum Guaranteed Rate~~

~~The minimum guaranteed interest rate is the lowest rate your annuity will earn. This rate is stated in the contract.~~

~~Multiple Interest Rates~~

~~Some annuity contracts apply different interest rates to each premium you pay or to premiums you pay during different time periods.~~

~~Other annuity contracts may have two or more accumulated values that fund different benefit options. These accumulated values may use different interest rates. You get only one of the accumulated values depending on which benefit you choose.~~

~~WHAT CHARGES MAY BE SUBTRACTED FROM MY FIXED DEFERRED ANNUITY?~~

~~Most annuities have charges related to the cost of selling or servicing it. These charges may be subtracted directly from the contract value. Ask your agent or the company to describe the charges that apply to your annuity. Some examples of charges, fees and taxes are:~~

~~Surrender or Withdrawal Charges~~

~~If you need access to your money, you may be able to take all or part of the value out of your annuity at any time during the accumulation period. If you take out part of the value, you may pay a withdrawal charge. If you take out all of the value and surrender, or terminate, the annuity, you may pay a surrender charge. In either case, the company may figure the charge as a percentage of the value of the contract, of the premiums you've paid or of the amount you're withdrawing. The company may reduce or even eliminate the surrender charge after you've had the contract for a stated number of years. A company may waive the surrender charge when it pays a death benefit.~~

~~Some annuities have stated terms. When the term is up, the contract may automatically expire or renew. You're usually given a short period of time, called a window, to decide if you want to renew or surrender the annuity. If you surrender during the window, you won't have to pay surrender charges. If you renew, the surrender or withdrawal charges may start over.~~

~~In some annuities, there is no charge if you surrender your contract when the company's current interest rate falls below a certain level. This may be called a bail-out option.~~

~~In a multiple-premium annuity, the surrender charge may apply to each premium paid for a certain period of time. This may be called a rolling surrender or withdrawal charge.~~

~~Some annuity contracts have a market value adjustment feature. If interest rates are different when you surrender your annuity than when you bought it, a market value adjustment may make the cash surrender value higher or~~

~~lower. Since you and the insurance company share this risk, an annuity with a MVA feature may credit a higher rate than an annuity without that feature.~~

~~Be sure to read the Tax Treatment section and ask your tax advisor for information about possible tax penalties on withdrawals.~~

~~Free Withdrawal~~

~~Your annuity may have a limited free withdrawal feature. That lets you make one or more withdrawals without a charge. The size of the free withdrawal is often limited to a set percentage of your contract value. If you make a larger withdrawal, you may pay withdrawal charges. You may lose any interest above the minimum guaranteed rate on the amount withdrawn. Some annuities waive withdrawal charges in certain situations, such as death, confinement in a nursing home or terminal illness.~~

~~Contract Fee~~

~~A contract fee is a flat dollar amount charged either once or annually.~~

~~Transaction Fee~~

~~A transaction fee is a charge per premium payment or other transaction.~~

~~Percentage of Premium Charge~~

~~A percentage of premium charge is a charge deducted from each premium paid. The percentage may be lower after the contract has been in force for a certain number of years or after total premiums paid have reached a certain amount.~~

~~Premium Tax~~

~~Some states charge a tax on annuities. The insurance company pays this tax to the state. The company may subtract the amount of the tax when you pay your premium, when you withdraw your contract value, when you start to receive income payments or when it pays a death benefit to your beneficiary.~~

~~WHAT ARE SOME FIXED DEFERRED ANNUITY CONTRACT BENEFITS?~~

~~Annuity Income Payments~~

~~One of the most important benefits of deferred annuities is your ability to use the value built up during the accumulation period to give you a lump sum payment or to make income payments during the payout period. Income payments are usually made monthly but you may choose to receive them less often. The size of income payments is based on the accumulated value in your annuity and the annuity's benefit rate in effect when income payments start. The benefit rate usually depends on your age and sex, and the annuity payment option you choose. For example, you might choose payments that continue as long as you live, as long as your spouse lives or for a set number of years.~~

~~There is a table of guaranteed benefit rates in each annuity contract. Most companies have current benefit rates as well. The company can change the current rates at any time, but the current rates can never be less than the guaranteed benefit rates. When income payments start, the insurance~~

~~company generally uses the benefit rate in effect at that time to figure the amount of your income payment.~~

~~Companies may offer various income payment options. You (the owner) or another person that you name may choose the option. The options are described here as if the payments are made to you.~~

~~· Life Only - The company pays income for your lifetime. It doesn't make any payments to anyone after you die. This payment option usually pays the highest income possible. You might choose it if you have no dependents, if you have taken care of them through other means or if the dependents have enough income of their own.~~

~~· Life Annuity with Period Certain - The company pays income for as long as you live and guarantees to make payments for a set number of years even if you die. This period certain is usually 10 or 20 years. If you live longer than the period certain, you'll continue to receive payments until you die. If you die during the period certain, your beneficiary gets regular payments for the rest of that period. If you die after the period certain, your beneficiary doesn't receive any payments from your annuity. Because the "period certain" is an added benefit, each income payment will be smaller than in a life-only option.~~

~~· Joint and Survivor - The company pays income as long as either you or your beneficiary lives. You may choose to decrease the amount of the payments after the first death. You may also be able to choose to have payments continue for a set length of time. Because the survivor feature is an added benefit, each income payment is smaller than in a life-only option.~~

~~Death Benefit~~

~~In some annuity contracts, the company may pay a death benefit to your beneficiary if you die before the income payments start. The most common death benefit is the contract value or the premiums paid, whichever is more.~~

~~CAN MY ANNUITY'S VALUE BE DIFFERENT DEPENDING ON MY CHOICE OF BENEFIT?~~

~~While all deferred annuities offer a choice of benefits, some use different accumulated values to pay different benefits. For example, an annuity may use one value if annuity payments are for retirement benefits and a different value if the annuity is surrendered. As another example, an annuity may use one value for long-term care benefits and a different value if the annuity is surrendered. You can't receive more than one benefit at the same time.~~

~~WHAT ABOUT THE TAX TREATMENT OF ANNUITIES?~~

~~Below is a general discussion about taxes and annuities. You should consult a professional tax advisor to discuss your individual tax situation.~~

~~Under current federal law, annuities receive special tax treatment. Income tax on annuities is deferred, which means you aren't taxed on the interest your money earns while it stays in the annuity. Tax-deferred accumulation~~

~~isn't the same as tax-free accumulation. An advantage of tax deferral is that the tax bracket you're in when you receive annuity income payments may be lower than the one you're in during the accumulation period. You'll also be earning interest on the amount you would have paid in taxes during the accumulation period. Most states' tax laws on annuities follow the federal law.~~

~~Part of the payments you receive from an annuity will be considered as a return of the premium you've paid. You won't have to pay taxes on that part. Another part of the payments is considered interest you've earned. You must pay taxes on the part that is considered interest when you withdraw the money. You may also have to pay a 10% tax penalty if you withdraw the accumulation before age 59 1/2. The Internal Revenue Code also has rules about distributions after the death of a contract holder.~~

~~Annuities used to fund certain employee pension benefit plans (those under Internal Revenue Code Sections 401(a), 401(k), 403(b), 457 or 414) defer taxes on plan contributions as well as on interest or investment income. Within the limits set by the law, you can use pretax dollars to make payments to the annuity. When you take money out, it will be taxed.~~

~~You can also use annuities to fund traditional and Roth IRAs under Internal Revenue Code Section 408. If you buy an annuity to fund an IRA, you'll receive a disclosure statement describing the tax treatment.~~

~~WHAT IS A "FREE LOOK" PROVISION?~~

~~Many states have laws which give you a set number of days to look at the annuity contract after you buy it. If you decide during that time that you don't want the annuity, you can return the contract and get all your money back. This is often referred to as a free look or right to return period. The free look period should be prominently stated in your contract. Be sure to read your contract carefully during the free look period.~~

~~HOW DO I KNOW IF A FIXED DEFERRED ANNUITY IS RIGHT FOR ME?~~

~~The questions listed below may help you decide which type of annuity, if any, meets your retirement planning and financial needs. You should think about what your goals are for the money you may put into the annuity. You need to think about how much risk you're willing to take with the money. Ask yourself:~~

- ~~How much retirement income will I need in addition to what I will get from Social Security and my pension?~~
- ~~Will I need that additional income only for myself or for myself and someone else?~~
- ~~How long can I leave my money in the annuity?~~
- ~~When will I need income payments?~~
- ~~Does the annuity let me get money when I need it?~~

~~· Do I want a fixed annuity with a guaranteed interest rate and little or no risk of losing the principal?~~

~~· Do I want a variable annuity with the potential for higher earnings that aren't guaranteed and the possibility that I may risk losing principal?~~

~~· Or, am I somewhere in between and willing to take some risks with an equity-indexed annuity?~~

~~WHAT QUESTIONS SHOULD I ASK MY AGENT OR THE COMPANY?~~

~~· Is this a single premium or multiple premium contract?~~

~~· Is this an equity-indexed annuity?~~

~~· What is the initial interest rate and how long is it guaranteed?~~

~~· Does the initial rate include a bonus rate and how much is the bonus?~~

~~· What is the guaranteed minimum interest rate?~~

~~· What renewal rate is the company crediting on annuity contracts of the same type that were issued last year?~~

~~· Are there withdrawal or surrender charges or penalties if I want to end my contract early and take out all of my money? How much are they?~~

~~· Can I get a partial withdrawal without paying surrender or other charges or losing interest?~~

~~· Does my annuity waive withdrawal charges for reasons such as death, confinement in a nursing home or terminal illness?~~

~~· Is there a market value adjustment (MVA) provision in my annuity?~~

~~· What other charges, if any, may be deducted from my premium or contract value?~~

~~· If I pick a shorter or longer payout period or surrender the annuity, will the accumulated value or the way interest is credited change?~~

~~· Is there a death benefit? How is it set? Can it change?~~

~~· What income payment options can I choose? Once I choose a payment option, can I change it?~~

~~FINAL POINTS TO CONSIDER~~

~~Before you decide to buy an annuity, you should review the contract. Terms and conditions of each annuity contract will vary.~~

~~Ask yourself if, depending on your needs or age, this annuity is right for you. Taking money out of an annuity may mean you must pay taxes. Also, while it's sometimes possible to transfer the value of an older annuity into a new annuity, the new annuity may have a new schedule of charges that could mean new expenses you must pay directly or indirectly.~~

~~You should understand the long-term nature of your purchase. Be sure you plan to keep an annuity long enough so that the charges don't take too much of the money you put in. Be sure you understand the effect of all charges.~~

~~If you're buying an annuity to fund an IRA or other tax-deferred retirement program, be sure that you're eligible. Also, ask if there are any restrictions connected with the program.~~

~~Remember that the quality of service that you can expect from the company and the agent is a very important factor in your decision.~~

~~When you receive your annuity contract, READ IT CAREFULLY!! Ask the agent and company for an explanation of anything you don't understand. Do this before any free look period ends.~~

~~Compare information for similar contracts from several companies. Comparing products may help you make a better decision.~~

~~If you have a specific question or can't get answers you need from the agent or company, contact your state insurance department.~~

~~APPENDIX I EQUITY-INDEXED ANNUITIES~~

~~This appendix to the Buyer's Guide for Fixed Deferred Annuities will focus on equity-indexed annuities. Like other types of fixed deferred annuities, equity-indexed annuities provide for annuity income payments, death benefits and tax-deferred accumulation. You should read the Buyer's Guide for general information about those features and about provisions such as withdrawal and surrender charges.~~

~~WHAT ARE EQUITY-INDEXED ANNUITIES?~~

~~An equity-indexed annuity is a fixed annuity, either immediate or deferred, that earns interest or provides benefits that are linked to an external equity reference or an equity index. The value of the index might be tied to a stock or other equity index. One of the most commonly used indices is Standard & Poor's 500 Composite Stock Price Index (the S&P 500), which is an equity index. The value of any index varies from day to day and is not predictable.~~

~~When you buy an equity-indexed annuity you own an insurance contract. You are not buying shares of any stock or index.~~

~~While immediate equity-indexed annuities may be available, this appendix will focus on deferred equity-indexed annuities.~~

~~HOW ARE THEY DIFFERENT FROM OTHER FIXED ANNUITIES?~~

~~An equity-indexed annuity is different from other fixed annuities because of the way it credits interest to your annuity's value. Some fixed annuities only credit interest calculated at a rate set in the contract. Other fixed annuities also credit interest at rates set from time to time by the insurance company. Equity-indexed annuities credit interest using a formula based on changes in the index to which the annuity is linked. The formula decides how the additional interest, if any, is calculated and credited. How much additional interest you get and when you get it depends on the features of your particular annuity.~~

~~Your equity-indexed annuity, like other fixed annuities, also promises to pay a minimum interest rate. The rate that will be applied will not be less than this minimum guaranteed rate even if the index-linked interest rate is lower. The value of your annuity also will not drop below a guaranteed minimum. For example, many single premium contracts guarantee the minimum value will never be less than 90 percent of the premium paid, plus at least 3% in annual interest (less any partial withdrawals). The guaranteed value is the minimum amount available during a term for withdrawals, as well as for some annuitizations (see "Annuity Income Payments") and death benefits. The insurance company will adjust the value of the annuity at the end of each term to reflect any index increases.~~

~~WHAT ARE SOME EQUITY-INDEXED ANNUITY CONTRACT FEATURES?~~

~~Two features that have the greatest effect on the amount of additional interest that may be credited to an equity-indexed annuity are the indexing method and the participation rate. It is important to understand the~~

~~features and how they work together. The following describes some other equity-indexed annuity features that affect the index-linked formula.~~

~~Indexing Method~~

~~The indexing method means the approach used to measure the amount of change, if any, in the index. Some of the most common indexing methods, which are explained more fully later on, include annual reset (ratcheting), high-water mark and point-to-point.~~

~~Term~~

~~The index term is the period over which index-linked interest is calculated; the interest is credited to your annuity at the end of a term. Terms are generally from one to ten years, with six or seven years being most common. Some annuities offer single terms while others offer multiple, consecutive terms. If your annuity has multiple terms, there will usually be a window at the end of each term, typically 30 days, during which you may withdraw your money without penalty. For installment premium annuities, the payment of each premium may begin a new term for that premium.~~

~~Participation Rate~~

~~The participation rate decides how much of the increase in the index will be used to calculate index-linked interest. For example, if the calculated change in the index is 9% and the participation rate is 70%, the index-linked interest rate for your annuity will be 6.3% (9% x 70% = 6.3%). A company may set a different participation rate for newly issued annuities as often as each day. Therefore, the initial participation rate in your annuity will depend on when it is issued by the company. The company usually guarantees the participation rate for a specific period (from one year to the entire term). When that period is over, the company sets a new participation rate for the next period. Some annuities guarantee that the participation rate will never be set lower than a specified minimum or higher than a specified maximum.~~

~~Cap Rate or Cap~~

~~Some annuities may put an upper limit, or cap, on the index-linked interest rate. This is the maximum rate of interest the annuity will earn. In the example given above, if the contract has a 6% cap rate, 6%, and not 6.3%, would be credited. Not all annuities have a cap rate.~~

~~Floor on Equity Index-Linked Interest~~

~~The floor is the minimum index-linked interest rate you will earn. The most common floor is 0%. A 0% floor assures that even if the index decreases in value, the index-linked interest that you earn will be zero and not negative. As in the case of a cap, not all annuities have a stated floor on index-linked interest rates. But in all cases, your fixed annuity will have a minimum guaranteed value.~~

~~Averaging~~

~~In some annuities, the average of an index's value is used rather than the actual value of the index on a specified date. The index averaging may occur at the beginning, the end, or throughout the entire term of the annuity.~~

~~Interest Compounding~~

~~Some annuities pay simple interest during an index term. That means index-linked interest is added to your original premium amount but does not compound during the term. Others pay compound interest during a term, which means that index-linked interest that has already been credited also earns interest in the future. In either case, however, the interest earned in one term is usually compounded in the next.~~

~~Margin/Spread/Administrative Fee~~

~~In some annuities, the index-linked interest rate is computed by subtracting a specific percentage from any calculated change in the index. This percentage, sometimes referred to as the "margin," "spread," or "administrative fee," might be instead of, or in addition to, a participation rate. For example, if the calculated change in the index is 10%, your annuity might specify that 2.25% will be subtracted from the rate to determine the interest rate credited. In this example, the rate would be 7.75% (10% - 2.25% = 7.75%). In this example, the company subtracts the percentage only if the change in the index produces a positive interest rate.~~

~~Vesting~~

~~Some annuities credit none of the index-linked interest or only part of it, if you take out all your money before the end of the term. The percentage that is vested, or credited, generally increases as the term comes closer to its end and is always 100% at the end of the term.~~

~~HOW DO THE COMMON INDEXING METHODS DIFFER?~~

~~Annual Reset~~

~~Index-linked interest, if any, is determined each year by comparing the index value at the end of the contract year with the index value at the start of the contract year. Interest is added to your annuity each year during the term.~~

~~High-Water Mark~~

~~The index-linked interest, if any, is decided by looking at the index value at various points during the term, usually the annual anniversaries of the date you bought the annuity. The interest is based on the difference between the highest index value and the index value at the start of the term. Interest is added to your annuity at the end of the term.~~

~~Low-Water Mark~~

~~The index-linked interest, if any, is determined by looking at the index value at various points during the term, usually the annual anniversaries of the date you bought the annuity. The interest is based on the difference between the index value at the end of the term and the lowest index value. Interest is added to your annuity at the end of the term.~~

~~Point-to-Point~~

~~The index-linked interest, if any, is based on the difference between the index value at the end of the term and the index value at the start of the term. Interest is added to your annuity at the end of the term.~~

~~WHAT ARE SOME OF THE FEATURES AND TRADE-OFFS OF DIFFERENT INDEXING METHODS?~~

~~Generally, equity-indexed annuities offer preset combinations of features. You may have to make trade-offs to get features you want in an annuity. This means the annuity you chose may also have features you don't want.~~

~~Features~~	~~Trade-Offs~~
~~Annual Reset~~	
~~Since the interest earned is "locked in" annually and the index value is "reset" at the end of each year, future decreases in the index will not affect the interest you have already earned. Therefore, your annuity using the annual reset method may credit more interest than annuities using other methods when the index fluctuates up and down often during the term. This design is more likely than others to give you access to index-linked interest before the term ends.~~	~~Your annuity's participation rate may change each year and generally will be lower than that of other indexing methods. Also an annual reset design may use a cap or averaging to limit the total amount of interest you might earn each year.~~
~~High-Water Mark~~	
~~Since interest is calculated using the highest value of the index on a contract anniversary during the term, this design may credit higher interest than some other designs if the index reaches a high point early or in the middle of the term, then drops off at the end of the term.~~	~~Interest is not credited until the end of the term. In some annuities, if you surrender your annuity before the end of the term, you may not get index-linked interest for that term. In other annuities, you may receive index-linked interest, based on the highest anniversary value to date and the annuity's vesting schedule. Also, contracts with this design may have a lower participation rate than annuities using other designs or may use a cap to limit the total amount of interest you might earn.~~
~~Low-Water Mark~~	
~~Since interest is calculated using the lowest value of the index prior to the end of the term, this design may credit higher interest than some other designs if the index reaches a low point early or in the middle of the term and then rises at the end of the term.~~	~~Interest is not credited until the end of the term. With some annuities, if you surrender your annuity before the end of the term, you may not get index-linked interest for that term. In other annuities, you may receive index-linked interest based on a comparison of the lowest anniversary value to date with the index value at surrender and the annuity's vesting schedule. Also, contracts~~

	~~with this design may have a lower participation rate than annuities using other designs or may use a cap to limit the total amount of interest you might earn.~~
~~Point-to-Point~~	
~~Since interest cannot be calculated before the end of the term, use of this design may permit a higher participation rate than annuities using other designs.~~	~~Since interest is not credited until the end of the term, typically six or seven years, you may not be able to get the index-linked interest until the end of the term.~~

~~WHAT IS THE IMPACT OF SOME OTHER EQUITY-INDEXED ANNUITY PRODUCT FEATURES?~~

~~Cap on Interest Earned~~

~~While a cap limits the amount of interest you might earn each year, annuities with this feature may have other product features you want, such as annual interest crediting or the ability to take partial withdrawals. Also, annuities that have a cap may have a higher participation rate.~~

~~Averaging~~

~~Averaging at the beginning of a term protects you from buying your annuity at a high point, which would reduce the amount of interest you might earn. Averaging at the end of the term protects you against severe declines in the index and losing index-linked interest as a result. On the other hand, averaging may reduce the amount of index-linked interest you earn when the index rises either near the start or at the end of the term.~~

~~Participation Rate~~

~~The participation rate may vary greatly from one annuity to another and from time to time within a particular annuity. Therefore, it is important for you to know how your annuity's participation rate works with the indexing method. A high participation rate may be offset by other features, such as simple interest, averaging, or a point-to-point indexing method. On the other hand, an insurance company may offset a lower participation rate by also offering a feature such as an annual reset indexing method.~~

~~Interest Compounding~~

~~It is important for you to know whether your annuity pays compound or simple interest during a term. While you may earn less from an annuity that pays simple interest, it may have other features you want, such as a higher participation rate.~~

~~WHAT WILL IT COST ME TO TAKE MY MONEY OUT BEFORE THE END OF THE TERM?~~

~~In addition to the information discussed in this Buyer's Guide about surrender and withdrawal charges and free withdrawals, there are additional considerations for equity-indexed annuities. Some annuities credit none of the index-linked interest or only part of it if you take out money before~~

~~the end of the term. The percentage that is vested, or credited, generally increases as the term comes closer to its end and is always 100% at the end of the term.~~

~~ARE DIVIDENDS INCLUDED IN THE INDEX?~~

~~Depending on the index used, stock dividends may or may not be included in the index's value. For example, the S&P 500 is a stock price index and only considers the prices of stocks. It does not recognize any dividends paid on those stocks.~~

~~HOW DO I KNOW IF AN EQUITY-INDEXED ANNUITY IS RIGHT FOR ME?~~

~~The questions listed below may help you decide which type of annuity, if any, meets your retirement planning and financial needs. You should consider what your goals are for the money you may put into the annuity. You need to think about how much risk you're willing to take with the money. Ask yourself:~~

~~Am I interested in a variable annuity with the potential for higher earnings that are not guaranteed and willing to risk losing the principal?~~

~~Is a guaranteed interest rate more important to me, with little or no risk of losing the principal?~~

~~Or, am I somewhere in between these two extremes and willing to take some risks?~~

~~HOW DO I KNOW WHICH EQUITY-INDEXED ANNUITY IS BEST FOR ME?~~

~~As with any other insurance product, you must carefully consider your own personal situation and how you feel about the choices available. No single annuity design may have all the features you want. It is important to understand the features and trade-offs available so you can choose the annuity that is right for you. Keep in mind that it may be misleading to compare one annuity to another unless you compare all the other features of each annuity. You must decide for yourself what combination of features makes the most sense for you. Also remember that it is not possible to predict the future behavior of an index.~~

~~QUESTIONS YOU SHOULD ASK YOUR AGENT OR THE COMPANY~~

~~You should ask the following questions about equity-indexed annuities in addition to the questions in the Buyer's Guide to Fixed Deferred Annuities.~~

- ~~How long is the term?~~
- ~~What is the guaranteed minimum interest rate?~~
- ~~What is the participation rate? For how long is the participation rate guaranteed?~~
- ~~Is there a minimum participation rate?~~
- ~~Does my contract have an interest rate cap? What is it?~~

- ~~Does my contract have an interest rate floor? What is it?~~
- ~~Is interest rate averaging used? How does it work?~~
- ~~Is interest compounded during a term?~~
- ~~Is there a margin, spread, or administrative fee? Is that in addition to or instead of a participation rate?~~
- ~~What indexing method is used in my contract?~~
- ~~What are the surrender charges or penalties if I want to end my contract early and take out all of my money?~~
- ~~Can I get a partial withdrawal without paying charges or losing interest? Does my contract have vesting? If so, what is the rate of vesting?~~

~~Final Points to Consider~~

~~Remember to read your annuity contract carefully when you receive it. Ask your agent or insurance company to explain anything you don't understand. If you have a specific complaint or can't get answers you need from the agent or company, contact your state insurance department.~~

APPENDIX A

Annuity Illustration Example
[The following illustration is an example only and does not reflect specific characteristics of any actual product for sale by any company]

ABC Life Insurance Company
Company Product Name
Flexible Premium Fixed Deferred Annuity with a Market Value Adjustment (MVA)
An Illustration Prepared for John Doe by John Agent on mm/dd/yyyy
(Contact us at PolicyOwnerService@ABCLife.com or 555-555-5555)

Sex: Male	Initial Premium Payment: $100,000.00
Age at Issue: 54	Planned Annual Premium Payments: None
Annuitant: John Doe	Tax Status: Nonqualified
Oldest Age at Which Annuity Payments Can Begin: 95	Withdrawals: None Illustrated

Initial Interest Guarantee Period	5 years
Initial Guaranteed Interest Crediting Rates	
First Year (reflects first year only interest bonus credit of 0.75%):	4.15%
Remainder of Initial Interest Guarantee Period:	3.40%
Market Value Adjustment Period:	5 years
Minimum Guaranteed Interest Rate after Initial Interest Guarantee Period*:	3%

* After the Initial Interest Guarantee Period, a new interest rate will be declared annually. This rate cannot be lower than the Minimum Guaranteed Interest Rate.

Annuity Income Options and Illustrated Monthly Income Values

This annuity is designed to pay an income that is guaranteed to last as long as the Annuitant lives. When annuity income payments are to begin, the income payment amounts will be determined by applying an annuity income rate to the annuity Account Value.

Annuity income options include the following:

- Periodic payments for Annuitant's life
- Periodic payments for Annuitant's life with payments guaranteed for a certain number of years
- Periodic payments for Annuitant's life with payments continuing for the life of a survivor annuitant

Illustrated Annuity Income Option: Monthly payments for annuitant's life with payments guaranteed for 10-year period.
Assumed Age When Payments Start: 70

	Account Value	Monthly Annuity Income Rate/$1000 of Account Value *	Monthly Annuity Income
Based on Rates Guaranteed in the Contract	$164,798	$5.00	$823.99
Based on Rates Currently Offered by the Company	$171,976	$6.50	$1,117.84

* If, at the time of annuitization, the annuity income rates currently offered by the company are higher than the annuity income rates guaranteed in the contract, the current rates will apply.

ABC Life Insurance Company
Company Product Name
Flexible Premium Fixed Deferred Annuity with a Market Value Adjustment (MVA)
An Illustration Prepared for John Doe by John Agent on mm/dd/yyyy
(Contact us at PolicyOwnerService@ABCLife.com or 555-555-5555)

		Values Based on Guaranteed Rates				Values Based on Assumption that Initial Guaranteed Rates Continue		
Contract Year/Age	Premium Payment	Interest Crediting Rate	Account Value	Cash Surrender Value Before MVA	Minimum Cash Surrender Value After MVA	Interest Crediting Rate	Account Value	Cash Surrender Value Before and After MVA
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1 / 55	$ 100,000	4.15%	$ 104,150	$ 95,818	$ 92,000	4.15%	$ 104,150	$ 95,818
2 / 56	0	3.40%	107,691	100,153	93,000	3.40%	107,691	100,153
3 / 57	0	3.40%	111,353	104,671	95,614	3.40%	111,353	104,671
4 / 58	0	3.40%	115,139	109,382	98,482	3.40%	115,139	109,382
5 / 59	0	3.40%	119,053	114,291	114,291	3.40%	119,053	114,291
6 / 60	0	3.00%	122,625	118,946	118,946	3.40%	123,101	119,408
7 / 61	0	3.00%	126,304	123,778	123,778	3.40%	127,287	124,741
8 / 62	0	3.00%	130,093	130,093	130,093	3.40%	131,614	131,614
9 / 63	0	3.00%	133,996	133,996	133,996	3.40%	136,089	136,089
10 / 64	0	3.00%	138,015	138,015	138,015	3.40%	140,716	140,716
11 / 65	0	3.00%	142,156	142,156	142,156	3.40%	145,501	145,501
16 / 70	0	3.00%	164,798	164,798	164,798	3.40%	171,976	171,976
21 / 75	0	3.00%	191,046	191,046	191,046	3.40%	203,268	203,268
26 / 80	0	3.00%	221,474	221,474	221,474	3.40%	240,255	240,255
31 / 85	0	3.00%	256,749	256,749	256,749	3.40%	283,972	283,972
36 / 90	0	3.00%	297,643	297,643	297,643	3.40%	335,643	335,643
41 / 95	0	3.00%	345,050	345,050	345,050	3.40%	396,717	396,717

For column descriptions, turn to next page

Column Descriptions

(1) **Ages** shown are measured from the Annuitant's age at issue

(2) **Premium Payments** are assumed to be made at the beginning of the Contract Year shown

Values Based on Guaranteed Rates

(3) **Interest Crediting Rates** shown are annual rates; however, interest is credited daily. During the Initial Interest Guarantee Period, values developed from the Initial Premium Payment are illustrated using the Initial Guaranteed Interest Rate(s) declared by the insurance company, which include an additional first year only interest bonus credit of 0.75%. The interest rates will be guaranteed for the Initial Interest Guarantee Period, subject to an MVA. After the Initial Interest Guarantee Period, a new renewal interest rate will be declared annually, but can never be less than the Minimum Guaranteed Interest Rate shown.

(4) **Account Value** is the amount you have at the end of each year if you leave your money in the contract until you start receiving annuity payments. It is also the amount available upon the Annuitant's death if it occurs before annuity payments begin. The death benefit is not affected by surrender charges or the MVA.

(5) **Cash Surrender Value Before MVA** is the amount available at the end of each year if you surrender the contract (after deduction of any Surrender Charge) but before the application of any MVA. Surrender charges are applied to the Account Value according to the schedule below until the surrender charge period ends, which may be after the Initial Interest Guarantee Period has ended.

Years Measured from Premium Payment:	1	2	3	4	5	6	7	8+
Surrender Charges:	8%	7%	6%	5%	4%	3%	2%	0%

(6) **Minimum Cash Surrender Value After MVA** is the minimum amount available at the end of each year if you surrender your contract before the end of five years, no matter what the MVA is. The minimum is set by law. The amount you receive may be higher or lower than the cash surrender value due to the application of the MVA, but never lower than this minimum. Otherwise the MVA works as follows: If the interest rate available on new contracts offered by the company is LOWER than your Initial Guaranteed Interest Rate, the MVA will INCREASE the amount you receive. If the interest rate available on new contracts offered by the company is HIGHER than your initial guaranteed interest rate, the MVA will DECREASE the amount you receive. Page 4 of this illustration provides additional information concerning the MVA.

Values Based on Assumption that Initial Guaranteed Rates Continue

(7) **Interest Crediting Rates** are the same as in Column (3) for the Initial Interest Guarantee Period. After the Initial Interest Guarantee Period, a new renewal interest rate will be declared annually. For the purpose of calculating the values in this column, it is assumed that the Initial Guaranteed Interest Rate (without the bonus) will continue as the new renewal interest rate in all years. The actual renewal interest rates are not subject to an MVA and will very likely NOT be the same as the illustrated renewal interest rates.

(8) **Account Value** is calculated the same way as column (4).

(9) **Cash Surrender Value Before and After MVA** is the Cash Surrender Value at the end of each year assuming that Initial Guaranteed Interest Rates continue, and that the continuing rates are the rates offered by the company on new contracts. In this case the MVA would be zero, and the Cash Surrender Values before and after the MVA would be the same.

Important Note: This illustration assumes you will take **no** withdrawals from your annuity before you begin to receive periodic income payments. **Withdrawals will reduce both the annuity Account Value and the Cash Surrender Value.** You may make partial withdrawals of up to 10% of your account value each contract year without paying surrender charges. Excess withdrawals (above 10%) and full withdrawals will be subject to surrender charges.

This illustration assumes the annuity's current interest crediting rates will not change. It is likely that they will change and actual values may be higher or lower than those in the illustration.

The values in this illustration are not guarantees or even estimates of the amounts you can expect from your annuity. For more information, read the annuity disclosure and annuity buyer's guide.

MVA-adjusted Cash Surrender Values (CSVs) Under Sample Scenarios

The graphs below show MVA-adjusted Cash Surrender Values (CSVs) during the first five years of the contract, as illustrated on page 2 ($100,000 single premium, a 5-year MVA Period) under two sample scenarios, as described below.

Graph #1 shows if the interest rate on new contracts is 3% LOWER than your Initial Guaranteed Interest Rate, the MVA will increase the amount you receive (green line). The pink line shows the Cash Surrender Values if the Initial Guaranteed Interest Rates continue (from Column (9) on Page 2).

Graph #2 shows if the interest rate on new contracts is 3% HIGHER than our Initial Guaranteed Interest Rate, the MVA will decrease the amount you receive, but not below the minimum set by law (Column (6) on Page 2), which in this scenario limits the decrease for the first 2 years (yellow line). The pink line shows the Cash Surrender Values if the Initial Guaranteed Interest Rates continue (from Column (9) on Page 2).

These graphs and the sample guaranteed interest rates on new contracts used are for demonstration purposes only and are not intended to be a projection of how guaranteed interest rates on new contracts are likely to behave.