ANNUITY DISCLOSURE TEMPLATES

guidelines and instructions for life insurers on how to prepare disclosure documents for fixed, index, and variable annuities

2007

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INTRODUCTION

Everyone agrees that retirement today requires more planning than for previous generations. Americans are living longer, fewer workers are covered by traditional pension plans that guarantee an income for life, and Social Security likely won't provide the same level of benefits in the future as it does today.

Americans need ways to create and guarantee lifetime income so their standard of living does not decline with age. For many Americans, an annuity can help them achieve that goal. However, most consumers don't understand how an annuity works, its benefits and risks, and what their commitments are under an annuity contract.

In January 2005, ACLI's Board of Directors took steps to bridge this information gap and to improve the environment in which annuities—fixed, index, and variable—are sold. A CEO-level task force was formed to develop recommendations to address the widespread criticism that annuities are misunderstood by consumers. Their first recommendations were to give increased attention to suitability and initiate a new, industry-wide emphasis on consumer empowerment through improved disclosure.

In the area of suitability, ACLI fully supported the NAIC recommendation to expand the Senior Protection in Annuity Transactions Model Regulation to apply to all ages. The NAIC adopted this change in June 2006, and ACLI has been actively pursuing uniform adoption of the expanded model (Suitability in Annuity Transactions) in the states.

With regard to improved disclosure, ACLI has been pursuing state adoption of the NAIC Annuity Disclosure Model Regulation. The model—developed nearly a decade ago, but not widely adopted—provides the necessary base for improved understanding of annuities. However, the companies that comprise both ACLI and NAVA—an alliance of companies involved in the annuity and variable products industry—agreed that the development of short, simple, and standardized disclosure documents was an essential next step to further assist consumers in their purchasing decisions.

ACLI and NAVA—working closely with member companies—joined together to develop a set of "templates" for presenting required disclosure information in a truly consumer-friendly manner. Disclosure templates for fixed and index annuities are based on the requirements set forth in NAIC's disclosure model regulation. The template for variable annuity products follows the abbreviated approach of the SEC-approved Profile Plus for equity-based products that are followed by a full prospectus.

These templates were used to produce sample documents based on actual annuity products. The samples were tested in a series of focus groups with retirees, baby boomers, and producers. Feedback from the groups was incorporated into the samples and retested. The responses from all three groups was overwhelmingly positive.

What is enclosed in this packet reflects the feedback received from focus groups and input from ACLI and NAVA members, as well as regulators. It includes:

- General guidelines on how to write readable disclosure materials
- Instructions on how to complete a disclosure template
- Templates for fixed, index, and variable annuity disclosures
- Instructions and a template for depicting indexed interest crediting strategies
- A sample of what an actual disclosure might look like for each product

GENERAL GUIDELINES FOR WRITING READABLE DISCLOSURES

Measures of Readability

Writing More Readable Disclosures

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GENERAL GUIDELINES FOR WRITING READABLE DISCLOSURES

The following guidelines were developed by Brenda J. Cude, Ph.D., Professor of Housing and Consumer Economics, at the University of Georgia. Dr. Cude is an expert on consumer protection and behavior whose interests focus on how consumers acquire and use information before making buying decisions. She represents the consumer perspective in policy discussions at national meetings of insurance regulators.

Effective writing for a general audience means writing in plain language. Adult literacy levels are relatively low; Adkins and Ozanne report that more than one-fifth of the U.S. adult population is functionally illiterate (lacks reading and writing skills needed to meet daily demands) and another 34 percent is marginally literate.[1] In addition, even literate people may read information too quickly to understand it or may not read it at all if it appears too complex.

Measures of Readability

There are two widely-used measures of readability: the Flesch Reading Ease Score and the Flesch-Kincaid Grade Level. Each is calculated based on a formula that uses average sentence length and average number of words per sentence. The Flesch Reading Ease Score ranges from 0 to 100, with a higher score indicating easier reading. The Flesch-Kincaid Grade Level formula converts the Flesch Reading Ease score to a U.S. grade school level.[2] Over one-half of the adult population has reading skills below sixth grade.[3] Recent versions of Microsoft Word calculate both the Flesch Reading Ease Score and the Flesch-Kincaid Grade Level.

Alternate measures of readability recognize other elements that affect readability. The FOG (Frequency of Gobbledygook) Index is based on average sentence length and the percentage of words with three or more syllables.[4] There's also a SMOG (Simple Measure of Gobbledygook) Index.[5]

The Cloze Test is a measure of how well "average" consumers understand written material. To use the Cloze Test delete every fifth word and ask one or more persons to fill in the blanks. If the information is well written, the reader should be able to fill in at least 60 percent of the blanks based on the rest of the sentence. If the reader can't complete at least 40 percent of the blanks, the information probably needs to be rewritten.[6]

Writing More Readable Disclosures

This section outlines a number of rules for writing more readable disclosures. An important resource used in writing this section was http://www.plainlanguage.gov.[7]

- Write for the average reader.
    - Know the expertise and interest of your average reader and write to that person. Pretest information with the average reader before releasing it publicly.
    - Don't write to the experts, the lawyers, or management, unless they are the intended audience.
    - Use common, everyday words.

- Organize to meet the needs of the reader.
    - Create a plan for organizing your document (most general to most specific, chronological, etc.) and explain to the reader how you've organized the document and how to use it.
    - Use descriptive headings to help your reader find specific information more easily.
    - Summarize complicated topics before you describe all the details.
    - Put items of most interest to your reader at the beginning.

- Include only the information your reader needs. Too much information and too much detail make it hard for consumers to find the important information.
- Use headings and make the headings useful.
  - Headings help the reader find their way through the material. Adults read to solve problems and answer questions. Headings help them find the information they need. A question format for headings is often a good way to help the reader find information.
  - Headings should describe all of the material under the heading. If they don't, you need more headings.
  - Every page should have at least one heading and most should have more than one. Don't use more than two or three subordinate levels of headings.
  - Headings should be visually different from the rest of the text and easy to identify. That's most likely to happen if the headings are relatively short—just a few words.
- Use "you" and other pronouns to help the reader understand the information.
  - Use pronouns to pull readers into the disclosure and make it more meaningful to them.
  - In a question, refer to the reader as I ("how do I," "how is my annuity"). In the answer, refer to the reader as you ("your annuity"). Refer to the company as "we" or use the name of the insurance company. Don't use the generic "insurer" or "company."
- Use active voice.
  - Writing in active voice is the single most powerful change to improve readability.
  - Use active voice to clarify who is doing what. If you use passive voice, who is doing what is often unclear.
  - Active voice is generally shorter, as well as clearer.
  - Active sentences are structured with the actor first (as the subject), then the verb, then the object of the action. (For example: You can't take any of the money out of your annuity after the payout begins, NOT A full surrender of your contract can be made at any time before payouts begin.)
- Use short sentences and short sections.
  - Use short sentences, paragraphs, and sections to help your reader get through the material. Long dense text with few headings increases the odds the reader will get lost.
  - If you "chunk" the information using columns, headings, and/or bullets, your document will have more white space. White space opens your document visually and makes it more appealing
  - Sentences should average 15 to 20 words and never be longer than 40 words.
  - Use the simplest tense possible. Use base verbs, not nominalizations (hidden verbs).
  - The simplest verb tense is the clearest and strongest; use simple present tense whenever possible. For example, say, "We credit interest every quarter," not "We will be crediting interest every quarter."
  - A nominalization is a verb that has been turned into a noun. For example, say, "We manage your investment portfolio" and "We analyze data," not "We are responsible for management of your investment portfolio" or "We conduct an analysis of the data."

- Eliminate all excess words.
  - Challenge every word—do you need it?
  - Use pronouns, active voice, and base verbs to eliminate excess words.
  - Eliminate all unnecessary modifiers. For example, in "The two groups issued a joint report," "joint" isn't necessary. In "this information is really critical," "really" isn't necessary.
- Use concrete familiar words.
  - Big words and unfamiliar words don't impress people; they confuse them.[8]
  - If your contract uses a unique term to refer to a contract feature, use that term but include a definition in parentheses after.
  - Use the term premium to refer to money the consumer pays you. Use the term payout to refer to money you pay the consumer.
  - If the contract uses another term for payout, the first time it appears put the other term in the disclosure followed by payout in parentheses. After the first time, use the generic term payout.
  - If the contract uses another term for surrender charge, the first time it appears in the disclosure, put the other term followed by surrender charge in parentheses. After the first time, use the generic term surrender charge. (Example: XYZ Life Insurance Company takes a contingent deferred sales charge (also known as a surrender charge).)
  - Put important terms in bold font the first time you use them. Be selective about what terms you consider important and thus put in bold font; if too many words are in bold, the technique loses its effectiveness.
  - Define (and limit) abbreviations.
  - Avoid jargon, foreign terms, Latin terms, and legal terms.
  - Don't use "and/or" or multiple negatives.
- Use "must" to state requirements. Avoid using the more ambiguous "shall."
  - "Shall" is ambiguous and a word we rarely use in everyday conversation.
  - "Must" (not "shall") is the clearest way to express a requirement or obligation.[9]
- Place words carefully.
  - Placing words carefully within a sentence is as important as organizing your document effectively.
  - Keep subject, verb, and object close together; put exceptions at the end.
- Use lists and tables to simplify information.
  - Lists and tables are one way to explain complex material in less space.
  - Lists and tables give the document more white space and make it more appealing to the reader.
  - If you use a table, explain the table. An example using information from the table is a good way to explain the table.

- Pay attention to format.
  - Make notes to text and tables less visually important than the text. One way to do that is to use a smaller font for notes.
  - Avoid "mice type" (small print) for important information.
  - Serif fonts such as Times and Times New Roman are generally considered most readable but there are ways to make any font more or less readable.[10] For example, each of the fonts below is 12 point but there's an obvious difference in readability.

    For example (Arial)
    For example (Bookman Old Style)
    For example (Arial Narrow)
    For example (Gil Sans MT Condensed)

  - Don't overuse **BOLD** and all **CAPITAL** letters for **EMPHASIS.**
  - Every page should have at least one heading—and most should have more.
  - "Chunk" the information using columns, headings, and/or bullets in your document to create more white space.
  - Use lists and tables to explain complex information.

Web Pages

Most of the preceding information applies to Web pages as well. Online, most people are looking for information to answer immediate questions. They scroll and scan pages looking for information and don't want to read much. These preferences suggest:[11]

- Break documents into separate topics.
- Use even shorter paragraphs than on paper.
- Use even more lists than on paper.
- Use even more headings with less under each heading.
- Keep the information on each page to no more than two levels; the Web has little room for indenting or showing levels of headings.
- Questions often make great headings because users come to the Web with questions in mind.

And, some thoughts on fonts online:[12]

- Use real text rather than text within graphics.
- Select basic, simple, easily-readable fonts.
- Use a limited number of fonts.
- Ensure sufficient contrast between the text and the background.
- Avoid small font sizes.
- Use relative units for font size.
- Limit the use of font variations such as bold, italics, and ALL CAPITAL LETTERS.
- Don't rely only on the appearance of the font (color, shape, font variation, placement, etc.) to convey meaning.
- Avoid blinking or moving text.

Notes

[1]Adkins, N.R., & Ozanne, J.L. (2005, June). The low literate consumer. *Journal of Consumer Research,* 12, 93-105.

[2]See Coh-Metrix, University of Memphis Department of Psychology at http://csep.psyc.memphis.edu/cohmetrix/readabilityresearch.htm or Readability Info at http://www.readability.info/ for more information.

[3]National Adult Literacy Survey 1992 at http://nces.ed.gov/naal/.

[4]See "Writing Tips" at http://process.umn.edu/groups/ppd/documents/information/Writing_Tips.cfm.

[5]See SMOG Index at http://en.wikipedia.org/wiki/SMOG_Index and a link to an online calculator to create a SMOG Index.

[6]Hochhauser, M. (2001-2005). Take the Cloze Test: Readability of a Financial Privacy Policy. Privacy Rights Clearinghouse. Available at http://www.privacyrights.org/fs/fs24b-ClozeFinancial.htm.

[7]The organization of this section follows the organization of the online Power Point presentation, "Writing in Plain Language on the TriCare Site" at http://www.tricare.osd.mil/webmaster/Plain-Language-Rules-Web-Toolkit-2005-07-27.ppt.

[8]For a list of complex words and simpler alternatives, visit http://employees.faa.gov/worktools/correspondence_writing/writing_resources/simple_words/index.cfm.

[9]For information about plain language in the legal sector, visit http://www.plainlanguage.gov/examples/legal/index.cfm.

[10]See http://www.webaim.org/techniques/fonts/ for more information about fonts.

[11]From "Writing in Plain Language on the TriCare Site" at http://www.tricare.osd.mil/webmaster/Plain-Language-Rules-Web-Toolkit-2005-07-27.ppt.

[12]From WebAIM.org at http://www.webaim.org/techniques/fonts/.

FIXED ANNUITY DISCLOSURE MATERIALS

How to Complete the Template for a Fixed Annuity Disclosure

Example 1A: Template for a Fixed Annuity Disclosure

Example 1B: Sample of a Fixed Annuity Disclosure

HOW TO COMPLETE THE TEMPLATE FOR A FIXED ANNUITY DISCLOSURE

The following is a guide to writing a disclosure for a fixed annuity. It includes general suggestions for writing statements; the types of information that should be covered under each required section, the headings to be used and questions to be answered; and in some cases, provides suggested language that can be used.

Example 1A on page 11 shows a graphic of a fixed annuity disclosure template; Example 1B on pages 12–13 is a sample of what an actual product disclosure may look like. Companies are encouraged to follow the language used in the sample where possible. Disclosure documents should be kept short (preferably two pages).

Suggestions for Writing Statements

- Make a clear distinction about whether a statement is true of all annuities ("an annuity") or all annuities of this type ("a deferred annuity") or this product ("this annuity," "this deferred annuity").
- In a question, refer to the reader as I (my annuity). In the answer, refer to the reader as you (your annuity). Refer to the company as "we" or use the name of the insurance company. Don't use the generic "insurer" or "company."
- Avoid statements that don't give specific information or don't give the reader information to find specific information. For example, "Interest is credited to your account" is a general statement that isn't very useful. "Interest is credited to your account daily" is a specific statement of information as is "Page 23 of your contract explains the different ways that interest may be credited to your account."
- Use specific terms (i.e. surrender) from your contract in the disclosure but include a definition in parentheses after.
- Put important terms in bold font the first time you use them. Be selective about what terms you consider important. If too many words are in bold, the technique loses its effectiveness.
- If you refer the reader to the contract for more information, be specific about what information is there and exactly where to find it (e.g. use page numbers or section titles).
- The phrasing "includes" (i.e. "Your options include") suggest there are other options not stated here. If you've stated all of the options, say "Your options are." If you plan to add options later, say, "Your options now are."
- The term "annuity" is easier for consumers to understand than "contract." Use "annuity contract" when you're referring the consumer to the written contract. Don't use the word policy to describe an annuity.
- When possible, present information in a bulleted list with a brief description and refer to a specific page number or heading in the contract for more information.
- Disclosure documents should be kept short (preferably two pages).

SECTION 1: INTRODUCTION

- Include your company name and name of the product at the top of the page. A company logo also may be inserted.
- Include statements that briefly explain each of the major features of the annuity. (Suggested language: This annuity is tax-deferred, which means you don't pay taxes on the interest it earns until the money is paid to you. This annuity is fixed, which means it earns a specified interest rate during the guaranteed period.)
- Specify if the annuity is single-premium or flexible premium. (Suggested language: This annuity is single-premium which means you buy it with one premium (payment) **or** flexible premium, which means you can purchase it with multiple payments).
- Include a statement that the buyer can use an annuity for lifetime income but it is not meant for short-term goals. (Suggested language: You can use an annuity to save money for retirement and to receive retirement income for life. It is not meant to be used to meet short-term financial goals.)

SECTION 2: THE ANNUITY CONTRACT

How will the value of my annuity grow?

- Explain how the annuity earns interest, clearly distinguishing between guaranteed, nonguaranteed, and determinable elements, including their limitations.
- Explain any guarantees and the factors that affect the guarantees.
- Explain how and when interest is credited to the account.

Suggestions for writing statements in this section:

- When you use a table, explain the table. An example using information from the table is a good way to explain the table.

SECTION 3: BENEFITS

How do I get income from my annuity?

- Outline choices in payout options, including whether there is a specified maturity date.
- Describe options and restrictions on withdrawing money from the annuity.

Suggestions for writing statements in this section:

- Use the terms that are in the contract for payout options, but include a clear explanation of each.
- If the contract uses another term for payout, the first time it appears put the other term in the disclosure followed by payout in parenthesis. After the first time, use the generic term payout.
- Use the term premium to refer to money the consumer pays you. Use the term payout to refer to money you pay the consumer.

What happens after I die?

- Describe what happens if the owner (and annuitant if different) dies before and after the company starts to pay income from the annuity and any choices the owner will be asked to make.

What other benefits can I choose?

- List any optional riders that affect payouts and withdrawals and briefly describe each.

SECTION 4: FEES, EXPENSES & OTHER CHARGES

What happens if I take out some or all of the money from my annuity?

This section should outline:

- The amount of surrender charges and when they are paid.
- Any other charges or adjustments in the amount received when taking money from an annuity.
- Any other fees, including contract fees and annual service fees, the amounts, and when and how they are collected.

Suggestions for writing statements in this section:

- If the contract uses another term for surrender charge, the first time it appears in the disclosure, put the other term followed by surrender charge in parentheses. After the first time, use the generic term surrender charge. (Example: ABC Life Insurance Company takes a contingent deferred sales charge (also known as a surrender charge).
- State surrender charges in a table format and include an example to explain the table.
- Include an explanation of the market value adjustment, if applicable. (Suggested language: When you make a withdrawal, we also may increase or decrease the amount you receive based on a market value adjustment (MVA). If interest rates went up after you bought your annuity, the MVA likely will decrease the amount you receive. If interest rates went down, the MVA likely will increase the amount you receive.)

Do I pay any other fees or charges?

- Outline any other fees or charges that apply to the annuity.

Suggestions for writing statements in this section:

- When you use a table, include an example to explain the table.

SECTION 5: TAXES

How will payouts and withdrawals from my annuity be taxed?

This section should outline:

- The meaning of tax-deferred (Suggested language: This annuity is tax-deferred, which means you don't pay taxes on the interest it earns until the money is paid to you. When you take payouts or make a withdrawal, you pay ordinary income taxes on the earned interest. You also pay a 10% federal income tax penalty on earnings you withdraw before age 59 1/2.)
- If your company takes premium taxes from withdrawals or payouts, include a statement describing the deduction. (Suggested language: If your state imposes a premium tax, it will be deducted from the money you receive.)
- That one tax-deferred annuity can be exchanged for another without paying taxes on earnings. (Suggested language: You can exchange one tax-deferred annuity for another without paying taxes on the earnings when you make the exchange. Before you do, compare the benefits, features, and costs of the two annuities.)

Does buying an annuity in a retirement plan provide extra tax benefits?

- Explain that there are no tax advantages to buying an annuity as part of a retirement plan. (Suggested language: Buying an annuity within an IRA, 401(k), or other tax-deferred retirement plan doesn't give you any extra tax benefits. Choose your annuity based on its other features and benefits as well as its risks and costs, not its tax benefits.)

SECTION 5: OTHER INFORMATION

What else do I need to know?

All disclosures should include the following statements, which are included in the templates, modified as needed to match your situation.

- We may change your annuity contract from time to time to follow federal or state laws and regulations. If this happens, we'll tell you about the changes in writing.
- We pay the agent, broker, or firm for selling the annuity to you.
- Many states have laws that give you a set number of days to look at an annuity after you buy it. If you decide during that time that you don't want it, you can return the annuity and get all your money back. Read your contract (page x) to learn about your free look period. (Or replace suggested language with state and company specific information about free look.)

Include in this section other important information that doesn't appear elsewhere, such as what happens if the annuitant doesn't choose a payout option and information about the impact of riders.

What should I know about the insurance company?

- Provide a general description of the company as well as all contact information, including an address, phone number, Web site, and e-mail address (as applicable). You also may consider including financial strength ratings.

EXAMPLE 1A

Template for a Fixed Annuity Disclosure

Example 1A shows how to group disclosure material into sections and in two-column format. Disclosure documents should be short (preferably two pages). The template also includes the section headings that are to be used, the questions that need to be answered, and provides suggested language that can be used.

SECTION 1

[COMPANY NAME]
[PRODUCT NAME] Disclosure

This document reviews important points to think about before you buy this [COMPANY NAME] annuity. [INSERT AS APPROPRIATE: IT IS A SINGLE-PREMIUM ANNUITY WHICH MEANS YOU BUY IT WITH ONE PREMIUM (PAYMENT) *OR* FLEXIBLE PREMIUM ANNUITY WHICH MEANS YOU CAN PURCHASE IT WITH MULTIPLE PAYMENTS.]

This annuity is fixed, which means it earns a specified interest rate during the guaranteed period. This annuity is **tax-deferred,** which means you don't pay taxes on the interest it earns until the money is paid to you.

You can use an annuity to save money for retirement and to receive retirement income for life. It is **not** meant to be used to meet short-term financial goals.

If you have questions about this annuity, please ask your agent, broker, advisor, or contact a company representative using the toll-free number provided below.

SECTION 2

THE ANNUITY CONTRACT

How will the value of my annuity grow?

SECTION 3

BENEFITS

How do I get income from my annuity?

What happens after I die?

What other benefits can I choose?

SECTION 4

FEES, EXPENSES & OTHER CHARGES

What happens if I take out some or all of the money from my annuity?

Do I pay any other fees or charges?

SECTION 5

TAXES

How will payouts and withdrawals from my annuity be taxed?

Does buying an annuity in a retirement plan provide extra tax benefits?

SECTION 6

OTHER INFORMATION

What else do I need to know?

- We may change your annuity contract from time to time to follow federal or state laws and regulations. If we do, we'll tell you about the changes in writing.
- We pay the agent, broker, or firm for selling the annuity to you.
- Many states have laws that give you a set number of days to look at an annuity after you buy it. If you decide during that time that you don't want it, you can return the annuity and get all your money back. Read your contract [INSERT PAGE NUMBER] to learn about your *free look* period. [OR REPLACE SUGGESTED LANGUAGE WITH STATE AND COMPANY SPECIFIC INFORMATION ABOUT FREE LOOK.]

What should I know about the insurance company?

EXAMPLE 1B

Sample of a Fixed Annuity Disclosure

Example 1B is a sample of how a final disclosure document might look. This a only a sample and is not intended to serve as a model disclosure for all types of annuities. Disclosure documents for each company and product will vary. Disclosure documents should be kept short (preferably two pages).

Fixed Single-Premium Deferred Annuity Disclosure

XYZ LIFE INSURANCE

This document reviews important points to think about before you buy this XYZ Insurance Company annuity. This annuity is single-premium which means you buy it with one premium (payment). It is a fixed annuity which means it earns a specified interest rate during the guaranteed period. This annuity is **tax-deferred,** which means you don't pay taxes on the interest it earns until the money is paid to you.

You can use an annuity to save money for retirement and to receive retirement income for life. It is **not** meant to be used to meet short-term financial goals.

If you have questions about this annuity, please ask your agent, broker, or advisor, or contact a company representative at 800–123–4567.

THE ANNUITY CONTRACT

How will the value of my annuity grow?
Your annuity earns **tax-deferred** interest at a **guaranteed minimum rate** for a **guaranteed period.** When you buy your annuity, you choose a guaranteed period of 5, 6, 7, 8, 9, or 10 years. The guaranteed rate depends on the guaranteed period you choose and current interest rates in the market. Interest compounds daily and is credited to your annuity account on the last day of each month.

Within 30 days after the end of each guaranteed period, you choose a new guaranteed period or surrender (cancel and withdraw the money from) your annuity. If you do nothing, a new guaranteed period begins that is the same length as the one before. The new guaranteed rate depends on the length of the new guaranteed period and current market rates. Interest compounds daily at the new rate in the new period.

The account value of your annuity cannot go down.

BENEFITS

How do I get income (payouts) from my annuity?
When you apply for your annuity, you choose a payout commencement date—when you start to get income from your annuity. You also choose how to get the income—the payout option. Your choices now are:

- **Life:** Guarantees income for as long as you live.
- **Joint and survivor life:** Guarantees income for as long as you or your joint annuitant (usually a spouse) live.
- **Life income with period certain:** Guarantees income for as long as you live. If you die within the "period certain" (usually 10 or 20 years), it pays income to your beneficiary for the rest of the period.
- **Designated period of time:** Pays income for that period.
- **Lump sum:** One payout.

You may change both the start date and the payout option up until payout begins. After that, you can't make any changes.

What happens after I die?
If you die before we start to pay you income from your annuity, we pay the value of your annuity to your beneficiary. If you die after the payouts start, depending on the type of payout you chose, we pay the remaining value in the annuity, if any, to your beneficiary.

FEES, EXPENSES & OTHER CHARGES

What happens if I take out some or all of the money from my annuity?
You can't take any of the money out of your annuity after the payout begins. Before it begins, you can take out all of your annuity's value **(full surrender)** or part of it **(partial surrender)**. You can take a partial surrender as long as the amount you take is at least $1,000 and you leave at least $5,000 in the account.

We take a **contingent deferred sales charge (also known as a surrender charge)** from amounts you withdraw before the end of the seventh contract year. Here's how the charge is calculated:

Contract year	1	2	3	4	5	6	7	8+
Surrender charge	7%	6%	5%	4%	3%	2%	1%	0

Example: If you withdraw $5,000 from your annuity in the third year contract year, your surrender charge is $5,000 x 0.05 = $250. If you take out any amount after the end of the seventh contract year, there's no charge.

When you make a withdrawal, we also may increase or decrease the amount you receive based on a **market value adjustment (MVA)**. If interest rates went up after you bought your annuity, the MVA likely will decrease the amount you receive. If interest rates went down, the MVA likely will increase the amount you receive.

Exceptions: In some cases, we may waive the surrender charge or the market value adjustment. For example, there's no surrender charge if we pay the remaining value of your annuity to a beneficiary after your death.

Do I pay any other fees or charges?
No. There aren't any other fees or charges on this annuity. Also, you pay only one premium for your annuity

TAXES

How will payouts and withdrawals from my annuity be taxed?
This annuity is tax-deferred, which means you don't pay taxes on the interest it earns until the money is paid to you. When you take payouts or make a withdrawal, you pay ordinary income taxes on the earned interest. You also pay a 10% federal income tax penalty on earnings you withdraw before age 59 1/2. If your state imposes a premium tax, it will be deducted from the money you receive.

You can exchange one tax-deferred annuity for another without paying taxes on the earnings when you make the exchange. Before you do, compare the benefits, features, and costs of the two annuities. You may pay a surrender charge if you make the exchange during the first seven years you own the annuity. Also, you may pay a surrender charge if you make withdrawals from the new annuity during the first years you own it.

Does buying an annuity in a retirement plan provide extra tax benefits?
Buying an annuity within an IRA, 401(k), or other tax-deferred retirement plan doesn't give you any extra tax benefits. Choose your annuity based on its other features and benefits as well as its risks and costs, not its tax benefits.

OTHER INFORMATION

What else do I need to know?

- Once you start to receive your payouts, you can't surrender your annuity.
- If you don't choose an annuity payout option, we start payouts on the starting date you chose and continue them for 120 months (10 years).
- We may change your annuity contract from time to time to follow federal or state laws and regulations. If we do, we'll tell you about the changes in writing.
- We pay the agent, broker, or firm for selling the annuity to you.
- Many states have laws that give you a set number of days to look at an annuity after you buy it. If you decide during that time that you don't want it, you can return the annuity and get all your money back. Read your contract (page x) to learn about your **free look** period.

What should I know about the insurance company?
XYZ Life Insurance Company offers a wide variety of retirement and financial security products, including life insurance, annuities, long-term care, and disability income insurance. We also are a leading provider of products and services to workplace-based pension plans—both defined contribution and defined benefit plans. Our financial strength ratings are: A+ (A.M. Best); AA (S&P); Aa3 (Moody's); and AA+ (Fitch).

XYZ Life Insurance Company
123 Main Street
Your Town USA
Telephone: 800–123–4567
http://www.xyzlife.com

XYZ LIFE INSURANCE

INDEX ANNUITY DISCLOSURE MATERIALS

How to Complete the Template for an Index Annuity Disclosure

Example 2A: Template for an Index Annuity Disclosure

Example 2B: Sample of an Index Annuity Disclosure

How to Complete the Template for Depicting Indexed Interest

Example 2C: Template for Depiction of Indexed Interest

Example 2D: Sample of Depiction of Indexed Interest

HOW TO COMPLETE THE TEMPLATE FOR AN INDEX ANNUITY DISCLOSURE

The following is a guide to writing a disclosure for an index annuity. It includes general suggestions for writing statements; the types of information that should be covered under each required section, the headings to be used and questions to be answered; and in some cases, provides suggested language that can be used.

Example 2A on page 19 shows a graphic of an index annuity disclosure template; Example 2B on pages 20–21 is an example of what an actual product disclosure may look like. Companies are encouraged to follow the language used in the sample where possible. Disclosure documents should be kept short (preferably two pages).

Suggestions for Writing Statements

- Make a clear distinction about whether a statement is true of all annuities ("an annuity") or all annuities of this type ("a deferred annuity") or this product ("this annuity," "this deferred annuity").
- In a question, refer to the reader as I (my annuity). In the answer, refer to the reader as you (your annuity). Refer to the company as "we" or use the name of the insurance company. Don't use the generic "insurer" or "company.
- Avoid statements that don't give specific information or don't give the reader information to find specific information. For example, "Interest is credited to your account" is a general statement that isn't very useful. "Interest is credited to your account daily" is a specific statement of information as is "Page 23 of your contract explains the different ways that interest may be credited to your account."
- Use specific terms (i.e. surrender) from your contract in the disclosure but include a definition in parentheses after.
- Put important terms in bold font the first time you use them. Be selective about what terms you consider important. If too many words are in bold, the technique loses its effectiveness.
- If you refer the reader to the contract for more information, be specific about what information is there and exactly where to find it (e.g. use page numbers or section titles).
- The phrasing "includes" ("Your options include") suggest there are other options not stated here. If you've stated all of the options, say "Your options are." If you plan to add options later, say, "Your options now are."
- The term "annuity" is easier for consumers to understand than "contract." Use "annuity contract" when you're referring the consumer to the written contract. Don't use the word policy to describe an annuity.
- When possible, present information in a bulleted list with a brief description and refer to a specific page number or heading in the contract for more information.
- Disclosure documents should be kept short (preferably two pages).

SECTION 1: INTRODUCTION

- Include your company name and name of the product at the top of the page. A company logo also may be inserted.
- Include statements that briefly explain each of the major features of the annuity. (Suggested language: This annuity is tax-deferred, which means you don't pay taxes on the interest it earns until the money is paid to you. This annuity can earn interest in two ways: 1) interest that is guaranteed in the first year and can't go below [Insert Rate/Percentage] after that, and 2) interest that depends on how one or more market indexes perform.)
- Specify if the annuity is single premium or flexible premium. (Suggested language: This annuity is single-premium which means you buy it with one premium (payment) **or** flexible premium which means you can purchase it with multiple payments.)
- Include a statement that the buyer can use an annuity for lifetime income but it is not meant for short-term goals. (Suggested language: You can use an annuity to save money for retirement and to receive retirement income for life. It is not meant to be used to meet short-term financial goals.)

SECTION 2: THE ANNUITY CONTRACT

How will the value of my annuity grow?

- Explain how the annuity earns interest, clearly distinguishing between guaranteed, nonguaranteed, and determinable elements, including their limitations.
- Explain any guarantees and the factors that affect the guarantees.
- Explain how and when interest is credited to the account, including a depiction explaining the interest crediting strategy. (The depiction should be attached to the two-page disclosure document as supplemental material. A guide and template for developing the depiction are on pages 22–23.)
- Explain any caps or floors on interest and how they work.

Suggestions for writing statements in this section:

- When you use a table, explain the table. An example using information from the table is a good way to explain the table.

SECTION 3: BENEFITS

How do I get income from my annuity?

- Outline choices in payout options, including whether there is a specified maturity date.
- Describe options and restrictions on withdrawing money from the annuity.

Suggestions for writing statements in this section:

- Use the terms that are in the contract for payout options, but include a clear explanation of each.
- If the contract uses another term for payout, the first time it appears put the other term in the disclosure followed by payout in parenthesis. After the first time, use the generic term payout.
- Use the term premium to refer to money the consumer pays you. Use the term payout to refer to money you pay the consumer.

What happens after I die?

- Describe what happens if the owner (and annuitant if different) dies before and after the company starts to pay income from the annuity and any choices the owner will be asked to make.

What other benefits can I choose?

- List any optional riders that affect payouts and withdrawals, briefly describe each, and refer to specific page numbers in the contract for more information.

SECTION 4: FEES, EXPENSES & OTHER CHARGES

What happens if I take out some or all of the money from my annuity?

This section should outline:

- The amount of surrender charges and when they are paid.
- Any other charges or adjustments in the amount received when taking money from an annuity.
- Any other fees, including contract fees and annual service fees, the amounts, and when and how they are collected.

Suggestions for writing statements in this section:

- If the contract uses another term for surrender charge, the first time it appears in the disclosure, put the other term followed by surrender charge in parentheses. After the first time, use the generic term surrender charge. (Example: XYZ Life Insurance Company takes a contingent deferred sales charge (also known as a surrender charge)…).
- State surrender charges in a table format and include an example to explain the table.
- Include an explanation of the market value adjustment, if applicable. (Suggested language: When you make a withdrawal, we also may increase or decrease the amount you receive based on a market value adjustment (MVA). If interest rates went up after you bought your annuity, the MVA likely will decrease the amount you receive. If interest rates went down, the MVA likely will increase the amount you receive.)

Do I pay any other fees or charges?

- Outline any other fees or charges that apply to the annuity.

Suggestions for writing statements in this section:

- When you use a table, include an example to explain the table.

SECTION 5: TAXES

How will payouts and withdrawals from my annuity be taxed?

This section should outline:

- The meaning of tax-deferred (Suggested language: This annuity is tax-deferred, which means you don't pay taxes on the interest it earns until the money is paid to you. When you take payouts or make a withdrawal, you pay ordinary income taxes on the earned interest. You also pay a 10% federal income tax penalty on earnings you withdraw before age 59 1/2.)
- If your company takes premium taxes from withdrawals or payouts, include a statement describing the deduction. (Suggested language: If your state imposes a premium tax, it will be deducted from the money you receive.)
- That one tax-deferred annuity can be exchanged for another without paying taxes on earnings. (Suggested language: You can exchange one tax-deferred annuity for another without paying taxes on the earnings when you make the exchange. Before you do, compare the benefits, features, and costs of the two annuities.)

Does buying an annuity in a retirement plan provide extra tax benefits?

- Explain that there are no tax advantages to buying an annuity as part of a retirement plan. (Suggested language: Buying an annuity within an IRA, 401(k), or other tax-deferred retirement plan doesn't give you any extra tax benefits. In that case, choose your annuity based on its other features and benefits as well as its risks and costs, not its tax benefits.)

SECTION 6: OTHER INFORMATION

What else do I need to know?

All disclosures should include the following statements, modified as needed to match your situation.

- This annuity is designed for people who are willing to let their assets build for at least 10 years.
- This annuity does not participate directly in any stock or equity investments. You aren't buying shares of stock or an index. Dividends paid on the stocks on which the indexes are based don't increase your annuity earnings.
- We may change your annuity contract from time to time to follow federal or state laws and regulations. If this happens, we'll tell you about the changes in writing.
- We pay the agent, broker, or firm for selling the annuity to you.
- Many states have laws that give you a set number of days to look at an annuity after you buy it. If you decide during that time that you don't want it, you can return the annuity and get all your money back. Read your contract [Insert page number] to learn about your free look period. (Or replace suggested language with state and company specific information about free look.)

Include in this section other important information that doesn't appear elsewhere, such as what happens if the annuitant doesn't choose a payout option and information about the impact of riders.

What should I know about the insurance company?

- Provide a general description of the company as well as all contact information, including an address, phone number, Web site, and e-mail address (as applicable). You also may consider including financial strength ratings.

EXAMPLE 2A

Template for an Index Annuity Disclosure

Example 2A shows how to group disclosure material into sections and in two-column format. Disclosure documents should be short (preferably two pages). The template also includes the section headings that are to be used, the questions that need to be answered, and provides suggested language that can be used. If there is additional information that you need to include, including a depiction of how indexed interest is calculated, it should be attached to the disclosure.

SECTION 1

[COMPANY NAME]

[PRODUCT NAME] Disclosure

This document reviews important points to think about before you buy this [INSERT COMPANY NAME] annuity. [INSERT AS APPROPRIATE: IT IS A SINGLE-PREMIUM ANNUITY WHICH MEANS YOU BUY IT WITH ONE PREMIUM (PAYMENT) *OR* FLEXIBLE PREMIUM ANNUITY, WHICH MEANS YOU CAN PURCHASE IT WITH MULTIPLE PAYMENTS.]

This annuity is tax-deferred, which means you don't pay taxes on the interest it earns until the money is paid to you. This annuity can earn interest in two ways: 1) interest that is guaranteed in the first year and can't go below [INSERT RATE/PERCENTAGE] after that, and 2) interest that depends on how one or more market indexes perform.

You can use this annuity to save for retirement and to receive retirement income for life. It is not meant to be used to meet short-term financial goals.

If you have questions about this annuity, please ask your agent, broker, advisor, or contact a company representative using the toll-free number provided below.

SECTION 2

THE ANNUITY CONTRACT

How will the value of my annuity grow?

[*NOTE:* A DEPICTION OF HOW INDEXED INTEREST IS CALCULATED SHOULD BE INCLUDED OR ATTACHED.]

SECTION 3

BENEFITS

How do I get income from my annuity?

What happens after I die?

What other benefits can I choose?

SECTION 4

FEES, EXPENSES & OTHER CHARGES

What happens if I take out some or all of the money from my annuity?

Do I pay any other fees or charges?

SECTION 5

TAXES

How will payouts and withdrawals from my annuity be taxed?

Does buying an annuity in a retirement plan provide extra tax benefits?

SECTION 6

OTHER INFORMATION

What else do I need to know?
This annuity is designed for people who are willing to let their assets build for at least 10 years.

This annuity does not participate directly in any stock or equity investments. You aren't buying shares of stock or an index. Dividends paid on the stocks on which the indexes are based don't increase your annuity earnings.

We may change your annuity contract from time to time to follow federal or state laws and regulations. If we do, we'll tell you about the changes in writing.

We pay the agent. broker, or firm for selling the annuity to you.

Many states have laws that give you a set number of days to look at an annuity after you buy it. If you decide during that time that you don't want it, you can return the annuity and get all your money back. Read your contract [INSERT PAGE NUMBER] to learn about your free look period. [OR REPLACE SUGGESTED LANGUAGE WITH STATE AND COMPANY SPECIFIC INFORMATION ABOUT FREE LOOK.]

What should I know about the insurance company?

EXAMPLE 2B

Sample of an Index Annuity Disclosure

Example 2B is a sample of how a final disclosure document might look. This a only a sample and is not intended to serve as a model disclosure for all types of annuities. Disclosure documents for each company and product will vary. Disclosure documents should be kept short (preferably two pages).

Index Annuity Disclosure

XYZ LIFE INSURANCE

This document reviews important points to think about before you buy this XYZ Life Insurance Company annuity. It is a single-premium annuity which means you buy it with one premium (payment).

This annuity can earn interest in two ways: 1) interest that is guaranteed in the first year and can't go below 1.5% after that, and 2) interest that depends on how one or more market indexes perform. This annuity is **tax-deferred,** which means you don't pay taxes on the interest it earns until the money is paid to you.

You can use this annuity to save for retirement and to receive retirement income for life. It is not meant to be used to meet short-term financial goals.

If you have questions about this annuity, please ask your agent, broker, advisor, or contact a company representative at 800–123–4567.

THE ANNUITY CONTRACT

How will the value of my annuity grow?
The XXX Annuity earns interest in two ways. One is a fixed rate that is guaranteed at x% for the first year. After the first year, the **fixed** rate is guaranteed to be at least 1.5%.

The value of this annuity also may grow through **indexed** returns. The amount of the index-linked interest depends on how the Dow Jones Industrial Average, a nationally recognized market index, performs. Your annuity contract (see page x or Section x) spells out how index-linked interest is credited to your annuity account at the end of each contract year.

How much index-linked interest is credited to your account annually depends on the sum of the **capped monthly returns.** These are the caps (or limits) we set on the effect on your account value of the positive change in the market index from one month to the next. We set the cap on the positive returns at the beginning of each contract year. That cap can change each year. **We guarantee the monthly cap will never be lower than 1%.**

However, interest earnings credited can never be less than zero, even if the sum of the monthly returns is negative.

Here's how the caps work. If the market index increases more than the cap, the monthly change increases by the amount of the cap. If the market index increases less than the cap, the monthly change increases by the amount of the increase. If the market index goes down, the monthly change goes down by the full amount of the decrease. The monthly changes are then added up at the end of the contract year and any interest earned is credited to your account. Each of the following could happen:

- A large decrease in index-linked interest in one month could wipe out some or all of the monthly increases from earlier months.
- Even if the index is up overall for the year, the annual index-linked interest credited could be lower (or zero).
- If the total of the capped monthly returns is negative, the index-linked interest for that year would be zero.

Attached is a depiction explaining how indexed interest is calculated.

BENEFITS

How do I get income (payouts) from my annuity?

Your annuity's account (the value while you're paying into your annuity) depends on your premium and any annual index-linked interest and guaranteed interest credited to your account. After five contract years, you can ask the company to pay the accumulation value of your contract to you as income. You can choose how to get the income. Your annuity contract describes your options in detail (see page x or Section x). Your current choices are:

- **Life:** Guarantees income for as long as you live.
- **Joint and survivor life:** Guarantees income for as long as you or your joint annuitant (usually a spouse) live.
- **Life income with period certain:** Guarantees income for as long as you live. If you die within the "period certain" (usually 10 or 20 years), it pays income to your beneficiary for the rest of the period.
- **Designated period of time:** Pays income for that period.
- **Lump sum:** One payout.

Once you start to get income from your annuity, the account value stops earning index-linked interest. It will continue to earn guaranteed interest.

In the first 10 contract years, you can withdraw money from your annuity once a contract year without paying a surrender charge. The most you can withdraw each year without paying a surrender charge is 10% of the total premiums you've paid. If you withdraw 50% or more of the premiums paid, you lose the right to make a withdrawal without paying a surrender charge.

What happens after I die?
If you die before we start to pay you income from your annuity, your beneficiary can choose to get the accumulation value of your annuity as one payment or as a series of payouts over time. If you die after payouts start, depending on the type of payout you chose, we pay the remaining value in the annuity, if any, to your beneficiary.

FEES, EXPENSES & OTHER CHARGES

What happens if I take out some or all of the money from my annuity?
When you take money from your annuity, you may lose some or all of your credited interest. If you take out all (a full surrender) or part (a partial surrender) of the money, you also may have to pay a surrender charge. The amount of the charge depends on how long you've had the annuity and how much you withdraw. Here's how the surrender charges are calculated.

Contract year	1	2	3	4	5	6	7	8+
Surrender charge	10%	9%	8%	7%	6%	5%	4%	0

Example: After two years, you've paid $10,000 in premium. You want to withdraw $1,100 from your annuity in the third year. Since $ 1,100 is more than 10% of the premium you've paid ($10,000 x 0.10 = $1,000), your surrender charge is $1,100 x 0.08 = $88. There's no surrender charge after the end of the seventh contract year.

When you make a withdrawal, we also may increase or decrease the amount you receive based on a market value adjustment (MVA). If interest rates went up after you bought your annuity, the MVA likely will decrease the amount you receive. If interest rates went down, the MVA likely will increase the amount you receive.

Do I pay any other fees or charges?
No. There aren't any other fees or charges on this annuity.

TAXES

How will payouts and withdrawals from my annuity be taxed?
This annuity is tax-deferred, which means you don't pay taxes on the interest it earns until the money is paid to you. When you take payouts or make a withdrawal, you pay ordinary income taxes on the earned interest. You also pay a 10% federal income tax penalty on earnings you withdraw before age 59 1/2. If your state imposes a premium tax, it will be deducted from the money you receive.

You can exchange one tax-deferred annuity for another without paying taxes on the earnings when you make the exchange. Before you do, compare the benefits, features, and costs of the two annuities. You may pay a surrender charge if you make the exchange during the first seven years you own the annuity. Also, you may pay a surrender charge if you make withdrawals from the new annuity during the first years you own it.

Does buying an annuity in a retirement plan provide extra tax benefits?
Buying an annuity within an IRA, 401(k), or other tax-deferred retirement plan doesn't give you any extra tax benefits. Choose your annuity based on its other features and benefits as well as its risks and costs, not its tax benefits.

OTHER INFORMATION

What else do I need to know?

- This annuity is designed for people who are willing to let their assets build for at least 10 years.
- This annuity does not participate directly in any stock or equity investments. You aren't buying shares of stock or an index. Dividends paid on the stocks on which the indexes are based don't increase your annuity earnings.
- We may change your annuity contract from time to time to follow federal or state laws and regulations. If we do, we'll tell you about the changes in writing.
- We pay the agent, broker, or firm for selling the annuity to you.
- Many states have laws that give you a set number of days to look at an annuity after you buy it. If you decide during that time that you don't want it, you can return the annuity and get all your money back. Read your contract (page x) to learn about your free look period.

What should I know about the insurance company?
XYZ Life Insurance Company offers a wide variety of retirement and financial security products, including life insurance, annuities, long-term care, and disability income insurance. We also are a leading provider of products and services to workplace-based pension plans—both defined contribution and defined benefit plans. Our financial strength ratings are: A+ (A.M. Best); AA (S&P); Aa3 (Moody's); and AA+ (Fitch).

XYZ Life Insurance Company
123 Main Street
Your Town USA
Telephone: 800–123–4567
http://www.xyzlife.com

XYZ LIFE INSURANCE

HOW TO COMPLETE THE TEMPLATE FOR DEPICTING INDEXED INTEREST

The following is a guide for developing a depiction of how credited interest is calculated for an index annuity. A separate depiction for each indexed account offered under the annuity contract should be attached to the disclosure document as a supplement. Each depiction must include a written explanation of how interest is calculated. A graphic example supporting the explanation enhances consumer understanding.

Guidelines for developing a depiction

- Explain how indexed interest is calculated for a single index term. For example, if an indexed interest credit covers a 12-month period, then the examples should show how indexed interest is calculated for a 12-month period. If the indexed interest credit covers more than a 12-month period, such as a 5-year point-to-point account, then the examples should show how indexed interest is calculated for a 5-year period.
- If a non-guaranteed element such as a cap is involved in the interest calculation, the value used in the explanation should never be greater than the then-current value in effect for new policies. The minimum guaranteed value for such guaranteed element must be stated.
- If an annuity contract tracks different account values for different benefit streams such that there is more than one indexed interest credit for a given period, then the explanation must depict the calculation of indexed interest for each benefit stream.
- To assure that the explanation is balanced, it should provide examples explaining how interest is calculated under two index scenarios: one with positive indexed interest and one with zero indexed interest. A graphic example will enhance consumer understanding.
  - The positive example should portray a reasonably favorable change in the index constructed to produce an illustrative indexed interest credit equivalent to an annual effective rate of [6%], subject to any lower cap that may apply to the indexed account. If the indexed interest credit covers a time period other than 12 months, the resulting interest credit must also be expressed in terms of an equivalent annual effective rate.
  - The zero example should portray an equally negative index scenario that results in zero indexed interest.

EXAMPLE 2C

Template for Depiction of Indexed Interest

Example 2C is a template for developing a depiction of how credited interest is calculated for an index annuity. A separate depiction for each indexed account offered under the annuity contract should be attached to the disclosure document as a supplement. Each depiction must include a written explanation of how interest is calculated. A graphic example supporting the explanation enhances consumer understanding.

[COMPANY NAME] Depiction of Indexed Interest for the [NAME OF INDEXED ACCOUNT] Offered in the [ANNUITY CONTRACT NAME]

or

[COMPANY NAME] Depiction of Indexed Interest for the [ANNUITY CONTRACT NAME]

This document provides an explanation of how indexed interest is calculated for the [NAME OF INDEXED ACCOUNT].

Graphic Examples of How Indexed Interest is Calculated

- Positive Indexed Interest Result

  [INSERT: LINE OR BAR CHART CONTRASTING PERFORMANCE OF INDEX OVER THE CREDITING PERIOD WITH THE INDEXED INTEREST RESULT.] Graphic should be accompanied by a written explanation that explains what index is used, how interest is linked to the index, and what elements of the account are subject to change.

- Zero Indexed Interest Result

  [INSERT: LINE OR BAR CHART CONTRASTING PERFORMANCE OF INDEX OVER THE CREDITING PERIOD WITH THE INDEXED INTEREST RESULT.] Graphic should be accompanied by a written explanation that explains what index is used, how interest is linked to the index, and what elements of the account are subject to change.

EXAMPLE 2D

Sample of Depiction of Indexed Interest

The sample shows how indexed interest is credited for an XYZ Life Insurance Company annuity. *See page 22 for instructions on how to complete the template for depicting indexed interest.*

Index Annuity Disclosure: Indexed Interest Depiction for the XYZ Index Annuity

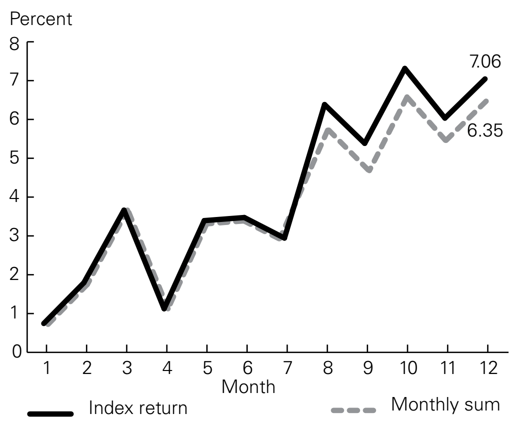
XYZ LIFE INSURANCE

Scenario 1 shows hypothetical index changes for a 12-month period in which the index performed favorably. The index return (solid line) shows the cumulative return that investing directly in the index would have achieved. The dotted monthly sum line represents the cumulative capped monthly sum, compounded, and assuming a 2.8% monthly cap. The cap may vary from year to year, but is guaranteed never to be less than 1.0%. **In scenario 1, the ending monthly sum is 6.35%—the interest rate that would be credited to the index annuity.**

Example: Favorable index performance

Month	Monthly index return (percent)	Monthly capped index return (percent)
1	0.70	0.70
2	1.05	1.05
3	1.87	1.87
4	–2.54	–2.54
5	2.27	2.27
6	0.08	0.08
7	–0.53	–0.53
8	3.44	2.80
9	–1.00	–1.00
10	1.94	1.94
11	–1.29	–1.29
12	1.01	1.01
Total (compounded)	7.06	6.35

Scenario 1: Positive indexed interest

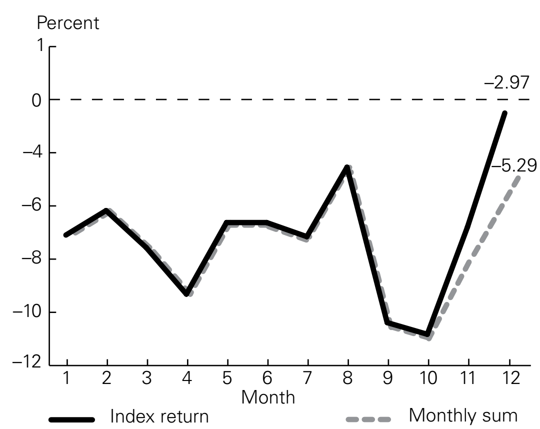


Scenario 2 shows hypothetical index changes for a 12-month period in which the index performed poorly. The solid black index return line represents the cumulative return that investing directly in the index would have achieved. The dotted monthly sum line represents the cumulative capped monthly sum, compounded, and assuming a 2.8% monthly cap. The cap may vary from year to year, but is guaranteed never to be less than 1.0%. **In scenario 2, since the ending monthly sum is negative (–5.29%) at the end of the year, 0 % interest would be credited to the index annuity.**

Example: Unfavorable index performance

Month	Monthly index return (percent)	Monthly capped index return (percent)
1	–7.15	–7.15
2	0.92	0.92
3	–1.39	–1.39
4	–1.75	–1.75
5	2.69	2.69
6	1.95	1.95
7	–2.48	–2.48
8	2.61	2.61
9	–6.04	–6.04
10	–0.24	–0.24
11	4.03	2.80
12	4.63	2.80
Total (compounded)	–2.97	–5.29

Scenario 2: Zero indexed interest



VARIABLE ANNUITY DISCLOSURE MATERIALS

How to Complete the Template for a Variable Annuity Disclosure

Example 3A: Template for a Variable Annuity Disclosure

Example 3B: Sample of a Variable Annuity Disclosure

HOW TO COMPLETE THE TEMPLATE FOR A VARIABLE ANNUITY DISCLOSURE

The following is a guide to writing a disclosure for an variable annuity. It includes general suggestions for writing statements; the types of information that should be covered under each required section, the headings to be used and questions to be answered; and in some cases, provides suggested language that can be used.

Example 3A on page 29 shows a graphic of a variable annuity disclosure template; Example 3B on pages 30–31 is an example of what an actual product disclosure may look like. Companies are encouraged to follow the language used in the sample where possible.

***Note:* The variable annuity disclosure document may be presented in two forms: print or electronic. If distributed electronically, in addition to providing direct links to the prospectus or supplement material for more information, companies also should keep references to specific pages (and, if appropriate, headings on that page) in the event consumers prefer to print hard copies.**

Suggestions for Writing Statements

- Make a clear distinction about whether a statement is true of all annuities ("an annuity") or all annuities of this type ("a deferred annuity") or this product ("this annuity," "this deferred annuity").
- In a question, refer to the reader as I (my annuity). In the answer, refer to the reader as you (your annuity). Refer to the company as "we" or use the name of the insurance company. Don't use the generic "insurer" or "company."
- Avoid statements that don't give specific information or don't give the reader information to find specific information. For example, "Interest is credited to your account" is a general statement that isn't very useful. "Interest is credited to your account daily" is a specific statement of information as is "Page 23 of your prospectus explains the different ways that interest may be credited to your account."
- Use specific terms (i.e. surrender) from your prospectus in the disclosure but include a definition in parentheses after.
- Put important terms in bold font the first time you use them. Be selective about what terms you consider important. If too many words are in bold, the technique loses its effectiveness.
- If you refer the reader to the prospectus for more information be specific about what information is there and exactly where to find it (e.g. use page numbers or section titles).
- The phrasing "includes" ("Your options include") suggest there are other options not stated here. If you've stated all of the options, say "Your options are." If you plan to add options later, say, "Your options now are."
- The term "annuity" is easier for consumers to understand than "prospectus." Use "annuity prospectus" when you're referring the consumer to the written prospectus. Don't use the word policy to describe an annuity.
- When possible, present information in a bulleted list with a brief description and refer to a specific page number in the prospectus for more information.

SECTION 1: INTRODUCTION

- Include your company name and name of the product at the top of the page. A company logo also may be inserted.
- Include statements that briefly explain each of the major features of the annuity. (Suggested language: This annuity is tax-deferred, which means you don't pay taxes on the interest it earns until the money is paid to you.
- Include information about how the annuity accumulates earnings. For example: This annuity can accumulate earnings in ___ ways: 1) from various investment choices we offer [and 2) from a fixed interest account of XYZ Life Insurance Company.]
- Specify if the annuity is single-premium or flexible premium. (Suggested language: This annuity is single-premium which means you buy it with one premium (payment) **or** flexible premium which means you can purchase it with multiple payments.)
- Include a statement that the buyer can use an annuity for lifetime income but it is not meant for short-term goals. (Suggested language: You can use an annuity to save money for retirement and to receive retirement income for life. It is not meant to be used to meet short-term financial goals.)

SECTION 2: THE ANNUITY CONTRACT

What are the benefits of my annuity?

- Explain how the annuity accumulates earnings, clearly distinguishing between guaranteed, non-guaranteed, and determinable elements, including their limitations.
- Explain any guarantees and the factors that affect the guarantees.
- Explain the investment choices and refer to the specific pages of the prospectus where detailed information is available. (If the disclosure is online, this section may provide a link to more information about investment choices.)
- Include general information about other benefits of the annuity and links, page numbers, or section headings for more information.

How do I get income from my annuity?

- Mention the various payout options and provide a link to the prospectus, page numbers, or section headings where more information is available.

Suggestions for writing statements in this section:

- When you use a table, explain the table. An example using information from the table is a good way to explain the table.
- Be specific when you refer to the prospectus; include links, page numbers and, if appropriate, headings on that page.

SECTION 3: OPTIONAL BENEFIT RIDERS

What other benefits can I choose?

- List any optional riders that affect payouts and withdrawal, briefly describe each, and include links, page numbers, or section headings and refer to specific page numbers or section headings in the prospectus for more information.

Suggestions for writing statements in this section:

- Be specific when you refer to the prospectus; include links, page numbers and, if appropriate, section headings on that page.
- Use the terms in the prospectus for riders, but include a brief explanation of what the rider offers.

SECTION 4: RISKS

What are the risks?

This section should describe the types of risks in a bulleted list with a brief description of each. If online, include a link to the relevant information. Also include specific page numbers in the prospectus for more detailed information. This section also should describe:

- Options and restrictions on withdrawing money from the annuity.

Suggestions for writing statements in this section:

- Use the terms that are in the prospectus for payout options, but include a clear explanation of each.
- If the prospectus uses another term for payout, the first time it appears put the other term in the disclosure followed by payout in parenthesis. After the first time, use the generic term payout.
- Use the term premium to refer to money the consumer pays you. Use the term payout to refer to money you pay the consumer.
- Be specific when you refer to the prospectus; include links, page numbers and, if appropriate, headings on that page.

SECTION 5: FEES, EXPENSES AND OTHER CHARGES

What happens if I take out some or all of the money from my annuity?

This section should outline:

- The amount of surrender charges and when they are paid.
- If the variable annuity contract is designed without surrender charges, the question should be answered to indicate that no surrender charges apply under the contract provisions for surrenders.
- Any other charges or adjustments in the amount received when taking money from an annuity.

Suggestions for writing statements in this section:

- If the prospectus uses another term for surrender charge, the first time it appears in the disclosure, put the other term followed by surrender charge in parentheses. After the first time, use the generic term surrender charge. (Example: XYZ Life Insurance Company takes a contingent deferred sales charge (also known as a surrender charge) …).
- State surrender charges in a table format and include an example to explain the table.
- Be specific when you refer to the prospectus; include links, page numbers and, if appropriate, headings on that page.

What fees or charges do you take from my annuity account value?

- List and describe fees that all or most contract holders pay.

Do I pay any other fees or charges?

- Outline any other fees or charges that apply to the annuity, and include links, page numbers or section headings in the prospectus for more information.

Suggestions for writing statements in this section:

- A table may be useful to explain fees and charges. If you use a table, include an example to explain the table.

SECTION 6: TAXES

How will payouts and withdrawals from my annuity be taxed?

This section should outline:

- The meaning of tax-deferred (Suggested language: Variable annuities are tax-deferred which means you don't pay taxes on accumulated earnings until the money is paid to you. When you take payouts or make a withdrawal, you pay ordinary income taxes on the accumulatd earnings. You also defer paying taxes on earnings if you move money from one investment option in your annuity to another. You pay a 10% federal income tax penalty on earnings you withdraw before age 59 1/2.)
- If your company takes premium taxes from withdrawals or payouts, include a statement describing the deduction. (Suggested language: If your state imposes a premium tax, it will be deducted from the money you receive.)
- That one tax-deferred annuity can be exchanged for another without paying taxes on accumulated earnings. (Suggested language: You can exchange one tax-deferred annuity for another without paying taxes on the accumulated earnings when you make the exchange. Before you do, compare the benefits, features, and costs of the two annuities.)

Does buying an annuity in a retirement plan provide extra tax benefits?

- Explain that there are no additional tax advantages to buying an annuity in an IRA, 401 (k) plan or other tax deferred retirement product. (Suggested language: Buying an annuity within an IRA, 401(k), or other tax-deferred retirement plan doesn't give you any extra tax benefits. Choose your annuity based on its other features and benefits as well as its risks and costs, not its tax benefits.)

SECTION 7: OTHER INFORMATION

What else do I need to know?

All disclosures should include the following statements, modified as needed to match your situation.

- We may change your annuity contract from time to time to follow federal or state laws and regulations. If this happens, we'll tell you about the changes in writing.
- You should ask your broker-dealer for information about how he or she is paid. We may pay the broker-dealer for selling the annuity to you. Your broker-dealer also may have certain revenue sharing arrangements or pay its personnel more for selling this annuity contract than for selling other variable annuity contracts.
- Many states have laws that give you a set number of days to look at an annuity after you buy it. If you decide during that time that you don't want it, you can return the annuity and get all your money back. Read your contract [Insert link, page number or section title] or the annuity prospectus [Insert link, page number or section title] to learn about your free look period. (Or replace suggested language with state and company specific information about free look.)

Include in this section other important information that doesn't appear elsewhere, such as what happens if the annuitant doesn't choose a payout option and information about the impact of riders.

What should I know about the insurance company?

Include in this section a general description of the company as well as all contact information, including an address, phone number, Web site, and e-mail address (as applicable). You also may consider including financial strength ratings.

EXAMPLE 3A

Template for a Variable Annuity Disclosure

Example 3A shows how to group disclosure material into sections and in two-column format. Disclosure documents should be short (preferably two pages). The template also includes the section headings that are to be used, the questions that need to be answered, and provides suggested language that can be used.

***Note:* The variable annuity disclosure document may be presented in two forms: print or electronic. If distributed electronically, in addition to providing links to the prospectus, keep references to specific pages in case consumers choose to print hard copies.**

SECTION 1

[COMPANY NAME]

[PRODUCT NAME] Disclosure

This document reviews important points to think about before you buy this [INSERT COMPANY NAME] annuity. [INSERT AS APPROPRIATE: IT IS A SINGLE-PREMIUM ANNUITY WHICH MEANS YOU BUY IT WITH ONE PREMIUM (PAYMENT) *OR* FLEXIBLE PREMIUM ANNUITY, WHICH MEANS YOU PURCHASE IT WITH MULTIPLE PAYMENTS.]

This annuity is tax-deferred, which means you don't pay taxes on the accumulated earnings until the money is paid to you. [INSERT AS APPROPRIATE: IT CAN ACCUMULATE EARNINGS IN ___ WAYS: 1) FROM VARIOUS INVESTMENT CHOICES WE OFFER AND 2) FROM A FIXED INTEREST ACCOUNT OF [INSERT COMPANY NAME].

You can use an annuity to save money for retirement and to receive retirement income for life. It is not meant to be used to meet short-term financial goals.

If you have questions about this annuity, please ask our company representative or your agent, broker, or advisor.

SECTION 2

THE ANNUITY CONTRACT

What are the benefits of my annuity?

How do I get income from my annuity?

SECTION 3

OPTIONAL BENEFIT RIDERS

What other benefits can I choose?

SECTION 4

RISKS

What are the risks?

SECTION 5

FEES, EXPENSES AND OTHER CHARGES

What happens if I take out some or all of the money from my annuity?

What fees or charges do you take from my annuity account value?

Do I pay any other fees or charges?

SECTION 6

TAXES

How will payouts and withdrawals from my annuity be taxed?

Does buying an annuity in a retirement plan provide extra tax benefits?

SECTION 7

OTHER INFORMATION

What else do I need to know?
We may change your annuity contract from time to time to follow federal or state laws and regulations. If we do, we'll tell you about the changes in writing.

Compensation: You should ask your broker-dealer for information about how he or she is paid. We may pay the broker-dealer for selling the annuity to you. Your broker-dealer also may have certain revenue sharing arrangements or pay its personnel more for selling this annuity contract than for selling other variable annuity contracts.

Free Look: Many states have laws that give you a set number of days to look at an annuity after you buy it. If you decide during that time that you don't want it, you can return the annuity and get all your money back. Read your contract [INSERT PAGE NUMBER] to learn about your free look period. [OR REPLACE SUGGESTED LANGUAGE WITH STATE AND COMPANY SPECIFIC INFORMATION ABOUT FREE LOOK.]

What should I know about the insurance company?

EXAMPLE 3B

Sample of a Variable Annuity Disclosure

Example 3B is a sample of how a final disclosure document might look. This a only a sample and is not intended to serve as a model disclosure for all types of annuities. Disclosure documents for each company and product will vary.

***Note:* The variable annuity disclosure document may be presented in two forms: print or electronic. If distributed electronically, in addition to providing links to the prospectus, keep references to specific pages in case consumers choose to print hard copies.**

Variable Annuity Disclosure

XYZ LIFE INSURANCE

This document reviews important points to think about before you buy this XYZ Life Insurance Company annuity. This annuity is single-premium which means you buy it with one premium (payment). This annuity is tax-deferred, which means you don't pay taxes on the annuity's accumulated earnings until the money is paid to you.

This annuity can accumulate earnings in two ways: 1) from various investment choices we offer and 2) from a fixed interest account of XYZ Life Insurance Company. You can use an annuity to save money for retirement and to receive retirement income for life. It is not meant to be used to meet short-term financial goals.

If you have questions about this annuity, please ask your agent, broker, advisor, or contact a company representative at 800–123–4567.

THE ANNUITY CONTRACT

What are the benefits of my annuity?
This variable annuity is a contract between you and our company. We agree to make payments to you, starting now or at some time in the future. You can invest your money in our fixed interest account and in any or all of the investment choices we offer. The annuity includes a death benefit that will be paid to your beneficiary if you die before we start to pay you income from your annuity. You also have choices about how we pay you income from the annuity, including payouts guaranteed to last as long as you live.

Click on the link below or refer to the following pages of the annuity prospectus for more information about your choices:

- **Investment choices:** Choose from 41 fund portfolios (see page 13).
- **Fixed account** (if applicable).

Click on the links below or read the section of the annuity prospectus for more information about benefits of your annuity.

- **Death benefits:** How your beneficiaries will be paid after you die (see page 28).
- **Nursing care and terminal condition withdrawal:** If you or your spouse are in a hospital or nursing facility or diagnosed with a terminal condition, you can take money from your annuity without paying a surrender charge under some conditions (see page 37).
- **Unemployment waiver:** If you (or your spouse) are unemployed, you won't pay certain costs when you take money from your annuity (see page 37).
- **Systematic payout option:** You can get monthly, quarterly, or annual payments from your annuity in set amounts without paying any surrender charge (see page 34).

How do I get income (payouts) from my annuity?
Click on the link below or refer to the following pages of the annuity prospectus for more information about your payouts.

You can choose to get payouts for you and a joint annuitant for life or for a specific period of time. Or you can choose a lump sum payout. (Pages __ explain your **payout options**).

OPTIONAL BENEFIT RIDERS

What other benefits can I choose?
The contract also offers other benefits for an extra cost. Click on the links below or refer to the following pages of the annuity prospectus and supplement material for more information about:

Additional death distribution: Pays your beneficiary an extra death benefit in some situations (see pages 35–36). Page 23 explains the cost (fee).

Living benefits rider: Protects you against investment loss (see supplement, page 1). Page 7–8 of the supplement explain the cost (fee). You may choose:

Guaranteed minimum accumulation: Guarantees a future value of your annuity no matter how the investment options you choose perform (see supplement, pages 4–5).

Guaranteed minimum withdrawal: Guarantees an annual amount you can take out of your annuity. regardless of its value (see supplement, pages 5–7).

RISKS

What are the risks?
This annuity has several risks. The investments you choose may lose value; if any of them do, the value of your annuity will go down. There's also a risk that we won't be able to pay claims on specific annuity contract benefits, such as guaranteed minimum accumulation value.

Click on the links below or read the annuity prospectus for more information about:

- **Risks of your annuity contract** (see page 12)
- **Risks based on the investment portfolio** you choose (how your investment choices affect your risks; see pages 15–16)
- **Your tax liability** (see pages 29–34)
- **Access to your money** (see pages 24–25)

FEES, EXPENSES AND OTHER CHARGES

What happens if I take out some or all of the money from my annuity?
You may pay a surrender charge if you take out money before the end of the fifth contract year. Here's how the charge is calculated.

Contract Year	1	2	3	4	5	6+
Surrender Charge	5%	4%	3%	2%	1%	0

Example: If you withdraw $5,000 from your annuity in the third contract year, your surrender charge is $5,000 x .0.03 = $150. If you take out any amount after the end of the fifth contract year, there's no charge.

You may not have to pay a surrender charge if you take out part of your money (a partial surrender). **Click here** or see pages 20–21 of the annuity prospectus for more information about surrender charges.

What fees or charges do you take from my annuity account value?
You will pay fees every year you own the annuity. The contract fees depend on the value of the investments in your annuity and the types of investments you chose. The lowest total contract fee is 1.50% of your account value and the highest is 2.27% of your account value. There's also an annual service charge. We will tell you the amount of the service charge (between $0 and $35 per annuity) each year.

Annual contract fees: Current and maximum
(not including fees for optional riders)

Separate account base fees	Current	Maximum
Mortality and expense risk	.70%	.70%
Administrative	.15%	.15%
Total annual portfolio operating fee*	.65%	1.42%
Total fees	1.50%	2.27%

*These fees range from .65% to 1.42%.

Example: Annual fees based on investment account value
(not including fees for optional riders)

Investment value	Minimum	Maximum
$1,000	$15	$22.70
$50,000	$750	$1,135.00
$100,000	$1,500	$2,270.00

Do I pay any other fees or charges?
There may be other charges in some cases. You may pay a contract maintenance charge, a transfer fee, and investment advisory fees. You also pay a fee for each optional rider you choose. **Click here** or see page 10 of the annuity prospectus for more information about fees and charges.

TAXES

How will payouts and withdrawals from my annuity be taxed?
Variable annuities are tax-deferred, which means you don't pay taxes on the annuity's accumulated earnings until the money is paid to you. When you take payouts or make a withdrawal, you pay ordinary income taxes on the accumulated earnings. You also defer paying taxes on earnings if you move money from one investment option in your annuity to another. You pay a 10% federal income tax penalty on earnings you withdraw before age 59 1/2. If your state imposes a premium tax, it will be deducted from the money you receive.

You can exchange one tax-deferred annuity for another without paying taxes on the accumulated earnings when you make the exchange. Before you do, compare the benefits, features, and costs of the two annuities.

Does buying an annuity in a retirement plan provide extra tax benefits?
Buying an annuity within an IRA, 401(k), or other tax-deferred retirement plan doesn't give you any extra tax benefits. Choose your annuity based on its other features and benefits as well as its risks and costs, not its tax benefits.

OTHER INFORMATION

What else do I need to know?
We may change your annuity contract from time to time to follow federal or state laws and regulations. If we do, we'll tell you about the changes in writing.

Compensation: You should ask your broker-dealer for information about how he or she is paid. We may pay the broker-dealer for selling the annuity to you. Your broker-dealer also may have certain revenue sharing arrangements or pay its personnel more for selling this annuity contract than for selling other variable annuity contracts.

Free Look: Many states have laws that give you a set number of days to look at an annuity after you buy it. If you decide during that time that you don't want it, you can return the annuity and get all your money back. Read your contract (page ___) **or see page ______ of the annuity prospectus** to learn about your free look period.

What should I know about the insurance company?
XYZ Life Insurance Company offers a wide variety of retirement and financial security products, including life insurance, annuities, long-term care, and disability income insurance. We also are a leading provider of products and services to workplace-based pension plans—both defined contribution and defined benefit plans. Our financial strength is as follows: A+ (A.M. Best); AA (S&P); Aa3 (Moody's); and AA+ (Fitch).

XYZ Life Insurance Company
123 Main Street
Your Town USA
Telephone: 800–123–4567
www.XYZlife.com

XYZ LIFE INSURANCE

Note: The above information is current as of the annuity prospectus dated May 1, 2006. This is a summary document and not part of your contract with the insurer. The variable annuity prospectus for the specific contract you are considering contains important information required under the federal securities laws. The fee table and example in the annuity prospectus depict the specific charges of each contract at different points in time, and are useful in making an informed purchase decision. If you wish to receive a paper copy of the annuity prospectus and/or the statement of additional information, click here or call: 800–123–4567. There is no charge for the paper copies.