

Annuity Terminology

SPIA (Single Premium Immediate Annuity)

Exclusion Ratio - An investment in an annuity is returned in equal tax-free amounts during the payment period. Any additional amount received is taxed at ordinary income rates. This means that part of each payment is considered a return of capital and is therefore nontaxable and part of each payment is considered interest income and is therefore taxable at ordinary rates.

Period Certain - provides a guaranteed income for a period of time you specify (5, 10, 15 or 20 years). If you die prior to the end of this period, your beneficiary may continue to receive payments for the remainder of the period.

Joint & Survivor - provides a guaranteed income for as long as either joint annuitant is alive. When either annuitant dies, payments continue to the survivor or may be reduced to a partial percentage, such as two-thirds or a full 100%.

Cash Refund - provides a guaranteed income for life. The total of payments received will never be less than the total of the funds paid to purchase this option. If you die before receiving at least that amount, your beneficiary will receive the difference in a lump sum. For example, you invest \$100,000 in a SPIA, and the company pays out \$1,000 per month for life. If you die before the initial \$100,000 is paid out via benefits, the remaining balance gets paid to your beneficiary in a lump sum.

Indexed Annuity

Caps - A maximum rate of interest (or cap) that the contract can earn in a specified period (usually one month or year). If the chosen index increase exceeds the cap, the cap is used to calculate the interest. Caps generally reset annually and a minimum guaranteed cap is usually provided.

Participation Rate - Determines what percentage of the index increase will be used to calculate the indexed interest.

Crediting Method - Defines how changes in the index are measured. Some of the most popular crediting methods used are:

- **Annual point-to-point** - Simplest method. Uses the index value from only two points in time.
- **Monthly Sum** - Most volatility-sensitive method. Can provide interest in steady "up" markets but can be adversely affected by large monthly decreases.
- **Monthly Average** - Can help reduce volatility by averaging monthly highs & lows over the course of the year. May be a good choice when the market is turbulent.

Indexed Annuity (continued)

Index Options - Interest is based on a variety of options. The most common indexed options include:

- **S&P 500**
- **Euro StoXX 50**
- **Nasdaq-100**
- **Russell 2000**

Variable Annuity

Income Rider - An annuity feature that solves for longevity risk by providing a lifetime income stream. Income riders typically have a guaranteed growth rate that can be used for income.

(GMIB) Guaranteed Minimum Income Benefit - A feature of an annuity. A guaranteed minimum level of annuity payments by the insurance company, regardless of the performance of the annuity.

(GMWB) Guaranteed Minimum Withdrawal Benefit - ensures the annuitant will receive a guaranteed withdrawal of minimum income payments, regardless of the contract account value.