A CONSUMER'S GUIDE TO
ANNUITIES
from YOUR North Carolina Department of Insurance

CONSUMER'S GUIDE

A MESSAGE FROM YOUR INSURANCE COMMISSIONER

Greetings,

The North Carolina Department of Insurance makes this guide available to help North Carolina residents better understand annuities, and make smart decisions when shopping for annuities.

An annuity is an insurance contract. It requires the insurance company to make specified payments to you at regular intervals, for a specified period of time. There are many different types of annuity contracts and a variety of annuity options available, to help solve various financial problems and needs. For example, "deferred" annuities are ideally suited to help individuals accumulate money for future income needs, and a "life" annuity is a payout option that guarantees specified payments will continue for as long as you live.

I believe you will find this guide to be informative and helpful. Your Department of Insurance is available to help guide you through these complicated matters. I want every North Carolinian to know that help is available by calling our toll-free number 1-855-408-1212.

Sincerely,

Wayne Goodwin

Wayne Goodwin
Insurance Commissioner

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CONSUMER'S GUIDE TO LIFE INSURANCE

This guide is intended to help you better understand annuities. If you currently have an annuity, the terms of your policy contract will determine your benefits under the contract.

IF YOU HAVE QUESTIONS...

The Consumer Services Division of the Department of Insurance is here to help.

855-408-1212	Toll free
919-807-6750	Outside of North Carolina
919-715-0319	TDD (Telephone Device for Deaf Callers)
919-733-0085	Fax

You can find additional information as well as a downloadable copy of our complaint form on the North Carolina Department of Insurance Web site at www.ncdoi.com.

North Carolina Department of Insurance
430 North Salisbury Street
1201 Mail Service Center
Raleigh, NC 27699-1201
www.ncdoi.com

Accumulation Period
The time during which you pay money into an annuity contract and build up a fund to provide a deferred annuity.

Annuitant
The person entitled to receive annuity payments or who now receives them.

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

Appeal
An insurance company's review of its own non-certification decision, after you dispute that decision. This process is available any time a plan issues a non-certification decision. The appeal process is voluntary. Keep in mind that if your insurance company denies payment on a claim because the service is excluded from coverage, you do not have the right to appeal. Your certificate of coverage should clearly list what services are covered and not covered.

Individual Retirement Account (IRA)
An account set up by an individual that in some cases allows contributions to be deducted from income and permits earnings on contributions to accumulate tax-deferred until retirement, regardless of whether the contributions are deductible. Under the 1986 tax law, only those who do not participate in a pension plan at work or who do participate and meet certain income guidelines can make tax-deductible contributions to an IRA. All others can make contributions to an IRA on a non-deductible basis.

Load
Any sales fees or charges you pay in purchasing an annuity contract.

Payout Period
The period during which you receive the income from your annuity contract.

Principal
The amount you pay into your annuity contract as distinguished from the interest that is credited to it.

Surrender
Voluntary cancellation of a policy for its cash value.

Surrender Charges
Contractual charges imposed by an insurance company in the event of early policy cancellation.

TYPES OF ANNUITIES

IMMEDIATE OR DEFERRED

Immediate annuities begin providing periodic benefit payments immediately after they are purchased. They are particularly attractive to people who retire and wish to convert savings and/or investment accounts into a guaranteed stream of income payments.

Deferred annuities provide an initial period of time (following the purchase date) to fund the contract, before payouts begin. This is known as the "accumulation period." Premiums paid and interest earned during the accumulation period are credited by the insurer to the policy's accumulation fund, and a minimum guaranteed interest rate is usually provided by the insurer during this period. Under a deferred annuity, the annuitant simply defers the beginning of payouts ("annuitization") until some future date.

QUALIFIED OR NON-QUALIFIED

Federal law determines whether an annuity is considered "qualified" or "non-qualified." Premiums paid into a qualified annuity are tax deductible (paid with pre-tax dollars). Taxes on those premiums, and on growth accumulated within the annuity, are deferred until funds are withdrawn.

Premiums paid into a non-qualified annuity are not tax deductible. Taxes are deferred only on growth accumulated within the annuity.

What is an Annuity?

An annuity is an insurance contract designed to provide an individual with income for an established period of time, often beginning at retirement age. Payments are generally made on a monthly basis and may continue for as long as you live or for a stated period of time. Payments may begin immediately, or be deferred until some future date. Most annuities are long term contracts and generally should not be considered or purchased for short-term purposes.

Annuities may be appealing and useful in a variety of situations. The following are some examples:

- Companies funding their employees' pension plans;
- Individuals who are not covered under traditional pension plans or who desire to supplement their future incomes;
- Individuals who have sold a business;
- Individuals who have sold a home;
- A widow, widower or divorcee who needs to convert a lump sum cash settlement into income, but wants safety and security in terms of future payments and guarantees;
- Grandparents who want to provide for their grandchildren; or
- Someone who desires to set aside or accumulate funds for future needs.

SINGLE PREMIUM OR INSTALLMENT PREMIUM

Annuity contracts may be either single premium or installment premium. Single premium contracts require you to fully fund the annuity contract in one single premium payment. Installment premium contracts allow an annuity to be funded by means of premium payments over a period of time. Most often, installment premium annuities are also flexible premium contracts that allow you to pay as much as you desire whenever you choose, within specified limits.

FIXED OR VARIABLE

A fixed annuity provides fixed-dollar income payments backed by the guarantees in the contract. For example, the company may guarantee that the interest rate on the funds accumulating in the policy will be at least three percent. Guarantees are based on conservative assumptions, so that the company will be able to fulfill its promises and obligations regardless of economic conditions. In many instances, actual interest crediting rates may be greater than minimum guarantees; however, if you are shown any illustrations of how an annuity might grow in the future, you should keep in mind that the actual results may turn out to be better or worse than those shown in the illustrations.

An annuity is classified as a variable if its value (during either the accumulation period or the payout period) is based directly on the performance of securities. In a variable annuity, funds are invested in securities such as stocks and unsecured bonds, which tend to fluctuate with economic conditions. As a result, the value of a variable annuity depends upon the value of those underlying securities. You, the owner or "annuitant," bear the investment risk as the value of the annuity rises and falls with the investment performance of the underlying securities. Within a variable annuity, invested funds are held in the annuity's "separate account." If you are thinking about buying a variable annuity, you should be especially careful in making sure that it suits your needs and risk tolerance.

The North Carolina Department of Insurance and the U.S. Securities and Exchange Commission regulate companies authorized to sell variable annuities in North Carolina. Licensed life insurance agents, banks and brokerage houses that sell variable annuities must also hold a securities license.

EQUITY–INDEXED ANNUITIES

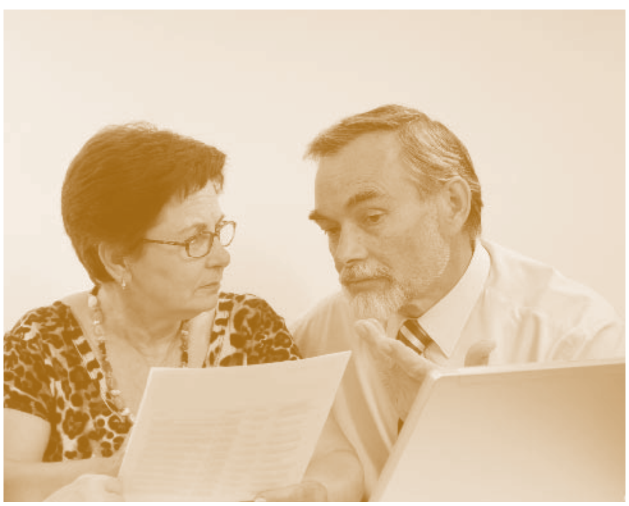
(see appendix for additional information) The accumulation value of the annuity is based upon the increase or decrease of a specified index (such as a stock index). The calculations used to determine this value may differ for each product. The policy will usually specify a guaranteed minimum interest rate for fund accumulation.

ANNUITIZATION OPTIONS

Generally, an annuitant has a great deal of flexibility in deciding when to "annuitize" the policy and begin receiving annuity benefit payments.

STRAIGHT LIFE OR "PURE ANNUITY"

Under a straight life annuity option, you receive a guaranteed income for as long as you live. However, there are no further benefits paid to anyone after you (the annuitant) die. This type of annuity contract is sometimes called a "pure" annuity. This type of annuity provides the maximum amount of periodic benefit payment to a sole annuitant compared to the premiums paid. It is generally recommended for someone who wants to maximize the size of annuity payouts, and who either has no dependents or has provided for dependents through other means.



PERIOD CERTAIN ANNUITY

With this option, the company guarantees benefit payments for a specified number of years regardless of whether you die prior to the end of the benefit period. The guaranteed period is often called the "period certain" and is frequently 10 or 20 years. If you die before the end of the specified period, the company will pay the remainder of the benefits to your designated beneficiary or estate.

LIFE ANNUITY WITH PERIOD CERTAIN

You receive an income for as long as you live. If you die within a certain period after you begin receiving benefits, usually 10 or 20 years, your designated beneficiary will receive benefit payments for the remainder of the guaranteed period. Because this continuation feature is an added benefit, the amount of the periodic benefit payment to a life annuitant is less (based upon premiums paid) than benefits paid under a straight life annuity.

AMOUNT CERTAIN

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

INSTALLMENT REFUND ANNUITY

You receive an income for life. However; if you die before you receive total benefits equal to your premiums paid, your beneficiary receives regular installments until total benefits paid equal the total premiums paid.

JOINT AND SURVIVOR ANNUITY

This annuity option provides benefits until the last designated recipient dies. Under some annuities of this type, the amount of the periodic benefit payment is reduced after the death of the initial covered annuitant.

ASSOCIATED COSTS

How much you pay for an annuity depends on how much monthly income you desire, your age when you buy the annuity contract and the time when you want to start receiving benefits. It also depends on how you wish to make your payments (e.g.: in a single sum or in a series of payments). For a single-premium deferred annuity, the smallest amount of purchase payment a company will accept may be $2,500 or more. For a flexible premium retirement annuity, the company may accept payments of less than $100, although more may be required during the first year. You should compare annuity contracts offered by different companies since sales charges, surrender charges, interest rates and benefit payments can vary.

SALES CHARGES

Most companies offer plans with no sales charge. They are called "no-load" plans. However, you should be aware there are many types and amounts of charges that can be associated with the sale of annuity contracts. Companies may refer to these charges by different names. Some annuities are "front loaded," which means that most of the costs are charged to the policyholder up front at the beginning of the contract. Others are "back loaded," which means that most of the costs are charged at a later date or at the end of the contract. Still others spread their charges evenly throughout the life of the annuity.

SURRENDER CHARGES

Most annuities allow you to surrender your contract if the contract has not been annuitized (i.e. benefit payments have not yet started). Upon surrender, the contract terminates and you may be required to pay a surrender charge. Early surrender charges typically apply and are imposed during the first five to 15 years from the date the policy is issued. Some companies waive the surrender charge if the interest rate being credited to the contract falls below a specified level. Immediate annuity contracts cannot be surrendered, and there is no surrender value after the contract is annuitized.

The cash surrender value is the contract value less early surrender charges or other market adjustments. Depending on the terms of the annuity contract and the policy's performance, the cash surrender amount may be less than premiums paid. In addition, there may be tax penalties imposed in connection with cash surrendered policies. Be sure you understand the tax implications and consequences prior to surrendering an annuity contract.

THINGS TO CONSIDER BEFORE PURCHASING AN ANNUITY

As described earlier, annuity products may be used to accumulate and convert available funds to a guaranteed stream of income payments that may be needed now or later. Consequently, annuities are generally considered to be long term contracts. To avoid being financially penalized, policyholders must be willing to make a long-term commitment when purchasing an annuity. Other more appropriate investments exist for those seeking short-term opportunities.

Prior to purchasing an annuity, you might wish to consult a trusted financial advisor who has no vested interest in your investment choice. Talk with several reputable agents who have expertise with annuities and shop around before investing your money. Consider all of the consequences and replacement costs if you are considering replacement of an existing annuity contract. Be sure you consider both the advantages and disadvantages. Remember to carefully compare your existing policy with any new proposed policy and consider such factors as the guaranteed interest rate, the surrender charges and the administrative and maintenance fees. A high interest rate during the first year is not always the better choice.

This is especially true if the interest rates drop to a low minimum rate the following years with high surrender charges and additional fees. Ask your agent for the company's history on crediting its interest rates and check to see how credited interest rates vary between new issues and renewal years.

Ask for required disclosure materials. Many companies will offer you computer generated sales illustrations that provide a customized projection for the contract under consideration. Be sure that you receive all of the pages of the illustration, and carefully read and study them. Also, be sure you understand guaranteed values and non-guaranteed projections and estimates.

Please note that values and income figures may be shown on both a "guaranteed" and an "illustrated non-guaranteed" basis. Illustrations of guaranteed values show the minimum values and benefits that will be paid under the contract. Illustrations of "non-guaranteed" values show the values and benefits which could possibly be paid if the assumed interest rates and/or investment goals are achieved and met for the period shown.

Be aware: Some companies may advertise high interest crediting rates and bonuses on their annuity products. However, depending upon the terms of the annuity contract, the advertised interest and/or bonus may not be available to the annuitant if the contract is surrendered for cash. In other words, some contracts may credit and accumulate interest and/or bonuses to the policy's annuitization value (not the cash value) and the annuitant may be required to receive policy benefits over a long period of time in order to receive the advertised high interest and/or bonuses. This is another reason it is very important for applicants to carefully read and understand the terms of the annuity contract prior to purchasing the policy.

Because most insurance companies and many agents advertise, you will likely be able to find quite a bit of initial information in telephone directories, advertisements (newspaper, radio, television), and on the internet.

The vast majority of insurance agents are reputable professionals who are well trained in their area of expertise. Insurance companies and agents must be licensed to sell life insurance (including annuities) in North Carolina. Choose one with whom you feel comfortable and who will thoroughly answer your questions. To verify that an agent is licensed, contact the North Carolina Department of Insurance's Agent Services Division at (919) 807-6800. To verify that a company is properly licensed, you may contact the North Carolina Department of Insurance, Consumer Services Division at (919) 807-6750 or toll free 855-408-1212. If you are considering the purchase of a variable annuity, the agent must also be licensed by the Securities and Exchange Commission (series 6 and series 63 license) to sell such products, and you should receive a prospectus describing the variable annuity that you are considering.

SUITABILITY IN ANNUITY TRANSACTIONS

The Suitability in Annuity Transaction Act (the "Act") was adopted in 2007 and became effective January 1, 2008. Its purpose is to set standards for annuity-related recommendations made to consumers by insurance agents and companies.

Determining whether an annuity is suitable for an individual consumer requires a thorough understanding and consideration of that indivdual's financial situation, needs, and objectives. Therefore, the Act's objective is to ensure that agents and companies do indeed based their recommendations on such understanding and consideration.

The Act requires insurance companies and agents to assess the financial objectives of the consumer before recommending the purchase or exchange of an annuity. It requires the company or agent to make reasonable efforts to obtain information about the a consumer's circumstances, including but not limited to the consumer's:

- Financial status;
- Tax status;
- Investment objectives;
- Any other information used or considered to be reasonable by the company or agent, in making recommendations to the consumer.

Insurance companies and agents must have reasonable grounds for believing that their annuity recommendations are suitable based on the information collected from the consumer. If a consumer elects not to provide this information, provides false information, or purchases something that an agent or insurance company did not recommend, then agents and insurance companies have no obligations under the Act.

Violation of the Suitability in Annuity Transactions Act is considered an unfair and deceptive trade practice. Violators are subject to penalties and having their license suspended or revoked.

In addition to the suitability standards, North Carolina law also requires insurance companies and agents to provide consumers with certain information about annuity contracts, to help ensure that consumers make informed decisions before purchasing. The required information includes disclosures about the features of the annuity product being recommended, and "Buyers' Guide to Fixed Deferred Annuities" published by the National Association of Insurance Commissioners.

SEEK UNBIASED INFORMATION

Annuity information is available to consumers from a number of sources. These sources include consumer publications, public libraries, consumer groups and your North Carolina Department of Insurance.

Company financial strength and ability to meet financial obligations to policyholders is very important. Independent organizations such as A.M. Best, Standard & Poor's, Moody's Investors Service and others publish financial ratings. You should consider checking with at least two organizations to evaluate a company's strength. The ratings for insurers can be found in most public libraries, by asking your agent, or on the Internet. (NOTE: These agencies rate companies according to their present financial ability to pay claims, not by quality of products offered or by past or future ability to pay claims.)

The North Carolina Department of Insurance does not rate or recommend insurance companies and agents, but can verify that a company or agent is licensed.

BEFORE AND AFTER YOUR PURCHASE

BEFORE YOU BUY

- Shop around. Compare annuities offered by several companies.
- Verify that the agent and company you choose to do business with are both licensed in North Carolina.
- Be certain that you understand the effect of all charges and penalties that you may incur under the contract.
- Check whether the annuity contract allows you to change the amount of your premium payments. Find out what happens if you stop paying premiums altogether.
- DO NOT PAY CASH. When you purchase an annuity, make your check or money order payable to the insurance company, NOT THE AGENT. Be sure to get a receipt.
- Make sure you fully understand any policy that you are considering, and that you are comfortable with the company, agent and product.
- Ask questions. Your annuity contract may represent a considerable investment and may significantly impact your family's future.
- Speak with a family member or other trusted advisor who does not have a vested interest in your purchase decision, and who is well versed in financial and tax matters.
- Compare product summaries and benefits for similar annuities from several companies. Choose the one that best fits your needs at the most favorable premium rate.
- Understand the difference between guaranteed values and non-guaranteed projections.
- If you are buying an annuity contract for an Individual Retirement Account or another tax deferred retirement program, consult with a tax advisor for guidance on eligibility, tax consequences, etc.
- If you are shown a presentation illustrating tax savings, find out what assumptions are used. Be sure the assumptions apply in your case.

AFTER THE PURCHASE

- READ AND UNDERSTAND THE CONTRACT - When you receive your new annuity contract, read it carefully. Ask the agent and company for an explanation of anything you do not understand.
- Keep in mind that you have a minimum 10-day "free look" period, 30-days if the purchase involved the replacement of an existing annuity or life insurance policy, in case you change your mind. If you cancel during the free look period, the company must return your premium without penalty.
- Periodically review your contract to make sure it continues to meet your needs.
- Your annuity contract should be kept in a safe place with your other important documents, such as a safe deposit box or fire proof safe. The name of the company and policy number should be kept in a safe place (at a separate location from your original policy) in case the policy is misplaced or lost.
- Make sure the insurance company always has your current address.

AND SENIOR CITIZENS

Annuity sales to senior citizens have significantly increased in recent years. However, as annuity sales have risen, so has a sense of confusion among consumers. This is due, in part, to questionable or deceptive sales practices employed by a few companies and agents looking to take advantage of uninformed consumers. It is extremely important, when considering whether or not to buy an annuity, to take the necessary precautions in order to make an informed decision that is best for you.

IS AN ANNUITY RIGHT FOR YOU?

To find out if an annuity is right for you, think about what your financial goals are for the future. Analyze the amount of money you are willing to invest in an annuity, as well as how much of a financial risk you are willing to take. You shouldn't buy an annuity to reach short-term financial goals. When determining whether an annuity would benefit you, ask yourself the following questions:

- How much retirement income will I need in addition to what I will get from Social Security and my pension plan?
- Will I need supplementary income for others in addition to myself?
- How long do I plan on leaving money in the annuity?
- When do I plan on needing income payments? Can I gain access to the money when I need it?
- Do I want a guaranteed interest rate and little or no risk of losing the principal, or am I willing to risk losing principal for the chance of higher earnings that aren't guaranteed?
- Or, am I somewhere in between and willing to take some risks with an equity indexed annuity?

Remember – most annuities are long term contracts and should not be considered or purchased for short-term purposes.

Be aware that some companies may advertise high interest crediting rates and bonuses on their annuity products. However, depending upon the terms of the annuity contract, the advertised interest and/or bonus may not be available to the annuitant if the contract is surrendered for cash. In other words, some contracts may credit and accumulate interest and/or bonuses to the policy's annuitization value (not the cash value) and the annuitant may be required to receive policy benefits over a long period of time in order to receive the advertised high interest and/or bonuses. This is another reason it is very important for consumers to carefully read and understand the terms of the annuity contract prior to purchasing the policy.

UNDERSTAND THE PRODUCT YOU ARE BUYING

When it comes to annuities, inappropriate sales practices can occur in many ways and come from a variety of sources. Anyone can be a victim, but senior citizens remain a prime target. Follow the insurance tips provided above to protect yourself.

BEWARE OF DECEPTIVE OR HIGH PRESSURE SALES PRACTICES

Watch for the following red flags, which serve as warnings of possible deceptive sales practices:

- High-pressure sales pitch. If a particular group or agent has contacted you repeatedly, offering a "limited-time" deal that makes you uncomfortable or aggravated, trust your instincts and steer clear.
- Quick-change tactics. Skilled scam artists will try to prey on your "time fears." They may try to convince you to change coverage quickly without giving you the opportunity to do adequate research.
- Unwilling or unable to prove credibility. A licensed agent will be more than willing to show adequate credentials.

Remember, if it seems too good to be true, it probably is!

If you suspect you've been a victim of deceptive sales practices, or you have a specific question and can't get the answers you need from an agent or the insurance company, contact the North Carolina Department of Insurance, Consumer Services Division at 1-855-408-1212.

NORTH CAROLINA LIFE AND HEALTH INSURANCE GUARANTY ASSOCIATION

To protect North Carolina insureds against company insolvencies, the North Carolina General Assembly created the North Carolina Life and Health Guaranty Association. The Guaranty Association provides up to $300,000 of benefits per person (for guaranteed policy benefits) on covered policies in the unlikely event of insurer insolvency. The association is funded by insurers licensed to do business in North Carolina.

FAQ'S

- ***What does "free look" mean?***
  "Free look" is a period of time (usually 10 days) following policy delivery, during which the applicant can return the contract for a full refund of premium.

- ***I purchased an annuity contract in another state. Do North Carolina insurance laws apply?***
  No. The laws and regulations of the state of issue apply. North Carolina law applies only to policies and contracts applied for and issued in North Carolina.

- ***What happens if I die before my deferred annuity payments begin?***
  Generally, a death benefit equal to the contract value is payable to your beneficiary if you die before you annuitize your policy (i.e., you begin receiving benefits). Other contracts may provide that the death benefit will be the total premiums paid if that amount is greater than the contract value.

- ***What should I know about interest rates?***
  Please remember that interest rates tend to fluctuate depending upon economic conditions. Although interest crediting rates may start out unusually high (especially during the first year), some companies will quickly lower them after the guaranteed period expires.

- ***Can I borrow from my annuity contract?***
  Many annuities also provide that you may borrow a portion of your contract value, under certain conditions, without terminating the contract. Fees and loan interest may be charged by the company and deducted from the amount of the loan. You may also be able to use the annuity as collateral for a bank loan.

Source: National Association of Insurance Commissioners

EQUITY INDEXED ANNUITIES

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

When you buy an equity indexed annuity you own an insurance contract. You are not buying shares of any stock or index. While immediate equity indexed annuities may be available, this appendix will focus on deferred equity indexed annuities.

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

Your equity indexed annuity, like other fixed annuities, also promises to pay a minimum interest rate. The rate that will be applied will not be less than this minimum guaranteed rate even if the index-linked interest rate is lower. The value of your annuity also will not drop below a guaranteed minimum.

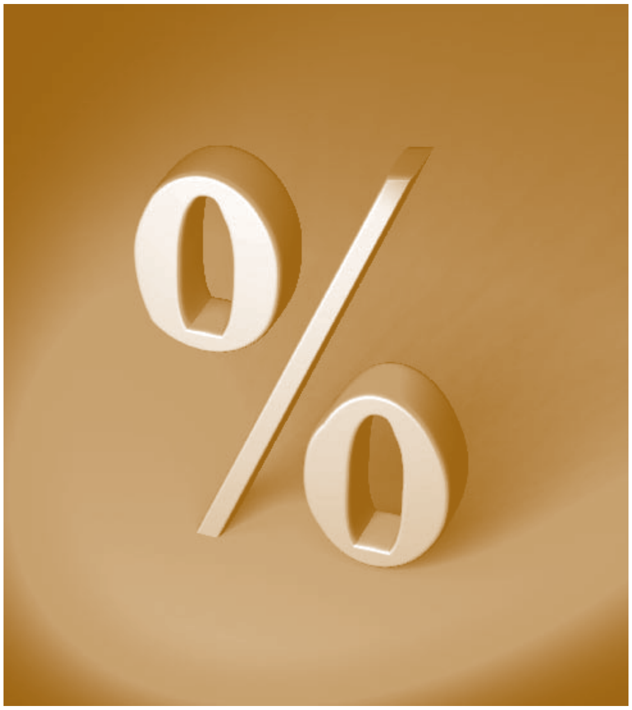
For example, many single premium annuity contracts guarantee the minimum value will never be less than 90 percent of the premium paid, plus at least 3 percent in annual interest (less any partial withdrawals). The guaranteed value is the minimum amount available during a term for withdrawals, as well as for some annuitizations and death benefits. The insurance company will adjust the value of the annuity at the end of each term to reflect any index increases.

WHAT ARE SOME EQUITY INDEXED ANNUITY CONTRACT FEATURES?

Two features that have the greatest effect on the amount of additional interest that may be credited to an equity indexed annuity are the indexing method and the participation rate. It is important to understand the features and how they work together. The following describes some other equity indexed annuity features that affect the index-linked formula.

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

Term – The index term is the period over which index-linked interest is calculated. In most product designs, interest is credited to your annuity at the end of a term. Terms are generally from one to 10 years, with six or seven years being most common. Some annuities offer single terms while others offer multiple, consecutive terms. If your annuity has multiple terms, there will usually be a window at the end of each term, typically 30 days, during which you may withdraw your money without penalty. For installment premium annuities, the payment of each premium may begin a new term for that premium.



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

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

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

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

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

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

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

HOW DO THE COMMON INDEXING METHODS DIFFER?

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

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

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

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

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

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

Annual Reset – Because the interest earned is "locked in" annually and the index value is "reset" at the end of each year, future decreases in the index will not affect the interest you have already earned. Therefore, your annuity using the annual reset method may credit more interest than annuities using other methods when the index fluctuates up and down often during the term. This design is more likely than others to give you access to index-linked interest before the term ends.

- Trade-off: Your annuity's participation rate may change each year and generally will be lower than that of other indexing methods. Also an annual reset design may use a cap or averaging to limit the total amount of interest you might earn each year.

High-Water Mark – Because interest is calculated using the highest value of the index on a contract anniversary during the term, this design may credit higher interest than some other designs if the index reaches a high point early or in the middle of the term, then drops off at the end of the term.

- Trade-off: Interest is not credited until the end of the term. In some annuities, if you surrender your annuity before the end of the term, you may not get index-linked interest for that term. In other annuities, you may receive index-linked interest, based on the highest anniversary value to date and the annuity's vesting schedule. Also, contracts with this design may have a lower participation rate than annuities using other designs or may use a cap to limit the total amount of interest you might earn.

Low-Water Mark - Because interest is calculated using the lowest value of the index prior to the end of the term, this design may credit higher interest than some other designs if the index reaches a low point early or in the middle of the term, then rises at the end of the term.

- Trade-off: Interest is not credited until the end of the term. With some annuities, if you surrender your annuity before the end of the term, you may not get index-linked interest for that term. In other annuities, you may receive index-linked interest, based on a comparison of the lowest anniversary value to date with the index value at surrender and the annuity's vesting schedule. Also, contracts with this design may have a lower participation rate than annuities using other designs or may use a cap to limit the total amount of interest you might earn.

Point-to-Point – Because interest cannot be calculated before the end of the term, use of this design may permit a higher participation rate than annuities using other designs.

- Trade-off: Since interest is not credited until the end of the term, typically six or seven years, you may not be able to get the index-linked interest until the end of the term.

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

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

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

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

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

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

Your annuity may have a limited "free withdrawal" provision. This lets you make one or more withdrawals without charge each year. The size of the free withdrawal is limited to a set percentage of your annuity's guaranteed or accumulated value. If you make a larger withdrawal, you may pay withdrawal charges. You may also lose index-linked interest on amounts you withdraw.

Most annuities waive withdrawal charges on withdrawals made within a set number of days at the end of each term. Some annuities waive withdrawal charges if you are confined to a nursing home or diagnosed with a terminal illness. You may, however, lose index-linked interest on withdrawals.

In addition to the information discussed in this guide about surrender and withdrawal charges and free withdrawals, there are additional considerations for equity indexed annuities. Some annuities credit none of the index-linked interest or only part of it if you take out money before the end of the term. The percentage that is vested, or credited, generally increases as the term comes closer to its end and is always 100 percent at the end of the term.

ARE DIVIDENDS INCLUDED IN THE INDEX?

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

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

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

- Am I interested in a variable annuity with the potential for higher earnings that are not guaranteed and willing to risk losing the principal?
- Is a guaranteed interest rate more important to me, with little or no risk of losing the principal?
- Or, am I somewhere in between these two extremes and willing to take some risks?

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

As with any other insurance product, you must carefully consider your own personal situation and how you feel about the choices available. No single annuity design may have all the features you want. It is important to understand the features and trade-offs available so you can choose the annuity that

is right for you. Keep in mind that it may be misleading to compare one annuity to another unless you compare all the other features of each annuity. You must decide for yourself what combination of features makes the most sense for you. Also remember that it is not possible to predict the future behavior of an index.

QUESTIONS YOU SHOULD ASK THE INSURANCE AGENT AND/OR INSURANCE COMPANY.

You should ask the following questions about equity indexed annuities in addition to the questions already posed in this guide.

- What is the guaranteed minimum interest rate?
- What charges, if any, are deducted from my premium or my contract value?
- How long is the term?
- What is the participation rate and how long is the participation rate guaranteed?
- Is there a minimum participation rate?
- Does my contract have a cap?
- Is averaging used? How does it work?
- Is interest compounded during a term?
- Is there a margin, spread or administrative fee? Is that in addition to or instead of a participation rate?
- Which indexing method is used in my contract?
- Can I get a partial withdrawal without paying charges or losing interest? Does my contract have vesting?
- Does my annuity waive withdrawal charges if I am confined to a nursing home or diagnosed with a terminal illness?
- What annuity income payment options do I have?
- What is the death benefit?

APPENDIX

File Number: ______________________ (office use only)

PLEASE DO NOT STAPLE

NORTH CAROLINA DEPARTMENT OF INSURANCE

(Please type or print. You may also use the online version of this form at www.ncdoi.com)

DR.
MR.
MRS.
MS. ______________________
my name

____
my address

____
second address line (if needed)

______________ ______ ______
city state zip

____
county

Phone: Work ______ /______ /__________ Ext.______

Home ______ /______ /__________

Alternate ______ /______ /__________

____
name of insured

____
insurance company

____
agent

____
adjuster

____
policy or group number

____
claim or certificate number

____
date of loss

Type of Insurance (please check one): Life ☐ Health ☐ Auto ☐ Homeowners ☐ Other ☐

If Life or Health policy, show the state in which your policy/certificate was purchased: ______________

Are you represented by an attorney in this matter? No ☐ Yes ☐ Name______________________
(if yes, we must have your attorney's consent in writing)

Details of complaint (*attach copies of papers relating to this matter*)

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The Insurance Department is authorized to send a copy of this document(s) to any company or agency involved. I authorize the release of all relevant information to the North Carolina Department of Insurance for its use in the review of this matter. Please note that consumer complaints become public records in accordance with North Carolina General Statute 58-2-100.

SIGNATURE ______________________________ **DATE** ______________

Mail to:

Consumer Services Division, NC Department of Insurance, 1201 Mail Service Center, Raleigh, NC 27699-1201

North Carolina Department of Insurance
Wayne Goodwin, Commissioner
1201 Mail Service Center
Raleigh, NC 27699-1201
www.ncdoi.com