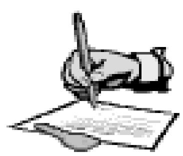
New York State Attorney General's INVE$TOR BULLETIN

VARIABLE ANNUITIES

Variable annuities have become a part of the retirement and investment plans of many Americans.

Before you buy a variable annuity, you should know some of the basics and be prepared to ask your insurance agent, broker, financial planner, or other financial professional lots of questions about whether a variable annuity is right for you.

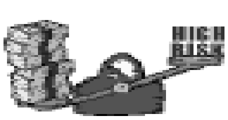
What Is a Variable Annuity?



A variable annuity is a contract between you and an insurance company, under which the insurer agrees to make periodic payments to you, beginning either immediately or at some future date. You purchase a variable annuity contract by making either a single purchase payment or a series of purchase payments.

A variable annuity offers a range of investment options. The value of your investment as a variable annuity owner will vary depending on the performance of the investment options you choose. The investment options for a variable annuity are typically mutual funds that invest in stocks, bonds, money market instruments, or some combination of the three.

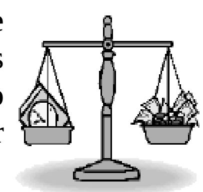
The cash value is not guaranteed and it will increase or decrease in direct proportion with investment results. You can choose your own investment strategy and you bear the entire investment risk.



Features of Variable Annuities

- **Periodic payments** – Variable annuities let you receive periodic payments for the rest of your life (or the life of your spouse or any other person you designate). This feature offers protection against the possibility that after you retire, you will outlive your assets.

- **Tax-deferred** – This means you pay no taxes on the income and investment gains from your annuity until you withdraw your money. You may also transfer your money from one investment option to another within a variable annuity without paying tax at the time of the transfer. When you take your money out of a variable annuity, however, you will be taxed on the earnings at ordinary income tax rates rather than lower capital gains rates. In general, the benefits of tax deferral will outweigh the costs of a variable annuity only if you hold it as a long-term investment to meet retirement and other long-range goals.



- **Death benefit** – If you die before the insurer has started making payments to you, a person you select as a beneficiary (such as your spouse or child) will receive the greater of: (i) all the money in your account, or (ii) some guaranteed minimum (such as all purchase payments minus prior withdrawal). Your beneficiary will get a benefit from this feature if, at the time of your death, your account value is less than the guaranteed amount.

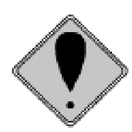
- **"Stepped-up" death benefit** – Under this feature, your guaranteed minimum death benefit may be based on a greater amount than purchase payments minus withdrawals. For example, the guaranteed minimum might be your account value as of a specific date, which may be greater than purchase payments minus withdrawals if the underlying investment options have performed well. The purpose of a stepped-up death benefit is to "lock in" your investment performance and prevent a later decline in the value of your account from eroding the amount that you expect to leave to your heirs. This feature carries a charge, however, which will reduce your account value.

- **The guaranteed minimum income benefit –** Guarantees a particular minimum level of annuity payments, even if you do not have enough money in your account (perhaps because of investment losses) to support that level of payments.

- **Long-term care insurance** – Pays for home health care or nursing home care if you become seriously ill.

- **Tax-Free "1035" Exchanges** Section 1035 of the U.S. tax code allows you to exchange an existing variable annuity contract for a new annuity contract without paying any tax on the income and investment gains in your current variable annuity account. These tax-free exchanges, known as 1035 exchanges, can be useful if another annuity has features that you prefer, such as a larger death benefit, different annuity payout options, or a wider selection of investment choices. You may, however, be required to pay surrender charges on the old annuity if you are still in the surrender charge period (see discussion below). In addition, a new surrender charge period generally begins when you exchange into the new annuity. This means that for a significant number of years (as many as 10 years), you typically will have to pay a surrender charge (which can be as high as 9% of your purchase payments) if you withdraw funds from the new annuity. Further, the new annuity may have higher annual fees and charges than the old annuity, which will reduce your returns.

- **Bonus Credits –** Variable annuity contracts with"bonus credit" features add a bonus to your contract value based on a specified percentage (typically ranging from 1% to 5%) of purchase payments. For example, if you purchase a variable annuity contract that offers a bonus credit of 3% on each purchase payment, and you make a purchase payment of $20,000, the insurance company issuing the contract would add a bonus of $600 to your account. However, variable annuities with bonus credits may carry a downside – higher expenses that can outweigh the benefit of the bonus credit offered. Frequently, insurers will charge you for bonus credits in the form of higher surrender charges, longer surrender periods, higher mortality and expense risk charges, and other charges (see discussion on charges below).



Overall, you will pay for each benefit provided by your variable annuity. Be sure you understand the charges. Carefully consider whether you need the benefit. If you do, inquire whether you can buy the benefit more cheaply as part of the variable annuity or separately.

Phases of Variable Annuities

- **The Accumulation Phase**

During the accumulation phase, you make purchase payments, which you can allocate to a number of investment options. For example, you could designate 40% of your purchase payment to a bond fund, 40% to a U.S. stock fund, and 20% to an international stock fund. The money you have allocated to each mutual fund investment option will increase or decrease over time, depending on the fund's performance. In addition, variable annuities often allow you to allocate part of your purchase payments to a fixed account. A fixed account, unlike a mutual fund, pays a fixed rate of interest. The insurance company may reset this interest rate periodically, but it will usually provide a guaranteed minimim (e.g. 3% per year).

During the accumulation phase, you can typically transfer your money from one investment option to another without paying tax on your investment income and gains, although you may be charged by the insurance company for transfers. However, if you withdraw money from your account during the early years of the accumulation phase, you may have to pay "surrender charges," which are discussed below. In additon, you may have to pay a 10% federal tax penalty if you withdraw money before the age of 59½.

- **The Payout Phase**

At the beginning of the payout phase, you may receive your purchase payments plus investment income and gains (if any) as a lump-sum payment, or you may choose to receive them as a stream of payments at regular intervals (generally monthly).

If you choose to receive a stream of payments, you may have a number of choices of how long the payments will last. Under most annuity contracts, you can choose to have your annuity payments last for a period that you set (such as 20 years) or for an indefinite period (such as your lifetime or the lifetime of you and your spouse or other beneficiary). During the payout phase, your annuity contract may permit you to choose between receiving payments that are fixed in amount or payments that vary based on the performance of the mutual fund investment options. The amount of each periodic payment will depend, in part, on the time period that you select for receiving payments. Be aware that some annuities do not allow you to withdraw money from your account once you have started receiving regular annuity payments.

In addition, some annuity contracts are structured as immediate annuities, which means that there is no accumulation phase and you will start receving annuity payments right after you purchase the annuity.

Variable Annuity Charges

You will pay several charges when you invest in a variable annuity. Be sure you understand all the charges before you invest. These charges will reduce the value of your account and the return on your investment. Often, they will include the following:

- **Surrender charges –** If you withdraw money from a variable annuity within a certain period after a purchase payment (typically within six to eight years, but sometimes as long as ten years), the insurance company will assess a "surrender" charge. This charge is used to pay your financial professional a commission for selling the variable annuity to you. Generally, the surrender charge is a percentage of the amount withdrawn, and declines gradually over a period of several years, known as the "surrender period." For example, a 7% charge might apply in the first year after a purchase payment, 6% in the second year, 5% in the third year, and so on until the eighth year, when the surrender charge no longer applies. Often, contracts will allow you to withdraw part of your account value each year–10% or 15% of your account value, for example–without paying a surrender charge.

- **Mortality and expense risk charge –** This charge is equal to a certain percentage of your account value, typically in the range of 1.25% per year. For example, if your average account value during the year is $20,000, you will pay $250 in mortality and expense risk charges. This charge compensates the insurance company for insurance risks it assumes under the annuity contract. Profit from the mortality and expense risk charge may also be used to pay the insurer's costs of selling the variable annuity, such as a commission paid to your financial professional for selling the variable annuity to you.

- **Administrative fees –** The insurer may deduct charges to cover record-keeping and other administrative expenses. This may be charged as a flat account maintenance fee (perhaps $25 or $30 per year) or as a percentage of your account value (typically in the range of 0.15% per year). Thus, if your average account value during the year is $20,000, the administrative fee will be $30.

- **Underlying Fund Expenses –** You will also indirectly pay the fees and expenses imposed by the mutual funds that are the underlying investment options for your variable annuity.

- **Fees and Charges for Other Features –** Special features offered by some variable annuities, such as a stepped-up death benefit, a guaranteed minimum income benefit, or long-term care insurance, often carry additional fees and charges.

- **Other charges**, such as initial sales loads, or fees for transferring part of your account from one investment option to another, may also apply. You should ask your financial professional to explain to you all charges that may apply. You can also find a descriptionm of the charges in the prospectus for any variable annuity that you are considering.

Obtaining Information

Your most important source of information about a variable annuity's investment options is the prospectus. Request the prospectuses for the mutual fund investment options and decide how to allocate your purchase payments among the investment options offered. You should consider a variety of factors with respect to each fund option, including the fund's investment objectives and policies, management fees and other expenses that the fund charges, the risks and volatility of the fund, and whether the fund contributes to the diversification of your overall investment portfolio.

Ask Questions Before You Invest

Finanical professionals who sell variable annuities have a duty to advise you as to whether the product they are trying to sell is suitable to your particular investment needs. Don't be afraid to ask them questions. And, write down their answers, so there won't be any confusion later as to what was said.

Before you decide to buy a variable annuity, consider the following questions:

✔ Will you use the variable annuity primarily to save for retirement or a similar long-term goal?

✔ Are you investing in the variable annuity through a retirement plan or IRA (**which would mean that you are not receiving any additional tax-deferral benefit from the variable annuity**)?

✔ Have you consulted with a tax adviser and considered all the tax consequences of purchasing an annuity, including the effect of annuity payments on your tax status in retirement?

✔ Are you willing to take the risk that your account value may decrease if the underlying mutual fund investment options perform badly?

✔ Do you understand the features of the variable annuity?

✔ Do you understand all of the fees and expenses that the variable annuity charges?

✔ Do you intend to remain in the variable annuity long enough to avoid paying any surrender charges if you have to withdraw money?

✔ If a variable annuity offers a bonus credit, will the bonus outweigh the higher fees and charges that the product may charge?

✔ Are there features of the variable annuity, such as long-term care insurance, that you could purchase more cheaply separately?

✔ If you are exchanging one annuity for another one, do the benefits of the exchange outweigh the costs, such as any surrender charges you will have to pay if you withdraw your money before the end of the surrender charge period for the new annuity?

Remember: Before purchasing a variable annuity, you owe it to yourself to learn as much as possible about how it works, the benefits it provides, and the charges you will pay.