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FINANCIAL APPLICATIONS FOR ANNUITIES:

TAX-DEFERRED GROWTH AND INCOME

WHO — PRIMARY DEMOGRAPHIC

- Individuals with currently taxable investment income that do not have a current need for the income
- Those without access to a qualified retirement plan or those who have maxed out their retirement plan contributions
- Individuals with long-term objectives, such as wealth transfer

WHAT IS A TAX DEFERRAL?

Tax deferral defers taxation until a later date. Instead of paying taxes on interest, dividends, and dispositions of stock, tax-deferred vehicles allow assets to grow without the impact of tax until they are withdrawn from the account.

HOW IT WORKS

Tax deferral really is as simple as it sounds. Take Jack and Jill, who have identical scenarios outlined below. The only difference is Jack doesn't take advantage of tax deferral.

Initial deposit: $200,000
Rate of return: 8%
Time in years: 20
Tax rate: 28%

After 20 years, Jill would have **$932,191** based on the above and no annual tax liability. Jack would have **$612,997** because 28% of his annual 8% growth is being paid to Uncle Sam in taxes. Taxes are due to Jill when she withdraws the proceeds from her account. Assuming the same tax rate, Jill would have **$727,178** after taxes if she took a lump sum from her account after 20 years.

Since withdrawals generally do not occur until retirement, most would expect to be in a lower tax bracket than they were in their working years. So, while Jack was paying 28% of his gains in taxes, Jill will likely have a lower tax liability when she begins taking distributions (as early as age 59.5).

CONSIDERATIONS

PROS:

- Growth without immediate tax burden
- No contribution limit (IRA and qualified plan limits may apply)
- Flexibility to determine when to withdraw assets and recognize taxes
- Ability to change investments within the tax-deferred account without triggering a taxable event

CONS:

- Possibility of higher tax rate in future
- Lack of liquidity until age 59.5 without federal tax penalty
- Taxes are due when assets are withdrawn

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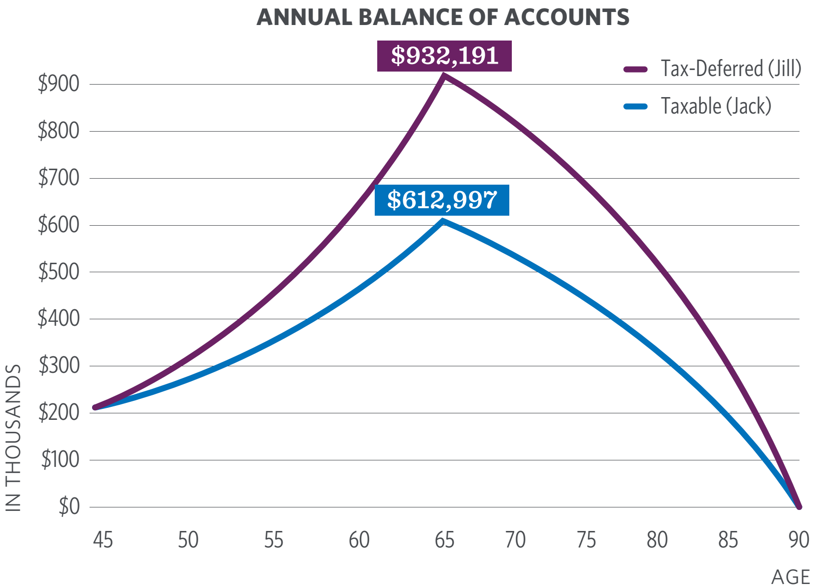
TAX DEFERRAL CAN HELP YOUR SAVINGS GROW FASTER

Tax deferral enhances the power of compounding growth when an investment is not slowed or interrupted by taxable events, such as withdrawals. The purple line in the chart below hypothetically shows an investment that grows tax-deferred and free from taxable events for 20 years. Taxes are only due when money is withdrawn. The blue line shows how an investment grows over 20 years when it's taxed. See the difference?



This chart is hypothetical and for illustrative purposes only. The hypothetical rates of return shown in this chart are not guaranteed and should not be viewed as indicative of the past or future performance of any particular investment.

Tax deferral offers no additional value if an annuity is used to fund a qualified plan, such as a 401(k) or IRA. This example assumes a single, hypothetical contribution of a nonqualified $200,000, an 8% annual return, and a 28% tax rate during the contribution period and a 22% tax rate during the withdrawal period. The actual tax results of any distribution will depend on an individual's personal tax circumstances. This hypothetical example illustrates tax deferral and does not represent the past or future performance of any particular product. This example does not assume subsequent investment or withdrawals and also does not include mortality and expense charges, sales charges, and administrative fees typically associated with variable annuities; inclusion of these items would lower the performance shown.

Lower maximum tax rates on capital gains and dividends would make the investment return for the taxable investment more favorable, thereby reducing the difference in performance between the accounts shown. Changes in tax rates and tax treatment earnings may impact the comparison shown. Investors should consider their individual investment time horizon and income tax brackets, both current and anticipated, when making an investment decision, as these further impact the results of the comparison.

Annuities are long-term, tax-deferred vehicles designed for retirement purposes. They offer three main benefits: tax-deferred treatment of earnings, death benefit options, and lifetime payout options.

Variable annuities are subject to investment risk, including possible loss of principal.

Withdrawals of taxable amounts are subject to ordinary income tax and may be subject to a 10% additional federal tax if withdrawn before age 59½.

All guarantees, including optional benefits, are based on the claims-paying ability of the issuing insurance company.

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