



This guide:

- Explains the basics of life insurance.
- Explains annuity contracts and their purpose.

# Guide to Life & Annuity Insurance

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**Disclaimer notice:**

*The information included in this publication is meant to serve as a guide and is not a substitute for legal or professional advice. Please be certain to check with a professional if you have questions. Updated June 1, 2012. May change without notice.*

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## Life Insurance Basics

This guide can help you when you shop for life insurance. It discusses how to:

- Find a policy that meets your needs and fits your budget
- Decide how much insurance you need
- Make informed decisions when you buy a policy

### Important Things to Consider

1. Review your own insurance needs and circumstances. Choose the kind of policy that has benefits that most closely fit your needs. Ask an agent or company to help you.
2. Be sure that you can handle premium payments. Can you afford the initial premium? If the premium increases later and you still need insurance, can you still afford it?
3. Don't sign an insurance application until you review it carefully to be sure all the answers are complete and accurate.
4. Don't buy life insurance unless it fits with your plan. It may be very costly if you cancel during the early years of the policy.
5. Be careful with offers of free or low cost premium financing. Be sure to have any such offer reviewed by your legal counsel.
6. Don't drop one policy and buy another without a thorough study of the new policy and the one you have now. Replacing your insurance may be costly.
7. Read your policy carefully. Ask your agent or company about anything that is not clear to you.
8. Review your life insurance with your agent or company every few years to keep up with changes in your income and your needs.

### Buying Life Insurance

When you buy life insurance, you want coverage that fits your needs.

First, decide how much you need — and for how long — and what you can afford to pay. Keep in mind the major reason you buy life insurance is to cover the financial effects of unexpected or untimely death. Life insurance also can be one of many ways you plan for the future.

Next, learn what kinds of policies will meet your needs and pick the one that best suits you.

Then, choose the combination of policy premium and benefits that emphasizes protection in case of early death, or benefits in case of long life – or a combination of both.

An agent can help you review your insurance needs and give you information about the available policies. If one kind of policy doesn't seem to fit your needs, ask about others.

This guide provides only basic information. You can get more facts from a life insurance agent or company or from your public library.

**Questions about life insurance?  
The Ohio Department of  
Insurance can help!**

**Go to [www.insurance.ohio.gov](http://www.insurance.ohio.gov) or  
call toll-free: 1-800-686-1526.**

## Identifying the Right Kind of Life Insurance

All policies are not the same. Some cover you for your lifetime and others for a specific number of years. Some build up cash values and others do not. Some policies combine different kinds of insurance, and others let you change from one kind of insurance to another. Some policies may offer other benefits while you are still living. Your choice should be based on your needs and what you can afford.

There are two basic types of life insurance: **term insurance** and **cash value insurance**. Term insurance generally has lower premiums in the early years, but does not build up cash values that you can use in the future. You may combine cash value life insurance with term insurance for the period of your greatest need for life insurance to replace income.

### Term Insurance

Term insurance covers you for a term of one or more years. It pays a death benefit only if you die in that term. Term insurance generally offers the largest insurance protection for your premium dollar. It generally does not build up cash value.

You can renew most term insurance policies for one or more terms even if your health has changed. Each time you renew the policy for a new term, premiums may be higher. Ask what the premiums will be if you continue to renew the policy. Also ask if you will lose the right to renew the policy at some age. For a higher premium, some companies will give you the right to keep the policy in force for a guaranteed period at the same price each year. At the end of that time you may need to pass a physical examination to continue coverage, and premiums may increase.

You may be able to trade many term insurance policies for a cash value policy during a conversion period — even if you are not in good health.

Premiums for the new policy will be higher than you have been paying for the term insurance.

### Cash Value Life Insurance

Cash value insurance is a type of insurance where the premiums charged are higher at the beginning than they would be for the same amount of term insurance. The part of the premium that is not used for the cost of insurance is invested by the company and builds up a cash value that may be used in a variety of ways. You may borrow against a policy's cash value by taking a policy loan. If you don't pay back the loan and the interest on it, the amount you owe will be subtracted from the benefits when you die, or from the cash value if you stop paying premiums and take out the remaining cash value.

You can also use your cash value to keep insurance protection for a limited time or to buy a reduced amount without having to pay more premiums. You also can use the cash value to increase your income in retirement or to help pay for needs such as a child's tuition without canceling the policy. However, to build up this cash value, you must pay higher premiums in the earlier years of the policy.

Cash value life insurance may be one of several types: whole life, universal life and variable life. These types of policies are described on the next page.



# Right Insurance

**Whole life insurance** covers you for as long as you live if your premiums are paid. You generally pay the same amount in premiums for as long as you live. When you first take out the policy, premiums can be several times higher than you would pay initially for the same amount of term insurance. But they are smaller than the premiums you would eventually pay if you were to keep renewing a term policy until your later years.

Some whole life policies let you pay premiums for a shorter period such as 20 years, or until age 65. Premiums for these policies are higher since the premium payments are made during a shorter period.

**Universal life insurance** is a kind of flexible policy that lets you vary your premium payments. You can also adjust the face amount of your coverage. Increases may require proof that you qualify for the new death benefit. The premiums you pay (less expense charges) go into a policy account that earns interest. Charges are deducted from the account. If your yearly premium payment plus the interest your account earns is less than the charges, your account value will become lower. If it keeps dropping, eventually your coverage will end. To prevent that, you may need to start making premium payments, or increase your premium payments, or lower your death benefits. Even if there is enough in your account to pay the premiums, continuing to pay premiums yourself means that you build up more cash value.

**Variable life insurance** is a kind of insurance where the death benefits and cash values depend on the investment performance of one or more separate accounts, which may be invested in mutual funds or other investments allowed under the policy. Be sure to get the prospectus from the company when

buying this kind of policy and *STUDY IT CAREFULLY*. You will have higher death benefits and cash value if the underlying investments do well. Your benefits and cash value will be lower or may disappear if the investments you chose didn't do as well as you expected. You may pay an extra premium for a guaranteed death benefit.

## Life Insurance Illustrations

You may be thinking of buying a policy where cash values, death benefits, dividends or premiums may vary based on events or situations the company does not guarantee (such as interest rates). If so, you may get an illustration from the agent or company that helps explain how the policy works.

The illustration will show how the benefits that are not guaranteed will change as interest rates and other factors change. The illustration will show you what the company guarantees. It will also show you what could happen in the future.

Remember that nobody knows what will happen in the future. You should be ready to adjust your financial plans if the cash value doesn't increase as quickly as shown in the illustration. You will be asked to sign a statement that says you understand that some of the numbers in the illustration are not guaranteed.

## Finding a Good Value in Life Insurance

After you have decided which kind of life insurance is best for you, compare similar policies from different companies to find which one is likely to give you the best value for your money. A simple comparison of the premiums is not enough. There are other things to consider. For example:

- Do premiums or benefits vary from year to year?
- How much do the benefits build up in the policy?
- What portion of the premiums or benefits is not guaranteed?
- What is the effect of interest on money paid and received at different times on the policy?

You should also consider other factors:

- How quickly does the cash value grow? Some policies have low cash values in the early years that build quickly later on. Other policies have a more level cash value build-up. A year-by-year display of values and benefits can be very helpful. (The agent or company will give you a policy summary or an illustration that will show benefits and premiums for selected years.)
- Are there special policy features that particularly suit your needs?
- How are non-guaranteed values calculated? For example, interest rates are important in determining policy returns. Some companies increases reflect the average interest earnings on all of that company's policies regardless of when issued. For other companies, the return for policies issued in a recent year, or a group of years, reflects the interest earnings on that group of policies. In this case, the amounts paid are likely to change more rapidly when interest rates change.



## What About the Policy You Have Now?

If you are thinking about dropping a life insurance policy, here are some things you should consider:

- If you decide to replace your policy, don't cancel your old policy until you have received the new one. You then have a short time to review your new policy and decide if it is what you wanted.
- It may be costly to replace a policy. Much of what you paid in the early years of the policy you have now paid for the company's cost of selling and issuing the policy. You may pay this type of cost again if you buy a new policy.
- Ask your tax advisor if dropping your policy could affect your income taxes.
- If you are older or your health has changed, premiums for the new policy will often be higher. You will not be able to buy a new policy if you are not insurable.
- You may have valuable rights and benefits in the policy you now have that are not in the new one.
- If the policy you have now no longer meets your needs, you may not have to replace it. You might be able to change your policy or add to it to get the coverage or benefits you now want.
- At least in the beginning, a new policy may not pay benefits for some causes of death covered by your current policy.

In all cases, if you are thinking of buying a new policy, check with the agent or company that issued you the one you have now. When you bought your old policy, you may have seen an illustration of

the benefits of your policy. Before replacing your policy, ask your agent or company for an updated illustration. Check to see how the policy has performed and what you might expect in the future, based on the amounts the company is paying now.

## How Much do You Need?

Here are some questions to ask yourself:

- How much of the family income do I provide? If I were to die, how would my survivors, especially my children, get by? Does anyone else depend on me financially, such as a parent, spouse, grandparent, brother or sister?
- Do I want to set aside money for my children to finish their education in the event of my death?
- How will my family pay final expenses and repay debts after my death?
- Do I have family members or organizations to whom I would like to leave money?
- Will there be estate taxes to pay after my death?
- How will inflation affect my future financial needs?

As you figure out what assets you have to meet these needs, count the life insurance you have now, including any group insurance where you work or veteran's insurance. Don't forget Social Security and pension plan survivor's benefits. Add other assets you have: savings, investments, real estate and personal property. Which assets would your family sell or cash in to pay expenses after your death?



## Questions to Ask When Shopping for Life Insurance

### Term Life Insurance

Term insurance can be the easiest to shop and compare because it is the simplest form of life insurance. But you should still ask yourself and the agent a lot of questions. Here are some suggestions.

- Decide how much insurance you need (the amount of the death benefit)
  - Level benefit - the benefit will not increase or decrease
  - Decreasing benefit - Your premiums will remain level but your death benefit declines over time (this is a good choice if you want to cover only a specific debt that decreases, such as a mortgage)
- Decide how long you want the insurance to cover you (the length of the term)
  - 1, 5, 10, 15, or 20 years or to age 100
  - Level or increasing premium
- Compare premiums
  - Go to [www.insurance.ohio.gov](http://www.insurance.ohio.gov) for a list of Ohio-authorized life insurance companies
- Ask your agent to provide you with quotes
- Find out if policy fees are built into the premiums
- Ask if the policy is renewable
- Find out if it is convertible to whole life, regardless of your health at that time
- Ask if participating policies are available (potential for dividends)

### Where do I Purchase Term Life Insurance?

Most life insurance agents will sell you a term policy, although some prefer to offer only whole life or some other form of life insurance. Some companies market term insurance through the mail without agents.

Term quotations and sales are also available online. Some firms quote more than 100 different policies and even take your application online.

### Cash Value Life Insurance

The more complicated the policy gets, the more you will find yourself relying on an agent to explain it. It is often difficult to compare whole life or universal policies because they are complex. Here are some basic questions to ask about a whole life or universal life policy to guide you.

***How much will I pay each year for each part of the policy? Factors to consider:***

- Cost of insurance or “mortality charge”
- Sales commissions
- Administrative fees
- Future insurance (cash value)
- The Technical and Miscellaneous Revenue Act of 1988 (TAMRA law) — prevents policyholders from paying large single premiums to purchase life insurance, and then borrowing the cash value, tax-free

***Are there penalties for early surrender?***

- How much?
- How long do I have to hold the policy before the penalties are waived?

***Do I understand the policy’s illustration?***

- What’s guaranteed and what is not?
- Interest rates: declared monthly or annually; simple or compounded?
- Does it still make sense after the agent has left?
- Did it sound too good to be true?
- How long do I plan to keep it? Decades? Only a few years (consider term!)?



## Answers to Common Questions About Life Insurance

### Will I Benefit by Buying Life Insurance Through an Agent?

A good agent can guide you by explaining the options and identifying those that best match your personal needs. However, a dishonest agent can confuse you with a pitch designed for high sales commission with little regard for the impact on you. While most agents are very professional and honest, it is good to report any suspicious activity or incident to the Department of Insurance Fraud and Enforcement Division by calling us at 1-800-686-1527.

### Do Agents Need to be Trained and Licensed?

Ohio requires all insurance agents to be licensed. The state's minimum standards for a life insurance agent include the following:

- Successful completion of at least 40 hours on the fundamentals of life and health insurance
- Passing grade on the state licensing exam
- Payment of an annual licensing fee
- Complete at least twenty-four hours of continuing education in each license renewal period

Many agents have extensive education beyond the bare minimum required for a license. These agents may use initials after their names to let you know you are dealing with a well-trained professional. Examples:

CLU: Chartered Life Underwriter  
ChFC: Chartered Financial Consultant  
FLMI: Fellow of Life Management Institute  
CFP: Certified Financial Planner

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***Although agents represent insurance companies, a good agent can be your best ally and advocate if you have a problem with the company.***

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**Please note:** The Ohio Department of Insurance **DOES NOT** rate or recommend insurance companies!

### What is the Difference Between Captive and Independent Agents?

All insurance agents represent insurance companies. Before an agent can sell for any company, the company must appoint the agent as its legal representative.

A captive agent represents one company only, much like a company employee. This agent might show you different kinds of policies, but each will be with that same company. An independent agent may represent numerous companies and sell you a policy from any of those companies.

### What Guidelines Must Agents Follow?

By law, an agent must follow certain rules and guidelines. As such, an agent is not allowed to:

- Be the beneficiary of a life insurance policy the agent has sold you, unless the agent is a family member or a funeral director
- Misrepresent any aspect of the policy being sold or a policy you already own
- Encourage you to put incorrect information on your application
- Accept an application with blank spaces, and then fill them in with incorrect or misleading information (called clean sheeting)
- Represent life insurance as anything other than life insurance — the agent should not lead you to believe that life insurance coverage, in and of itself, is an investment

## What Should I Look for When Choosing an Insurance Company?

The most important thing to know is whether the company you buy insurance from today will be able to pay death benefits when you die. Make sure the company is licensed to sell insurance in Ohio. To check Ohio-authorized companies:

- Visit the Department of Insurance online at [www.insurance.ohio.gov](http://www.insurance.ohio.gov)
- **OR** call the Department of Insurance Consumer Services Division at 1-800-686-1526

### *Private rating firms*

Several private agencies specialize in evaluating the finances and services of insurance companies. Each of these organizations has its own methods and standards and gives grades to companies based on their judgment of how well the company is doing. The phone numbers and website addresses below will connect you with some of the most popular rating firms.

The grading systems for each firm may vary; for example, one firm may use "A+" as its top grade, while another may go all the way up to "A+++." Make sure you understand what a rating means before you rely on it.

A.M. Best Company  
(908) 439-2200  
[www.ambest.com](http://www.ambest.com)

Fitch Investor's Service  
(212) 908-0500  
[www.fitchibca.com](http://www.fitchibca.com)

Moody's Investor Service  
(212) 553-0377  
[www.moody.com](http://www.moody.com)

Standard & Poor's  
(212) 438-1000  
[www.standardandpoors.com](http://www.standardandpoors.com)

## I've Heard of Viatical or Life Settlements. What are They?

If you no longer want or need a life insurance policy, one option you have is to sell it in a transaction known as a viatical if you're chronically or terminally ill, or as a life settlement if you are not. A life settlement company will evaluate your age, health and the type of policy you own, then will offer you a lump sum of money that is usually more than the policy's cash surrender value. The company then sells your policy to an investor who will take over the payment of premiums and receive the proceeds of the policy when you die. You will need to provide investors with personal data, medical records and regular updates about your health status. The Ohio Department of Insurance regulates all viatical and life settlements.

### What is STOLI?

Stranger originated life insurance (STOLI) schemes take advantage of life settlements. STOLI transactions are designed to "manufacture" life insurance policies for the benefit of investors. Typically, investors will pay you a fee or provide you with limited-time, free premium financing to purchase life insurance you otherwise would not buy. The investors then pay the premiums in exchange for being named the beneficiary. These transactions are illegal in Ohio.



# About Life Insurance

## Who Makes Sure that Companies Stay Financially Sound?

The first responsibility of the Ohio Department of Insurance is monitoring the financial stability of the hundreds of companies that sell insurance in Ohio. State law requires insurance companies to file financial reports every year and the Department conducts regular risk assessment reviews.

When a company gets into financial trouble, the Department can take stronger actions.

- Limit or prohibit new sales in Ohio
- Stop the company from renewing policies that are not guaranteed renewable
- Declare the company insolvent and ask a court to order liquidation of its assets

## What does Liquidation Mean?

Liquidation is much like bankruptcy. When the state liquidation office takes over a failed company, it sells the assets and pays claims and death benefits. Some benefits may be paid in full, but there often is not enough money to pay everyone. That's why Ohio established Ohio Life and Health Insurance Guaranty Association (OLHIGA).

## What is the OLHIGA?

Ohio established the Ohio Life and Health Insurance Guaranty Association (OLHIGA) in 1990. Every state has a similar association. All companies licensed to sell life or health insurance in Ohio are required to belong to the OLHIGA.

When a member company is in financial trouble, the OLHIGA collects money from each of its members and then pays part or all of the unpaid claims.

## Does the OLHIGA Provide 100% Protection?

No, the OLHIGA does not provide 100% protection. Different kinds of policies have different limits.

- Annuity: \$250,000 — even if you have more than one annuity, the OLHIGA will pay you no more than a total of \$250,000
- Life policy (death benefit): \$300,000
- Life policy (cash surrender): \$100,000
- Health policy: \$100,000

## Does the OLHIGA Protect Me if I Move to Another State?

No. The OLHIGA protects only Ohio residents and their beneficiaries, regardless of where the policy was purchased or where the company has its headquarters. If you bought coverage in Ohio but now live in another state, you are probably protected by a guaranty association in that state. To be sure, check with the agency responsible for regulating insurance in the state where you live now.

## Consumer Complaints

### Try Solving the Dispute Yourself

Insurance is a very competitive business. If you give the company a chance, you will generally find someone that is willing if not eager to straighten out problems.

- Start with the agent
- If you are not satisfied, contact the company's customer service office.
- If customer service falls short of your expectations, ask to speak with a supervisor about the company's procedures for appealing decisions

### If You're Still Not Satisfied, Call the Ohio Department of Insurance

If your self-help efforts fail, your next step should be the Consumer Services Division of the Ohio Department of Insurance (ODI).

**Call us at  
1-800-686-1526**

- Ask to speak with a life insurance analyst
- The analyst will answer questions over the phone and explain any additional steps you should take to resolve your own problem
- Our staff will give you honest, unbiased answers — if it sounds as if the company has done nothing wrong, we'll tell you

*For consumer complaint records, lists of authorized companies and more...*

*Visit [www.insurance.ohio.gov](http://www.insurance.ohio.gov) or call Consumer Services at 1-800-686-1526.*

### ODI & Complaints

- If your issue requires follow up with the company, we'll send you a complaint form and instructions for filing a written complaint
- We generally will send the company a copy of your complaint and ask them to resolve it or explain their side of the story
- By law, companies must respond to the Department of Insurance — most companies do so in a timely manner
- We will review all the facts to make sure the company has upheld its contract with you and has followed insurance rules and laws

### Counting Complaints

Every year, Consumer Services at the Ohio Department of Insurance receives hundreds of complaints about life insurance.

- If your complaint raises questions that cause us to contact the agent or company, we will register it in our computer as a "complaint"
- A complaint means a customer has been unhappy with the company or agent
- It does not necessarily mean the law has been broken or that anyone did anything wrong

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### Insurance Dispute Tip

You can help avoid delays by providing complete, correct information to your insurance company and filing your claims as soon as possible.

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# Annuity Contracts

## Annuity Contracts

This section can help you when you shop for annuity contracts. It discusses:

- Reasons to buy an annuity
- Types of annuities
- Common provisions with annuities

### Many Options Available

This section is primarily about the choices you can make when buying an individual annuity. Employer group annuities offer certain tax advantages, but you may have fewer options because the contract is negotiated by your employer. See page 25 for more about group annuities you may be able to purchase, depending on where you are employed.

You'll have many decisions to make when buying an individual annuity, which should depend on your goals for retirement income the contract will provide. You may want sustainable income for yourself and your spouse. Or you might want to fill a gap in earnings between retirement and the start of a pension plan. There may be other reasons to buy, but annuities are most appropriate in providing a retirement income.

Choosing the right annuity is like building a house. You select your home's location, the number of bedrooms and bathrooms, and other choices that will suit you and your family. In the same way, you can build the annuity contract that is best for your needs.

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If you have a question about a specific contract, ask your agent or the insurance company. If it's still not clear, call the Consumer Services Division at the Ohio Department of Insurance at **1-800-686-1526**.

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# What is an Annuity?

## Annuity Basics

When you are considering an annuity contract, your options could include:

How you pay premiums

- Single Lump-Sum Payment
- Single-Premium Deferred Annuities (SPDA)
- Periodic Payments

Type of contract

- Fixed or variable
- Individual or group

When benefit payments start

- Immediate
- Deferred

How long you receive benefits

- As long as you live
- Some other defined period

Tax status of premiums

- Money has been taxed as income
- Money has not been taxed

Depending on the kind of annuity you buy, some of your decisions can be delayed until after you buy the contract.

## What is an Annuity?

An annuity is a series of income payments made to you at regular intervals in return for premiums you have paid. The most appropriate use of income payments from an annuity is for retirement. Income payments are generated through a contract with a life insurance company. These payments are funded by principal (the premiums you pay) and earnings (which accumulate on the invested principal).

An annuity has some advantages over other types of investment products:

- Earnings on accumulated funds are tax-deferred.
- The contract guarantees an income you can receive for life
- You can often choose a lump-sum payment instead of periodic payments
- Your contract may allow you to borrow from the annuity

## Not Life Insurance

Annuity contracts are usually sold by life insurance companies, but annuities are not life insurance. They do not provide life insurance protection.

Life insurance provides benefits to your family if you die. An annuity helps you accumulate money for future income needs. Don't buy an annuity as a savings account or for any short-term purpose. The most appropriate use for income payments from an annuity contract is to fund your retirement.

## Annuity Words & Phrases

If you pay the premiums for an annuity, you are the **contractholder** or **owner**. A person who receives annuity income is known as the **annuitant**. The annuitant and contract holder are often the same person.

The period between the purchase of the contract and receipt of income is called the **accumulation phase**. You may be able to pay premiums in a lump sum or over a period of time.

Income payments are made to you during the **annuity phase** or **payout phase**. You choose how benefits are paid, according to the options in your contract. You may want regular payments for as long as you live or some other specified period of time.

Choosing regular income payments for life or some other defined period is called **annuitization**. If your contract provides it, you can select a lump sum payment instead. Once you decide how you want to receive benefit payments and the payments have started, you most likely will not be able to change your mind.



## Choices When You Buy

There are many ways to fund an annuity. You purchase an annuity with premium payments. Your total benefit amount may depend on:

- The amount of premiums paid
- The length of the guaranteed benefit payment period
- The earnings on your premiums
- The insurer's expenses

You can pay premiums in one of three ways:

- With a single premium
- With periodic level (equal) amounts
- With periodic flexible (unequal) amounts

### How You Pay for an Annuity

#### Single Premium

You can buy either an immediate or a deferred annuity (see page 16) with a single premium payment.

Recent retirees who have a need for income might purchase a single-premium immediate annuity with money from a savings account, profit-sharing, the sale of a house, or an employer's retirement plan.

**Ohio law says if you buy a single premium deferred annuity you must sign a disclosure form. This form helps protect you by explaining that your income payments won't start right away. The agent must give you the form when you buy and the completed form becomes part of your application.**

You might choose a single-premium deferred annuity if you have the money to invest and you anticipate a need for regular income payments in the future.

An identical single premium should produce larger

benefit payments for a deferred annuity than it would for an immediate annuity. That's because the premium on a deferred annuity earns interest for some time before benefits are paid. An immediate annuity begins its payout phase right away and does not have the same chance to earn interest.

#### Periodic Level Premiums

If you choose to make fixed periodic level payments, you will pay equal amounts at regular intervals. Your premium payments continue until benefits begin or some other date specified in the contract.

Any periodic premium annuity is always deferred - meaning the benefits begin at a future date. The contract can specify a guaranteed benefit amount you will receive when the payout phase begins.

#### Periodic Flexible Premiums

Payments for a periodic flexible premium annuity are made over time and the annuity is always deferred. This feature lets you vary the premium amount.

In fact, you might not be required to make a payment every year. The contract can specify a minimum and a maximum amount of premium.

If your income changes greatly from year to year, such a contract may be an option for you. Perhaps the annual premium amount you can guarantee paying is not enough to provide you with sufficient benefits. By paying more in high-income years, your total premium payments could fund an annuity that meets your needs.

The final guaranteed benefit amount for this contract cannot be determined in advance. Although you can contact the company to find out the approximate amount at any time during the accumulation phase.



# Fixed Vs. Variable

## Fixed Rate vs. Variable Annuities

At the time you buy an annuity contract, you'll select between fixed rate and variable. This determines how earnings are credited in your contract.

Fixed rate annuities increase in value by earning interest. Choosing a fixed rate contract guarantees you will receive a return on your premium. Keep in mind that:

- Older fixed rate annuities generally increase through a fixed guaranteed interest rate
- Newer contracts may have a minimum fixed guaranteed rate, and could receive additional interest rate credits based on the company's earnings
- Credited rates can be guaranteed for a specific period of time, such as one or more years
- Generally, the longer a credited rate is guaranteed, the higher it will be

In a variable annuity no interest rate is guaranteed:

- You share in the risk of investing
- Your return can be higher than with a fixed rate annuity, but it can also be lower

## When You Start Receiving Benefits

At the time you purchase a contract you may be able to choose when benefit payments begin. You'll select between an immediate or deferred annuity.

## Immediate Annuities

Immediate annuity contracts require a single premium payment. Benefit payments normally must begin within one year after the annuity is purchased.

Let's say you've decided you want benefit payments from your immediate annuity every month. You can usually get your first payment one month after you pay the premium.

If you want annual payments, your benefits generally will start one year after you pay the single premium.

You might buy an immediate annuity just before retiring if you want to guarantee a stream of payments over your lifetime.

This type of annuity is simply a way to convert a sum of money into a steady flow of income over a period of time.

***Some contracts let you take a lump sum payment after the annuity matures. But a lump sum could total fewer dollars than annuitization, which is a series of income payments. Read your contract. Find out if a lower interest rate is credited for a lump sum payment than if you annuitize.***

## Deferred Annuities

When you choose to start the payout phase at some future date, you have a deferred annuity.

You might buy a deferred annuity during your working years to provide retirement income. You could schedule benefits to begin on the date you anticipate retiring.

You can usually alter the date when benefit payments begin. The contract will specify what you must do to make such a change, but any change in the date will likely also change each benefit payment amount.

Deferred fixed annuities specify that you will earn interest on funds held by the company during the deferral period.

The contract will usually guarantee a minimum interest rate, but the actual credited interest rate will vary and be declared by the company from time to time. Declared rates can never be lower than the guaranteed minimum rate specified in the contract.



## How Long Benefit Payments Continue

When choosing an annuity, you select a length of time during which you are guaranteed to receive benefits.

An annuity certain is a fixed term annuity that makes payments for a specified length of time no matter whether the annuitant lives or dies. A temporary life annuity pays benefits until the end of a specified period of time or the death of the annuitant, whichever happens first. A life annuity provides benefits at least until the annuitant's death. These basic types have many variations.

Some contracts let you take a lump sum payment after the annuity matures. But a lump sum could total fewer dollars than annuitization, which is a series of income payments. Read your contract. Find out if a lower interest rate is credited for a lump sum payment than if you annuitize.

## Annuity Certain

An annuity certain provides a fixed number of benefit payments of a fixed amount. The specified time over which benefits are paid is called the period certain.

Even if you are alive at the end of the period certain, the payments stop. If you should die before the period certain ends, your beneficiary would receive the rest of the annuity payments.

Such a contract can help if you have the need for an income that will last for a limited period of time only. An annuity certain can provide income until some other source of income - such as a pension - becomes available.

Generally, you should not consider an annuity certain as a sole source of retirement income.

## What is Replacment?

Replacement is buying an annuity to take the place of one you already had. Ohio law requires you to sign a replacement form, which the agent must give you when you buy. If the new contract is with a different company, the agent must notify the old company. The old company has the right to try and persuade you not to switch. Once you've received the new contract, you'll have 30 days to decide if you want to keep it. These first 30 days make up what is known as the free look period.

## Temporary Life Annuity

A temporary life annuity pays benefits until the end of a specified period of time or the annuitant's death, whichever happens first. When either of these events takes place, the benefits stop. No beneficiary is named with this type of contract.

As an example, if you were to buy a 10-year temporary life annuity, the contract would pay benefits for a maximum of 10 years only. If you were to die six years after the annuity payments begin, benefits would stop. People who buy an annuity of this kind often use the payments to fill an expected gap in income. For instance, you may need an income between the end of an earning period and the start of a pension.

A temporary life annuity pays for a limited period of time. Individual benefit payments are generally larger than with an annuity that has a longer payout period and is purchased for the same premium at the same age.

# Types of Annuities

## Life Annuities

A life annuity contract guarantees benefits will be paid for at least as long as you live. Your life expectancy is considered when premium and benefit amounts are calculated. Usually, only life insurance companies can sell life annuities.

Insurers that issue annuities use annuitant mortality tables to determine rates. These are similar to life insurance mortality tables but show an important difference when compared to life insurance tables. In general, people who buy annuities are expected to live longer.

You can choose from many types of life annuity contracts.

- Straight life
- Life income with period certain
- Life income with refund
- Joint and survivor

## Straight Life Annuity

With a straight life annuity, you receive benefit payments for as long as you live. This contract does not provide for a beneficiary — payments stop when you die. You are assured you cannot outlive benefit payments — the payments continue for as long as you live.

Since this contract pays nothing after the death of the annuitant, it requires a lower premium than other types of life annuities with the same benefit amount.

Of the life annuity options available, straight life may produce the largest benefit payment for your principal. That's because you could live longer than the mortality tables indicate. People who need a high retirement income and do not have any dependents may be most likely to purchase a straight life annuity.

## Life Income Annuity With Period Certain

A life income annuity with period certain guarantees payments under two circumstances:

- Annuity benefits are paid as long as you live
- Payments are made for at least a specified period of time (period certain), even if you die before the end of that time

You select the guaranteed period available under the contract (such as 5 or 10 years) and you name a beneficiary.

If you die before the period certain ends, your beneficiary receives the annuity payments for the remainder of the period. If you are alive at the end of the period, payments continue for the rest of your life.

Due to the guaranteed period, the insurer must make at least a minimum number of payments with this contract. This means premiums are usually higher than for a straight life annuity with the same benefit amount and purchased at the same age.

## Life Income With Refund Annuity

This contract pays benefits for life and guarantees benefits will at least equal the annuity's purchase price. It may be known simply as a refund annuity.

Benefit payments are made as long as you live. If you die before the total benefit paid equals the purchase price, your beneficiary receives a refund.

The amount of the refund is the difference between what has been paid in benefits and the contract's purchase price.

The beneficiary generally can receive the refund in either a lump sum or a series of payments.

A refund annuity guarantees a minimum benefit amount, so premiums are usually higher than for a straight life annuity with the same benefit amount and purchased at the same age.



# Types of Annuities

## Joint and Survivor Annuity

The joint and survivor annuity provides for payments to two or more people. Benefits continue until all of the annuitants have died.

Married couples are likely to purchase these contracts. After one spouse dies, benefit payments continue to the remaining spouse for the rest of his or her life.

Joint and survivor annuities can specify that benefit payment amounts stay the same throughout the payout phase. Contracts that decrease the amount after the death of the first annuitant are also available. Premiums will generally be less for a contract that decreases the benefit amount.

There is a better chance of a long payout phase when more than one life is covered. So joint and survivor annuities generally have higher premiums than comparable life income annuities issued to one person.

## Using Pre-Tax Dollars vs. After-Tax Dollars

In general, tax rules depend on the type of annuity you have. Consult your personal tax advisor for your specific situation.

## Individual Annuities

Earnings are subject to taxes anytime you receive money from an annuity (except with a Roth IRA, see page 23).

As long as you do not remove money during the accumulation phase, earnings credited to your annuity are tax-deferred. Taxes will apply, however, if you take a loan, a partial withdrawal, or surrender the contract.

Money you receive during the accumulation phase is regarded as fully taxable, until all the interest you have earned to that point is considered withdrawn.

You then begin to receive what is regarded as return of principal, which may or may not be taxable. During the payout phase, benefit payments are considered part principal and part earnings.

With life annuities, your life expectancy is calculated to determine the portion of earnings in each payment. You pay taxes on this percentage of the benefit only.

If you outlive that life expectancy, the principal portion of all your benefit payments will equal the premiums you paid. Every payment you receive after that is considered 100% earnings and is fully taxable.

## Employer Group Annuities

If you paid premiums with pre-tax payroll deductions, you will pay taxes on money you receive from the annuity at any time.

Earnings and principal both will be taxed whenever you receive money.

Your contract may not allow distributions during the accumulation phase. If your contract does allow withdrawals or loans, however, all the money you receive could be taxable.

Once the payout phase begins, all the money in each benefit payment is fully taxable.

## Common Provisions

Different annuity options meet the needs of different people. Other than the provisions described on the previous pages, annuities have additional positive and negative features you should consider. The provisions described here are all common but each one is not available in every contract. Also note the descriptions here are examples only — any features included in your contract will be defined in the contract.

### Administrative Fees

Every insurer that sells annuities charges fees which are connected to the contract. These fees cover the company's costs of administering the annuity.

### Withdrawal Privilege

Many deferred annuities offer limited withdrawal privileges during the accumulation phase.

This feature generally allows the owner - after the first year - to take out a small percentage (such as 10%) of the annuity fund each year without penalty. In other words, you would not pay a surrender charge. If you withdraw a larger percentage than the contract allows, however, you will pay surrender charges.

Although the insurance company will not charge you for limited withdrawals as specified in the contract, you may be required to pay tax penalties on at least a portion of the money. (Review Using pre-tax vs. after-tax dollars on page 19.)

### Surrender Charge

Most deferred annuities carry a surrender charge. A typical contract could have a surrender charge in effect over the first 10 years, but decreasing in amount each year. Read your contract - it will explain how the surrender charge applies to your annuity.

A deferred annuity is a long-term investment. The surrender charge encourages growth of your fund. It also allows the insurer to cover the expense of selling and issuing you the contract.

The charge is usually a percentage of either the fund's accumulated value or the total premiums you paid. Surrender charges are generally waived under certain circumstances:

- The death of the annuitant
- Disability of the annuitant
- Annuitization

### Contract Loans

A loan provision may be included in an annuity contract. In general, this feature allows you to borrow up to a specified amount of the annuity's accumulated value. Since it is a loan, interest will accumulate and it most likely will be to your advantage to repay it.

Like the withdrawal privilege, a loan provision can give some liquid features to an annuity.

A contract loan normally will be subject to current taxes. (Review Using pre-tax vs. after-tax dollars on page 19.)

### Return of Principal Guarantee

Surrender of the contract should be avoided whenever possible, but circumstances may leave you no choice.

If you must surrender your annuity, this feature assures you that the company will pay you no less than the total dollars you've paid in premiums - minus any prior partial withdrawals you've taken. It applies even if the amount is greater than the cash surrender value defined by the contract.



# Common Provisions

## Guaranteed Settlement Option Rates

Nearly every annuity offers guaranteed settlement option rates for the available payout choices (see How long benefit payments continue on pages 17-19). These rates are fairly low.

At the time you annuitize, most companies will pay current (higher) settlement option rates. Other companies may offer the rates currently available on their single premium immediate annuities.

### **OLHIGA**

*No annuity is “risk free” or “guaranteed safe.” A contract is only as sound as the company that sells it. The Ohio Life and Health Insurance Guarantee Association (OLHIGA) provides some protection if your insurance company goes out of business. OLHIGA pays part or all of the company’s unpaid claims. The limit paid for annuities is \$250,000. That’s the total amount you could collect from OLHIGA no matter how many annuities you had purchased from that company.*

*Note: Variable products are not covered.*

## Bailout Provision

Some fixed annuities include a bailout provision which waives the surrender charge if the contract’s declared renewal interest rate falls below a point called the bailout rate. This feature protects you and helps force companies to offer competitive rates.

If the declared renewal rate drops below the bailout rate, you can surrender the contract for the full annuity value without paying a surrender charge.

The time during which a waiver of surrender charge applies could be:

- For a specified period of time after the declared renewal rate falls below the bailout rate
- Until an interest rate exceeding the bailout rate is declared
- For as long as you hold the contract

## Medical Bailout

If your annuity contract has a medical bailout, any surrender charge is waived in the event you are confined to a nursing home or other long-term care facility. This feature may also waive the surrender charge if you are diagnosed as terminally ill.

### **Read your contract!**

*Your contract will list all its features and provisions. Read and understand its terms and conditions. If you don’t understand something in the contract, ask for help from the agent, the company, or your attorney.*

# Common Provisions

## Death Benefit

Annuities usually include a death benefit feature. This provision applies if the annuitant or the contract owner dies before the payout phase starts.

The death benefit provided by an annuity contract is not like that in a life insurance policy. An annuity's death benefit returns the premiums (less any withdrawals and company charges) to the beneficiary.

If the contract's accumulated value is greater than the total premiums paid, the beneficiary receives the accumulated value.

If the annuitant dies after benefit payments have started, further payments depend on the payout option that was selected.

## Account Value Enhancement (Bonus)

While not a common feature, some contracts offer enhancements to the account value.

These enhancements can include:

- An annuitization bonus: encourages you to keep your funds with the company at maturity
- A persistency bonus: encourages you to keep your funds with the company regardless of annuitization
- A large account value bonus: encourages you to make larger payments to the annuity

## Types of Annuities

### Equity-Indexed Annuity

The equity-indexed annuity earns interest or provides benefits which are linked to an external stock or bond index.

Equity-indexed contracts combine two features not found together in other annuity types: a guaranteed minimum interest rate and the potential for higher earnings based on the performance of the external index.

In general, equity-indexed annuities have several features in common, including:

- Contracts are divided into periods of time or terms
- Certain features can be renewed from one term to the next
- Your gain each term is limited to a percentage of the index's increase or a dollar amount
- The company may calculate your earnings in many different ways

The value of any index varies from day-to-day and cannot be predicted. When you buy an equity-indexed annuity, you own an insurance contract. You are not buying shares of any stock or index.

***Note: Companies can tie their equity-income annuity contracts to many different stock and bond indices. One that is commonly used is the Standard & Poor's 500 Index also called the S & P 500.***



# Types of IRAS

## Types of IRAS

### IRAs

A common vehicle for funding retirement is an Individual Retirement Annuity (IRA). Banks and other financial institutions can sell IRAs. Only an annuity contract sold through an insurance company can provide annuitization, or a stream of income for life.

### Traditional IRAs

A traditional IRA permits you each year to contribute a set dollar amount (or 100% of your earned income, whichever is less) and deduct a portion from your taxable income. You can contribute an additional amount for a non-employed spouse.

You may be able to deduct all or part of your contribution to a traditional IRA when you file taxes. Your income level and whether certain retirement saving plans are available through your employer determine if and how much you can deduct.

If you contribute to a traditional IRA before April 15 and are eligible, you can deduct all or part of the amount from your taxable income for the previous year. Money used to make IRA contributions in this way will be taxed when you withdraw from the fund.

The accumulating interest in your traditional IRA account isn't taxable until you withdraw money. In general, you should not take money from the fund until you've retired.

But new regulations permit you to withdraw a limited amount before age 59 1/2 without penalty if you use the money to pay for a first home or higher education.

Other withdrawals you make before age 59 1/2 are usually fully taxable. They also are generally subject to a 10% nondeductible penalty tax. You must start distribution by April 1 the year after you reach age 70 1/2 - or you'll be subject to a 50% penalty tax.

### Roth IRAs

A Roth IRA offers different tax incentives and more flexible features than traditional IRAs. However, it is available only to people within certain income limits. As is the case with any annuity contract you consider, you should consult a tax expert about your particular situation.

Contributions to your Roth IRA can not be deducted from your taxable income. But if you keep a Roth IRA for at least 5 years, all distributions you receive including earnings, are considered tax-free. You can make cash contributions to a Roth IRA even after you've reached age 70 1/2.

You are not required to take distributions during your lifetime. This allows a continuation of Roth IRA funds between generations.

Provided your Roth IRA has existed for five years or more, distributions as described below are considered free from federal income tax:

- To you if you have reached age 59 1/2
- To you if you become disabled
- To your beneficiary in the event of your death

A withdrawal from your Roth IRA to pay for a first home or certain higher education expenses is also tax-free. Distributions under any other circumstances are fully taxable and subject to a 10% penalty.



# Variable Annuities

## Variable Annuities

### Two-Tiered Annuity

Some companies offer what is known as a two-tiered annuity. The contract credits you with a favorable interest rate during the accumulation phase, a rate that compares well with other annuities.

But a two-tiered annuity could pay much less. If you make a partial or total surrender, or choose a short payout phase, you will earn a lower rate. You could be charged a substantial amount for a withdrawal.

Such features allow this annuity to pay a competitive rate during the accumulation phase. You will earn and receive the higher rate only if you annuitize.

When comparing a two-tiered annuity with other annuity contracts, don't get confused! Look at the rates to be paid in both tiers of the two-tiered contract.

### Variable Annuity

Unlike fixed annuities, variable annuities and multifunded annuities might not guarantee benefit payment amounts. The annuity owner shares some part of the investment risk with the insurance company. The benefit amounts paid reflect the company's investment gains or losses.

Such contracts are considered securities, so they can be sold only by agents who are registered with the National Association of Securities Dealers (NASD). The agent must provide a prospectus either before or at the time of the sale.

Variable annuities provide contract values that can change according to the investment performance of a special fund called a separate account. The insurer normally puts money directly into separate account investments such as stocks, mutual funds, real estate, etc., according to the investment guidelines.

The company keeps track of each annuity's value within the separate account fund. Your shares in the fund are called accumulation units.

The number of accumulation units you can buy depends on the separate account's fund value at any given time. If the value is high, the value of an accumulation unit is also high. When this is the case, your premium will purchase less units than when the fund's value is low.

Accumulation units buy annuity units, which provide a specified benefit amount. Before the initial payout, the number of annuity units you can purchase is determined. Once the payout phase begins, this number does not change.

Each benefit payment amount depends on the number of annuity units you own and the value of each unit. Annuity units are revalued regularly, based on the separate account fund investment value.

***A variable annuity's disadvantage is the lack of a guarantee, which leaves you open to risk. The advantage is your sharing risk gives you a chance for higher earnings than with a fixed annuity. Benefit payments can vary with the annuity units' value or can remain fixed, possibly at your option. Generally, variable annuity payout methods are the same as those available for fixed annuities.***



## Employer Group Annuities

### Market-Value Adjusted Annuity

In a contract of this type, your surrender value during an interest rate guarantee period is altered by both a surrender charge and a market value adjustment. The market value adjustment reflects changes in the interest rate level from the start of the period through the time you surrender the contract.

These contracts generally have long current interest rate guaranteed periods, such as 3-10 years. There is no market value adjustment when the period ends, but there may still be a surrender charge.

Some annuities of this type have capped market value adjustment formulas so the adjustment amount is limited in both directions, up and down.

### Employer Group Annuities

One method employers use to provide retirement income for their workers is the group annuity. Such a contract might be paid in full by either the employer or the employee, or the cost may be split. Some familiar methods may include: 401(k) - if your employer offers one for this purpose. Another is a 403(b), also known as a Tax Sheltered Annuity or TSA - if you work for certain tax exempt organizations such as churches, hospitals, and schools.

The kind of annuity your employer offers may govern whether any contributions you make to an IRA can be deducted from your taxable income.

A group annuity builds with non-taxable earnings during the accumulation phase, like all annuities.

But employer group contracts can offer an extra tax advantage over some other annuities. While you may have already paid income tax on money used to purchase certain contracts, employer group annuities are usually funded with pre-tax payroll deductions.

This means your current taxable income is reduced by the amount you pay in premiums each year. (Note: Social Security taxes are withheld regardless.)

Many employer group contracts won't let you make early withdrawals until you reach age 59 1/2, retire, quit your job, or become disabled.

If you annuitize you can select from the payout options available under the group annuity. Your employer has chosen the range of options, but they are generally like those in individual annuities.

When you receive benefit payments through this type of contract, taxes will be due on both the principal and the earnings. Since you will likely be in a lower income bracket after you've retired, your tax on the principal should be less than if you had paid income taxes on the money when you were working.

# Questions to Ask

## Questions to Ask Before You Buy

### Ask Yourself

- How much retirement income will I need in addition to Social Security, pension, savings, and any other income or investment sources?
- Will I need income for myself only or for someone else as well?
- How much can I afford to pay in premiums?
- How will the annuity contract fit in with my total financial planning?
- How long can I leave money in the annuity?
- When will I need income payments?

### Ask the Agent or Company

- Is this a single premium or installment premium contract?
- Are any administrative charges deducted from my premium or contract value?
- How is the interest rate determined?
- Is there a guaranteed minimum interest rate?
- How long is the company's credited (current) interest rate guaranteed?
- How often does the company change the credited rate?
- What is the company's history regarding renewal of the credited rate?
- Are there surrender charges or other penalties if I want to end the contract early?
- Can I get a partial withdrawal without paying fees or losing interest?
- Are charges waived for larger withdrawals if I am confined to a nursing home or diagnosed with a terminal illness?
- Is there a death benefit and how does it work?
- What are the options for benefit payments?



## Glossary

**Accumulation phase:** The period of time prior to annuitization.

**Administrative Fee:** Charges some policies deduct from cash value accumulation each year. Administrative fees are often highest in the first few years after you buy the policy.

**Annuitant:** A person who receives benefit payments from an annuity.

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

**Annuity:** A contract purchased through an insurance company, usually in order to accumulate funds that can be used after retirement. After a specified age, the insurance company promises to pay you monthly (annuity) payments. The company is taking the risk that you could live longer than expected, meaning the company would pay you more than you had invested.

**Back-end load:** Company expenses that are charged at the time benefits begin.

**Beneficiary:** The person you designate to be paid a death benefit when you die. A policy may have one or more beneficiaries.

**Cash Value:** The “savings” portion of a life policy. When your premium payments are more than the cost of insurance, the excess goes into a cash value account and draws interest.

**Commission:** The portion of your premium payments that goes to the insurance agent who sells the policy. Agents typically receive a percentage of each premium payment you make. The percentage may be highest in the first year you buy the policy.

**Contractholder:** A person who pays premiums for an annuity. Often the same person as the annuitant.

**Conversion:** Changing a term life policy to some other form. This can be done only when the policy is described as convertible.

**Cost of Insurance:** The amount a company calculates that it needs to insure your life. Although your insurance premiums may never change, the cost of insurance goes up every year because you are unavoidably getting closer to death. And each year an increasing amount of your premium payment for a cash value policy is used to pay for insurance - and less goes to cash value.

**Death Benefit:** The money that a life insurance policy promises to pay your beneficiary when you die and/or a provision in certain annuity contracts that pays the beneficiary when the annuitant dies before the payout phase begins.

**Deferred annuity:** A contract that begins the payout phase at some future date.

**Dividends:** When a company collects more money from policyholders than is needed to cover the cost of insurance, profit and other expenses, the company may return some of the money as a dividend. Dividends are paid only if you have a “participating” policy. You generally can choose to receive the dividend as a cash payment, apply it to your premium payments, buy more insurance, or add it to the policy’s cash value. Dividends are like a bonus. There is no guarantee that the company will pay dividends.

### ***How does the company define life insurance terms?***

This glossary gives common meanings for life insurance words and phrases. The insurance company may define the terms differently. Read the policy’s definitions section and ask questions about anything you don’t understand.



# Glossary

**Equity-indexed annuity:** A contract that combines a guaranteed minimum interest rate with earnings linked to the performance of an external stock or bond index.

**Face Amount:** The sum a policy promises to pay when the insured person dies, or at the maturity of the contract.

**Fixed rate annuity:** A contract that specifies your funds will earn a specified interest rate and guarantees a return on your premium.

**Flexible premium annuity:** A contract in which the amount of each premium payment you make can vary.

**Front-end load:** Company expenses that are charged at the beginning of a premium payment period.

**Free look:** A period specified in the contract (such as 10 days) during which you can decide whether to keep an annuity or return it for a full refund of your premium. Your free look period is 30 days when you buy an annuity contract to replace one you already had.

**Guaranteed interest rate:** A minimum rate of interest specified in a fixed annuity. The actual rate the insurance company credits your contract at any given time may be higher but can never be lower.

**Illustration:** An insurance company's explanation of how the life insurance policy will work. An illustration projects the policy into the future, showing each year's premium payment and death benefit, plus any guaranteed interest payments and the company's description of additional benefits that might be paid if the company does well.

**Immediate annuity:** A contract that begins the payout phase within one year after you pay the single premium.

**In Force:** A policy is "in force" when all conditions have been met to establish or maintain the company's obligation to pay if you die.

**Level premium annuity:** A contract in which the amount of each premium payment you make stays the same.

**Liquidation:** Similar to bankruptcy. A state official serves as the company's liquidator, and attempts to meet the company's fiscal obligations (e.g., paying claims) by "liquidating" its assets.

**Loan:** If your policy has accumulated cash value, you may borrow part of it. Interest rates are generally better than bank rates. The amount you borrowed will be deducted from your death benefit until you have repaid it. If your loan and accumulated interest add up to more than the cash value, the policy will lapse.

**Loan provision:** A feature in certain annuity contracts that allows you to borrow up to a specified percentage of the value. Contract loans are usually subject to taxes.

**Mortality Tables:** Statistics that project one's life expectancy based on many variables.

**Ohio Life and Health Insurance Guaranty Association (OLHIGA):** A state-authorized, non-profit corporation established to protect cash values and pay death benefits of companies that have financial problems or become insolvent (bankrupt). Every company selling life and health insurance in Ohio must belong and members contribute relative to company size.

**Payout phase (also called the annuity phase):** The period of time when benefit payments are being made to the annuitant. **Premium:** The amount you pay the insurance company for insurance (also called outlay).

## Glossary Continued..

**Refund Annuity:** Refunds part or all of the premiums paid if the insured dies before the start of the liquidation period.

**Stranger-Owned Life Insurance (STOLI):**

A life insurance settlement, illegal in Ohio, in which a person buys ownership of a policy on another, unrelated person — someone with no “insurable interest” to the purchaser — and which was arranged prior to the insurance company issuing the policy.

**Surrender charge:** A fee the insurance company will charge you if you cash in (surrender) an annuity before the payout phase begins, or if you make a withdrawal larger than specified in the contract.

**TAMRA:** Technical and Miscellaneous Revenue Act. A 1988 federal law that created a new class of life insurance contracts. These contracts’ policy loans and surrender payments are subject to taxation rules similar to deferred annuities.

**Term Life:** The simplest form of life insurance, it generally offers no cash value feature. You pay a premium and the company promises to pay your beneficiary if you die. The policy lasts for a specific length of time or “term,” such as 1, 5, 10 or more years, or to a designated age such as 65 or 100. If you are living at the end of the term, the policy expires unless the company agrees to renew it. Renewal premiums are based on your attained age. Sometimes called temporary insurance.

**Universal Life:** A flexible-premium life insurance contract which accumulates values and pays a death benefit. You choose the policy’s premium and face amount, and you can adjust these as long as the policy is in effect. It is possible that the cash value will earn more than the guaranteed minimum interest rate. It is also possible that the cash value will grow faster than is needed to cover the cost of insurance.

**Variable annuity:** Traditionally, a contract with no minimum guarantee (some newer products do include guarantees). Because the benefit amount depends on the insurance company’s investment gains or losses, you share some part of the investment risk with the insurer.

**Variable Life:** A type of whole life insurance in which the face amount and cash value rely on the investment performance of a special fund. Reserves are placed in investment accounts that are separate from the company’s general account. Most policies guarantee a minimum face amount, but a cash value minimum is rarely guaranteed.

**Viatical Settlement:** An agreement between the owner of a life insurance policy who has a life expectancy of less than 24 months and another, unrelated person, who becomes both the owner and beneficiary of the policy. Viatical settlements are legal and regulated by the Ohio Department of Insurance.

**Whole Life:** Life insurance with a savings feature. Premiums generally are the same (level) every year. When you are young, your premiums are more than the cost of insuring your life at that time. The excess amount accumulates and resembles a savings account, called cash value. This excess is used by the company to insure you later in life, when your level premium is no longer enough to cover you.

**Withdrawal privilege:** A provision in many annuity contracts that allows you to withdraw an amount less than the surrender value, without paying a surrender charge. Any withdrawal may be subject to taxes and penalties.



## Private Rating Firms

Many private firms specialize in rating the finances and services of insurance companies. Each has its own rating methods and grades companies based on the firm's judgement of how well the insurer is doing. The firms use various grading systems, so you must understand the system used before you put your faith in any report.

Some of the more popular firms are shown here along with a phone number and web address. You may be charged for the reports you get.

A.M. Best Company  
(908) 439-2200  
[www.ambest.com](http://www.ambest.com)

Fitch Inc.  
(800) 753-4824  
[www.fitchratings.com](http://www.fitchratings.com)

Moody's Investor Service  
(212) 553-0377  
[www.moody.com](http://www.moody.com)

Standard & Poor  
(212) 208-1527  
[www.standardandpoor.com](http://www.standardandpoor.com)

**Note: It's a good idea to make sure the insurance company is licensed in Ohio. You can visit the Ohio Department of Insurance online at [www.insurance.ohio.gov](http://www.insurance.ohio.gov) or call Consumer Services at 1-800-686-1526.**

# Contact ODI

To request consumer publications  
or ask questions about insurance, please call the  
Ohio Department of Insurance consumer lines:

Medicare issues .....1-800-686-1578

Other types of insurance .....1-800-686-1526

Fax .....(614) 644-3744

TDD/TTY phone users, please call Ohio Relay Service 9+711

For many Department services and  
publication updates, please visit our website  
[www.insurance.ohio.gov](http://www.insurance.ohio.gov)

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**Ohio**

**Department  
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