North American Annuity Basics

What is an Annuity?

An annuity is a contract in which an insurance company makes a series of income payments at regular intervals in return for a premium or premiums you have paid. Annuities are most often bought for future retirement income. Annuities are designed to give customers long-term growth potential as a retirement planning vehicle.

Features and Benefits of an Annuity:

- Tax deferral
- Retirement income through systematic payouts, including lifetime guaranteed income options from electing an annuity payout option
- Variety of payout options
- Penalty-free withdrawals (available in most contracts)
- Potential to avoid probate at death

Are there different types of Annuities?

The two main types of annuities are Immediate and Deferred.

Immediate Annuities are an insurance product where a lump sum premium is paid and income payments start within a year of the contract being issued.

Deferred Annuities are an insurance product where a lump sum premium or a series of premiums are paid and more than a year will lapse before income payments are taken or they are never taken.

What are the different types of Deferred Annuities?

There are three types of deferred annuities: Fixed (also known as Traditional) Annuity, Fixed Index and Variable Annuities.

Fixed (Traditional) Deferred Annuities are an insurance contract that provides a guaranteed minimum rate of return. Multi-Year Guaranteed Annuities (MYGA) are a type of Fixed Annuity which guarantees a minimum interest rate for more than one year.

Fixed Index Deferred Annuities are an insurance contract that guarantees a minimum interest rate of zero and provides account options that are linked to an external equity index.

Variable Deferred Annuities are an insurance contract that has no minimum guarantee interest rate, where interest rate credits are determined by the performance of investment choices. The investment options provide in the contract could be stock, bond or other accounts. Prior earnings could potentially be lost due to market downturns and fluctuation.

The main difference between a traditional fixed annuity and a fixed index annuity is that a fixed index annuity's interest earnings are based on the performance of an external index, subject to Index Cap Rates, Index Margins and / or Participation Rates.

The main difference between a fixed index annuity and a variable annuity is that the fixed index annuity is not subject to losses due to market downturns and fluctuation. A fixed index annuity guarantees a minimum interest rate of zero.

Single Premium Immediate Annuities (SPIA)

Single Premium Immediate Annuities convert a lump sum payment into a steady income stream. The first payment will happen within a year of the contract being issued. These payments will never fluctuate, even in the event of a market downturn.

Your client has the choice between several different payout options on their SPIA. Once a payment option is selected it is set for the duration of the policy. Below is an overview of the payout options available to clients.

Period Certain Only
Income for a fixed number of years (5 to 20), with payments continuing to a named beneficiary should death occur prior to the end of the period certain. The Period Certain payment option cannot be set-up to pay out past age 100 for the owner or annuitant.

Life Only
Payments will be made only during your client's lifetime. After your client's death, no further payments will be made. No payments will be made to an estate or any other person.

Life and Period Certain
Income payments will be made for your client's lifetime with a guaranteed payment period ranging from 5 to 20 years. If your client dies before the end of the period certain, payments continue to a named beneficiary until the end of that period certain. The Period Certain payment option cannot be set-up to pay out past age 100 for the owner or annuitant.

Joint Life with Survivorship
Income payments will be made for your client's lifetime and the lifetime of their spouse. After your client's death or the death of their spouse, payments continue to the surviving spouse for his/her lifetime.

Joint Life with Survivorship and Period Certain
Income payments will be made for your client's lifetime and the lifetime of their spouse, with a guaranteed payment period ranging from 5 to 20 years. After your client's death or the death of their spouse, payments continue to the surviving spouse for his/her lifetime. If both your client and their spouse die before the end of the period certain, payments continue to a named beneficiary until the end of the period certain.

Note: *For either of the Joint Life options, the survivor benefit can be 50%, 66.67% or 100% and the Period Certain durations can range from 5 years to 20 years. The client may select the option that best suit their needs at the time annuitization is elected.*

Installment Refund
Payments are made during your client's lifetime. After your client's death, their beneficiary(ies) continue to receive payments until all payments are equal to the single premium originally paid.

Cash Refund
Payments are made during your client's lifetime. After their death, their beneficiary(ies) receives a lump-sum payment equal to the single premium originally paid, less any payments received.

Traditional Fixed Annuities and Multi-Year Guaranteed Annuities

North American offers a variety of Traditional Fixed Annuities (including Multi-Year Guaranteed Annuities) in order to suit your client's individual needs.

Traditional fixed annuities offer an interest rate guarantee period that is good for one year or longer. Interest rates can change annually after the first anniversary or may be guaranteed for a period of time.

Multi-Year Guarantee Annuities (MYGAs) offer your client the ability to choose interest rate periods with a guaranteed interest rate for each period. These interest rate periods generally vary anywhere from 4 years to 10 years.

At the end of each selected Guarantee Period, your client may choose to renew their annuity for another guaranteed interest rate period. Depending on your client's circumstances and financial goals, they will have a 30 day window to select a Guarantee Period from those available, elect a payout option, or withdraw their Accumulation Value. If no election is made, the Company will automatically renew the annuity for an available Guarantee Period as described in the Contract.

Within this 30 day window, no surrender charges or Market Value Adjustment (MVA) also known as Interest Adjustment, will apply. After the 30 day window, a new Guarantee Period, Guarantee Period Interest Rate, Surrender Charge Period and Market Value Adjustment will be applied.

Renewal rates for subsequent Guarantee Periods may differ from the initial guaranteed interest rate. Both Traditional Fixed products and MYGA products typically have a surrender charge schedule. The duration of the surrender charge schedule varies by product. Surrender charges allow the Company to invest your client's money on a long-term basis and credit higher yields than possible with a similar annuity of shorter term. A surrender charge is assessed on any amount withdrawn, whether as a partial or full surrender, that exceeds the applicable penalty-free amount.

Traditional & Multi-Year Annuity Terminology

In order to fully understand how a fixed annuity works, producers must also have a clear knowledge of the terms used. Listed below are some basic terms and their definitions. These will be helpful when comparing different products and when trying to understand the different designs offered.

Accumulation Value

The Accumulation Value equals 100% of premium and applicable premium bonus, less withdrawals plus fixed and index account interest (if applicable) credited.

Surrender Value

The Surrender Value is the amount that is available at the time of surrender. The Surrender Value is equal to the Accumulation Value, subject to the Interest Adjustment, less applicable surrender charges, Premium Bonus Recapture if applicable and state premium taxes. The Surrender Value will never be less than the minimum requirements set forth by state laws, at the time of issue, in the state where the contract is delivered.

Annuitization:

This is the process of converting an annuity contract into a series of periodic income payments. Annuities may be annuitized regularly, over a long or short time period.

Withdrawals

Each contract has specific penalty-free withdrawal provisions. In some instances withdrawal amount is non-cumulative between contract years. Any amount withdrawn in excess of the penalty free amount will be subject to a surrender charge if applicable. All withdrawals taken prior to age 59 1/2 may be subject to a 10% IRS penalty. Please refer to product brochure for details.

Surrender Charges

Surrender charges allow North American to invest money on a long-term basis. Generally, the longer the surrender charge period, the higher the interest rate that can be credited to the annuity. A surrender charge will be deducted from the Accumulation Value as a result of a full surrender or withdrawal exceeding the penalty-free amount described above. Surrender charges on IRS-Required Minimum Distributions (RMDs) that exceed the penalty-free amount are waived by current company practice. Potential earnings may be reduced if the customer surrenders the contract before the end of the surrender charge period. Please refer to the Quick Reference Guide for a complete listing of surrender charges for each product.

Market Value Adjustment (also known as Interest Rate Adjustment)

Many contracts include a Market Value Adjustment (also known as Interest Adjustment) that is applied only during the surrender charge period to full surrenders and to any partial surrenders in excess of the penalty-free withdrawal amount. This adjustment may decrease or increase the surrender value, based on the change in interest rates during the period since the annuity was purchased. Please see the "Understanding the Market Value Adjustment" flyer for more information. Please refer to the product-specific consumer brochure or the appropriate **"Understanding the Market Value Adjustment"** flyer for more information.

Death Benefit
Upon death of the annuitant or owner, North American will pay out the Accumulation Value as the Death Benefit to the beneficiar(ies) provided no payout option has been elected. If joint annuitants are named, the Death Benefit will be paid on the death of the second annuitant. If joint owners are named, the Death Benefit will be paid on the death of the first owner. The beneficiar(ies) may choose to receive the payout in either a lump sum or income payments.

Fixed Index Annuities

North American has a variety of fixed index annuities to meet your client's needs. It's important to understand that North American offers several Fixed Index Annuity products that vary in features and benefits. Please review the product specific brochures in their entirety to learn about the benefits and features specific to each Fixed Index Annuity product.

Index Annuity Features:

- May credit excess interest based on index performance
- No securities licenses is needed to sell
- No loss of premium due to market downturns and fluctuation
- Guarantee a minimum rate of return 0% or higher

Fixed Index Annuity Terminology
In order to fully understand how a fixed index annuity works, producers must also have a clear knowledge of the terms used. Listed below are some basic terms and their definitions. These will be helpful when comparing different products and when trying to understand the different designs offered.

Fixed Account
Premium allocated to the Fixed Account will earn the current interest rate and is credited daily. This rate will be guaranteed for the entire contract year and will renew annually. The Fixed Account current interest rate is set at the Company's discretion on each contract anniversary and will never fall below the minimum guaranteed fixed account interest rate.

Index
An index is the underlying external benchmark that is used to measure the growth of a fixed index annuity.

Index Account
North American offers interest credits based on the performance of various market indices. Each year the resulting interest credit is credited to the index account. A Cap, Participation Rate or Margin may also be applied when determining the index credit on certain products and crediting methods/Index Account options. Please refer to the Quick Reference Guide for more information.

Transfer Options
Your client may elect to transfer your values between the Fixed Account and Index Account options. They may also elect to transfer between crediting methods within the Index Account options on an annual basis for all Annual Crediting Method options or every two years for the Biennial Crediting Method. By current Company practice*, they will have 30 days following each contract anniversary to reallocate. Transfers are not allowed until their first contract anniversary for money allocated to the annual options and until their second contract anniversary for money allocated to the biennial option. Based on current tax laws, these transfers between options will not be taxable or subject to surrender penalties.

Index Cap Rate
Some annuities may put un upper limit, or Index Cap, on the index-linked interest credits. This is the maximum rate of interest the annuity can earn.

Index Margin
In some annuities, the index-linked interest credits are calculated by subtracting a specific percentage

from the percentage change in the index. This percentage, sometimes referred to as the "margin" or "spread" might be used to calculate the index-linked interest credits.

Participation Rate
The Participation Rate is the percentage of the increase in the index that will be used to calculate the index-linked interest credits.
The customer is guaranteed the greater of the following values:
Surrender Value
The Surrender Value is the amount that is available at the time of surrender. The Surrender Value is equal to the Accumulation Value, subject to the Interest Adjustment, less applicable surrender charges, Premium Bonus Recapture if applicable and state premium taxes. The Surrender Value will never be less than the minimum requirements set forth by state laws, at the time of issue, in the state where the contract is delivered.

Standard Non-Forfeiture Value
The Standard Non-Forfeiture Value equals 87.5% of the premiums (excluding premium bonus), less any withdrawals (before any Market Value Adjustment, surrender charges or Premium Bonus Recapture, if applicable), accumulated at the   SNF interest rate. This SNF rate is based upon the issue date of the contract and is guaranteed for the entire term of the contract.

Minimum Guaranteed Contract Value (MGCV)
Some of our products contains a MGCV. This value equals 100% of premiums paid (excluding any premium bonus), less any withdrawals (before any surrender charges, Premium Bonus Recapture, if applicable, or Market Value Adjustment) accumulated at a predetermined MGCV rate, less surrender charges. The MGCV Interest Rate is set at issue and is guaranteed for the entire contract term.

The Link to an Index
All fixed index annuities have at least one thing in common, the link to an external index. But what exactly is an index and what is indexing? An index is a benchmark or relative measure of performance. An index's value is an average, or weighted average, of the stocks included in the index. It offers diversification through multiple securities across various sectors. This reduces the volatility and risk associated with owning only one, or a few securities. An important point to understand when studying fixed index annuities is that the index does not sponsor, endorse, or sell any fixed index annuity.

Please note that all indices are not available on all annuity products. Please review the product specific brochure for details about index availability.

The most common index utilized with fixed index annuities is the S&P 500®.

- S&P 500® - This index has been widely regarded as the best single gauge of the large cap U.S. equities market since the index was first published in 1957. The index includes 500 leading companies in leading industries of the U.S. economy.

- The S&P 500® Low Volatility Daily Risk Control 5% Index strives to create stable performance through managing volatility (i.e. risk control) on the S&P 500 Low Volatility Index. The S&P 500 Low Volatility Index measures performance of the 100 least volatile stocks in the S&P 500. The index adds an element of risk control by allocating between stocks, as represented by the S&P 500 Low Volatility Index, and cash. The index adds an element of risk control by applying rules to allocate between stocks, as represented by the S&P 500 Low Volatility Index, and cash.

- Dow Jones Industrial Average™ Index – The oldest continuing stock market index, the DJIA® is one of the most well known and widely followed indicators of the U.S. stock market in the world. It is represented by 30 of the largest U.S. stocks, including household names and leaders in their respective industries.

- The Nasdaq-100® Index includes 100 of the largest domestic and international non-financial securities listed on The Nasdaq Stock Market based on market capitalization. The index reflects companies across major industry groups including computer hardware and software, telecommunications, retail/wholesale trade and biotechnology.

- The S&P MidCap 400® Index provides investors with a benchmark for mid-sized companies. The index seeks to remain an accurate measure of mid-sized companies, reflecting the risk and return characteristics of the broader mid-cap universe on an on-going basis.

- The LBMA is an international trade association, representing the London market for gold and silver bullion which has a global client base. The "LBMA Gold Price" is administered by ICE Benchmark Administration (IBA). IBA hosts an electronic auction process for the LBMA Gold Price. The price is set twice daily (at 10:30 and 15:00 London GMT) in US dollars.

- The Russell 2000® Index measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000 Index includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership.

- The EURO STOXX 50® (Price) Index is a free-float market capitalization-weighted index of 50 European blue-chip stocks from those countries participating in the EMU. Each component's weight is capped at 10% of the index's total free float market capitalization.

- The Hang Seng Composite Index ("HSCI") offers a comprehensive Hong Kong market benchmark that covers companies listed on the Main Board of the Stock Exchange of Hong Kong ("SEHK"). The HSCI can be used as a basis for index funds, mutual funds as well as performance benchmarks.

- Blended Index Strategies – A single strategy which contains a combination of different indices.

Also as a reminder, several states have published bulletins and guidance concerning the extent to which an agent with an insurance-only license can discuss registered products, such as mutual funds or variable insurance products, with a client. Certain states now prohibit an insurance-only licensed agent from replacing mutual funds or variable products as a part of the sale of a fixed or fixed index annuity. Bulletins have been published in Arkansas, Iowa, Tennessee, Utah and Vermont. Before writing an application in one of these states, you should review the bulletins and understand the state's requirements.

Guaranteed Minimum Withdrawal Benefit Rider:

Many of North American's Fixed Index Annuity products offer an optional Guaranteed Minimum Withdrawal benefit rider, or GMWB. This rider is available at an additional charge and is elected at issue. Some of North American's Fixed Index Annuity products have built in GMWB riders.

GMWB riders offer the flexibility to drive many aspects of a client's retirement planning. Designed to generate a higher level of guaranteed lifetime income, a GMWB also allows the ability to control when income payments are received. When used in conjunction with an annuity contract the client is provided the ability to enhance their long-term income.

In exchange for an annual cost, these riders offer the ability to achieve a guaranteed lifetime income stream. On day one, the contract premium will begin to accumulate as the GMWB Value. Each contract year an amount determined by the client's age and current GMWB Value is available for lifetime income. This income is available without a surrender charge, Market Value Adjustment (if applicable) or electing an annuity payout option. It is important to carefully consider the costs, benefits and limitations of a GMWB rider to ensure that it is consistent with your client's personal goals and needs.