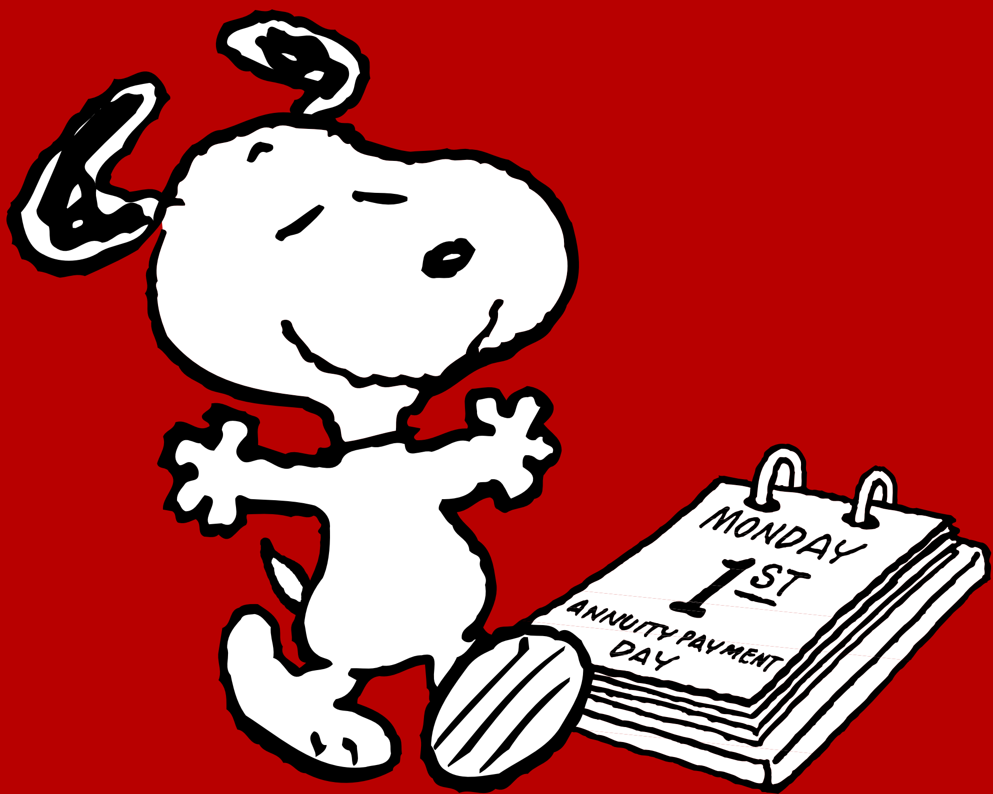
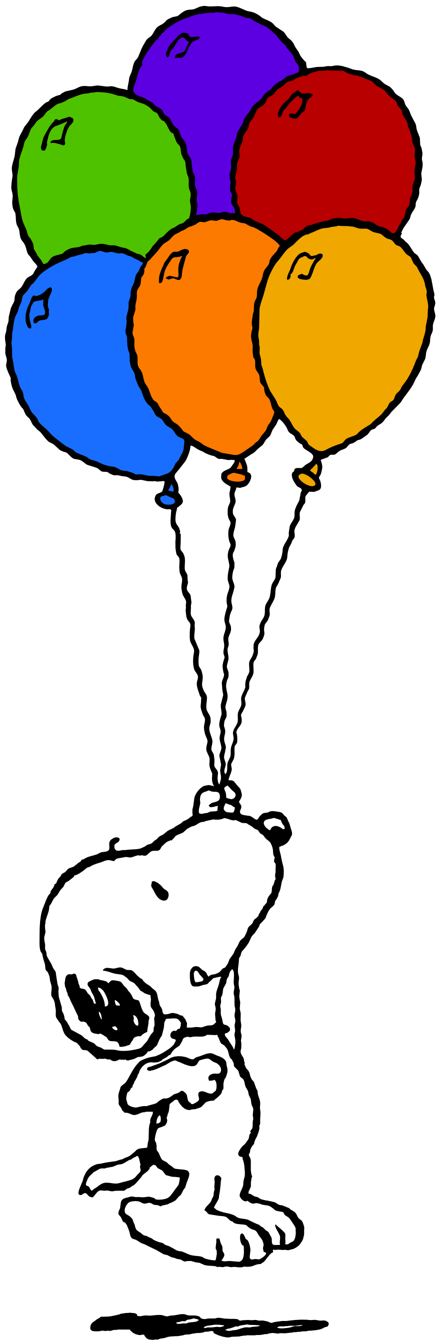
Annuities

MetLife®

LIFE ADVICE

Answering your questions about annuities





Life Advice®

MetLife Consumer Education Center

Annuities are financial contracts between you and an insurance company. You give the company money now and the company pays you an income at a later time. Annuities can be useful retirement tools.

Annuities have a special tax advantage under which you won't pay income taxes on gains in the contract until you begin to withdraw money. Withdrawals may be subject to surrender charges and, if made prior to age 59½, may be subject to a 10 percent federal tax penalty. Although it may sound complex, the concept is fairly simple as there are just two types of annuities and two payout options.

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This Life Advice® brochure, Annuities, was produced by the MetLife Consumer Education Center.

About Annuities

Two types of annuities. The two types of annuities are fixed and variable. With a *fixed annuity*, you can expect a guaranteed rate of return for a specified time. With *variable annuities*, where the underlying investments are in stocks and bonds, you have the potential for a greater return on your investment, coupled with higher risk.

Two payout options. When you purchase an annuity, you will need to decide how you want the proceeds paid to you. An *immediate annuity* will begin payments to you immediately. With a *deferred annuity*, you will receive payments at a later date.

This brochure will help you understand more about the types of annuities you can purchase and how to determine which specific annuity might satisfy your needs.

Fixed vs. Variable Annuities

You have the choice of buying a fixed annuity or a variable annuity. Fixed annuities are generally considered to be more conservative. Variable annuities, having the potential for greater gains, have a higher risk.

Fixed Annuities

Fixed annuities earn a guaranteed rate of interest for a specific time period, such as one, three, or five years. Once the guarantee period is over, a new interest rate is set for the next period. The guaranteed interest rate of a fixed annuity is based on the claims-paying ability and financial health of the insurance company that issues the annuity.

Variable Annuities

Variable annuities typically offer a range of funding options from which you may choose. These funding options may include portfolios comprised of stocks, bonds, and money market instruments. The account value of variable annuities can go up or down based on market fluctuations. Your contributions and earnings are not guaranteed; they depend on the performance of the underlying investment options. If the funding options you choose for your annuity perform well, they may exceed the inflation rate or fixed annuity returns. If they don't perform well, you may lose not only any earnings you've made, but even some of your contributions.

Some variable annuities offer, in addition to a range of funding options, a fixed account option that guarantees both principal and interest, much like a fixed annuity. A fixed account option can give you the security of allocating some of your premium payment more conservatively while still taking advantage of market potential. Again, the guaranteed rate is based on the claims-paying ability of the issuer.

Variable annuities also allow you to transfer money from one funding option to another without triggering a taxable event. In other words, if you transfer money to a different funding option *within* your variable annuity, you will not have to pay federal income taxes on any earnings you have accumulated at the time of transfer. Income tax free transfer means you can re-allocate money to suit changing investment goals (e.g., due to life events) without worrying about income tax burden.

Fixed and Variable Annuity Expenses

If you withdraw money from an annuity, or cash it in early to buy another annuity, there may be a *surrender fee* (or withdrawal charge). Surrender fees are usually highest if you take out money in the first few years of an annuity contract. In addition to surrender fees, withdrawals made prior to age 59½ may be subject to a 10 percent tax penalty in addition to regular income taxes.

Fixed annuity contract expenses are taken into consideration when the company declares the periodic interest rate or determines the payment amount. Therefore, you will pay no maintenance and contract fees as you could with a variable annuity.

Variable annuities usually have more features and they have, therefore, more complex and higher fees than fixed annuities. For example, variable annuity fees may include an annual contract charge that covers administrative expenses and surrender fees. Variable annuities that guarantee a death benefit, or provide additional payout options, charge additional fees to cover these benefits.

In addition, a variable annuity has fees for the management and operating expenses of the funding options in which your money is invested. These charges pay for everything from the fund manager's salary to brokerage commissions.

For a variable annuity, important information including investment objectives, risks, charges, and expenses will be explained in the prospectus. The prospectus describes in detail the variable annuity contract. Read it carefully before you invest or send money and be sure you understand exactly what your expenses will be.

Deferred vs. Immediate Annuities

You can put money into a deferred annuity with a single payment or flexible payments, but immediate annuities are usually purchased with a single payment. When you receive the income from your investment also differs. As the names imply, you get money sooner from an immediate annuity and you delay getting money from a deferred annuity.

A Quick Quiz

This easy quiz will help you determine whether you should consider an immediate or a deferred annuity. Consider the following statements:

	Yes	No
1. Saving for retirement is one of my main goals.		
2. I do not want to touch my principal or interest until I am at least 59½ years old		
3. I contribute the maximum deductible amount to my IRA, 401(k), or 403(b).		
4. I need an investment with the potential to earn tax-deferred earnings for many years.		
5. I am retired or very near retirement now.		
6. I have a lump sum of money and I want to begin drawing an income from it.		
7. I want immediate income from my investment.		
8. I want to receive a steady monthly income for the rest of my life.		

If you answered yes to questions 1 through 4, **a deferred annuity** may be appropriate for you. If you answered yes to questions 5 through 8, you're more likely to need an **immediate annuity**. A financial advisor or qualified insurance agent can help you decide if an annuity is the right retirement savings vehicle for you.

Deferred Annuities

If you want retirement income beyond what you will receive from Social Security or your pension plan, a deferred annuity may be what you're looking for. They are particularly effective if you have many years until retirement. Your money has the potential to grow, tax-deferred. That means you pay no income taxes on investment earnings until you begin to withdraw your money.[1]

If the tax-deferred aspect of a deferred annuity is important to you, make sure the expenses do not outweigh the tax benefits. This can be a tough judgment. Consult a professional financial advisor for assistance in making this determination.

A nonqualified deferred annuity is not a vehicle for money you may need for current expenses. If you withdraw income before age 59½, the IRS will usually apply a 10 percent tax penalty in addition to ordinary income tax, similar to the federal income tax penalty for early IRA withdrawals. What's more, your insurer may impose its own early withdrawal penalty, also known as surrender fees, if you cash in all or part of your deferred annuity within a specified period. These fees, similar to withdrawal penalties on a CD, often cease seven years after your date of purchase. There is often a separate surrender fee for each payment. A new payment may have a 7 percent fee if you take out the new payment right away, while a 10-year-old payment may have no surrender fee. The fee will usually decrease and be eliminated over time. Keep in mind, however, you can often withdraw small amounts (e.g., 10 percent) annually without any penalty from your insurer, but the federal tax penalty may still apply. In general, all taxable withdrawals are ordinary income, until all income has been paid out. Again, the prospectus for the annuity you purchase will have all of the specific details pertaining to that particular annuity.

If you switch annuities, you may also incur withdrawal charges from your current annuity. If a salesperson advises you to change annuities despite the fact that you will be penalized, make sure you know the reason. Do the benefits of the new annuity—such as a higher interest rate, better investment choices or greater flexibility—offset the withdrawal charges? Be sure the salesperson isn't benefiting from the switch at your expense. How do the fees and charges of your existing contract compare with the proposed new contract? If you decide to exchange one annuity for another, you usually should request and complete the appropriate forms provided by your insurance company to enable the transaction to be treated as a tax-free exchange under the federal income tax law (section 1035 of the Internal Revenue Code).

Withdrawing Money From a Deferred Annuity. When you're ready to start withdrawing money from your deferred annuity, you will need to choose how to receive your money. You can take it all out in a lump sum, take it as needed, or receive it in a steady stream of periodic payments—so-called "annuitizing." If you annuitize, you can receive a stream of income that is guaranteed to continue for the rest of your life, no matter how long you live. And the tax liability can be spread out for the rest of your life, too. Some of the earnings are

1 Tax laws and regulations are subject to change. Unlike a nonqualified deferred annuity purchased with after-tax-dollars, an IRA receives tax deferral under the non-annuity provisions of the Internal Revenue Code. Therefore, there is no additional tax benefit to purchasing a deferred annuity to fund an IRA.

included in each payment and are taxable; meanwhile, tax-deferred earnings can continue to accumulate on the remaining contributions and earnings that have not yet been distributed. Choosing the alternative of receiving distributions as periodic payments after retirement may further reduce your income tax liability, if you are in a lower income tax bracket in later years. Some annuities also provide you with an option called systematic withdrawal to have a set amount, determined by you, automatically withdrawn and deposited directly in your bank account at regularly scheduled intervals, such as monthly. You have many options for receiving your money, each with its own tax ramifications. Consult your tax professional or financial advisor to tailor a plan for your particular needs.

Why Buy a Deferred Annuity?

Good reasons to consider a deferred annuity as part of your financial retirement plan:

- **You postpone paying income taxes** on any earnings until you withdraw money, typically during retirement, when you may be in a lower income tax bracket. All earnings can grow income tax-deferred.
- **There is no tax law restriction on how much money you can contribute.** Unlike Individual Retirement Accounts (IRAs), federal tax law does not restrict the amount of after-tax money you can contribute to a deferred annuity. You can, however, use a deferred annuity to fund your traditional or Roth IRA, in which case you would be subject to federal tax law within IRA limitations. Of course, IRAs already receive the benefit of tax deferral, so there is no additional tax benefit to purchasing a deferred annuity.
- **You can provide death benefits to your beneficiaries.** Death benefits for annuities vary according to contract. If you die prematurely, your annuity can offer a death benefit to your beneficiaries without the costs and delays of probate. Typically, your beneficiaries will receive what you have contributed (less withdrawals). In addition, some contracts have a provision where a spouse who inherits an annuity before distribution has begun can step in as the new owner of the annuity, and the tax deferral continues until amounts are withdrawn. A beneficiary who inherits an annuity before distribution begins can request a lump sum distribution without a federal tax penalty, but will be subject to full taxation on the accrued earnings or gain on the contract.

Immediate Annuities

Immediate annuities can provide dependable financial security: a stream of income payments guaranteed to continue for the rest of your life or for a period you select. If you are about to retire, an immediate annuity may be a good place to put a large lump sum of money accumulated through a retirement plan or other savings vehicle. You also can convert your deferred annuity into an immediate annuity to start receiving income.

To purchase an immediate annuity, you make a one-time payment, and distributions must begin within a year, but typically begin within a month. Immediate annuities can be fixed or variable, just like deferred annuities. The income payments you receive from fixed immediate annuities are based on the amount you contribute, your age and the interest rate environment at the time of purchase. The payments to you will not change. The payments from variable immediate annuities fluctuate based on the performance of the investment options you choose. Although payments may go up or down, variable annuities are designed to provide income that can increase over time to help you keep pace with inflation. Keep in mind that because variable annuities are invested in the market, there is a possibility that you could lose money.

Your contributions to an immediate annuity are not generally readily accessible. If you need more income than the immediate annuity provides, you can keep some of your retirement funds in a liquid account, such as a savings account or money market fund. Also, if you choose an income for life option with no refund guarantee, and you should die before your contributions are all paid out, the balance of your contributions and any earnings will not go to your heirs. Fortunately, annuities generally offer several guaranteed payout options for your heirs. For more information, see the **Payout Options with Guarantees** section on page 4.

When selecting the funding options for your immediate annuity, keep inflation in mind. You want investments that will keep pace with inflation. Variable annuities can let you participate in stock market growth, historically shown to be one of the best ways to combat inflation over the long term. However, the downside is that payments can drop if the market drops. Not only is this unnerving, but it will make it harder for you to budget. If you still want the potential for higher payments, consider dividing your retirement savings between fixed and variable options to provide fixed payments, as well as growth potential.

Why Buy an Immediate Annuity?

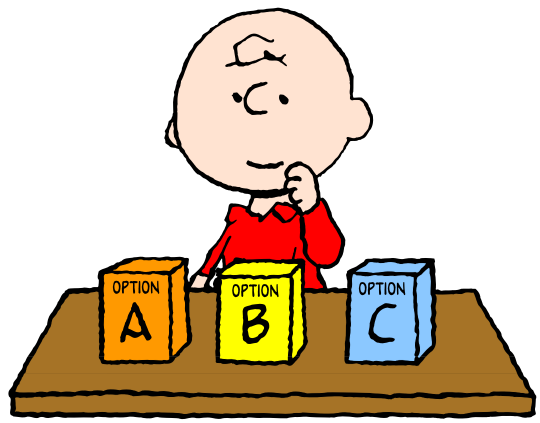
Among the reasons to consider an immediate annuity are the following:

- **An immediate annuity is a financial vehicle that can provide guaranteed income for life.**
- **The income payments you receive can supplement your other income sources**, such as Social Security and pension payments, which may not provide enough income by themselves.
- **You choose how often to receive your income payments** whether monthly, quarterly, semi-annually or annually.
- **You pay income taxes only as you receive your payments.** When you receive income payments, you will be taxed on the portion of the payments that is earnings. The portion that is contributions, which represents your initial deposit made with money that had already been taxed, is not taxable.
- **You can put a system in place to help lessen your financial worries.** Financial management can be a burden in your retirement years. Because you don't know how long you'll live, it's hard to be sure your resources will last as long as you need them. If you withdraw too much of your nest egg, your future income can suffer or you may run out of money entirely. If you are too thrifty when it comes to spending your nest egg, you might not be able to maintain your current lifestyle. Fixed immediate annuities can help you determine your periodic income as they guarantee a fixed rate and fixed payments. Variable immediate annuities will offer income payments, although they will vary according to the performance of the selected subaccounts.

Payout Options with Guarantees

You can choose from a number of payout options for receiving income from an annuity.

- **Lifetime Income for You.** You can opt for income, guaranteed by the insurance company, for the rest of your life. Payments cease upon your death. This is called a straight life option.
- **Lifetime Income with a Guaranteed Period.** You will receive income for life, guaranteed by the insurance company. If you die before the guarantee period is over, your beneficiaries will receive the remaining number of payments. This type of annuity option is a life annuity with period certain.
- **Lifetime Income for Two.** You can opt for income guaranteed for the rest of your life and the life of another person, such as your spouse. Guaranteed income for two people is known as a joint and survivor option, which guarantees that income payments will continue for the life of the primary owner and a second person. The insurance company issuing the annuity makes the guarantee.
- **Other Options.** There are many other options that can be explained to you by a financial advisor or insurance representative. These options can usually be mixed and matched to provide an ideal income plan for your needs. For example, say you and your spouse retire at age 65 with 10 years left on your mortgage. You could choose the option to have income for two people with a 10-year guaranteed period, so that if you both die before the guarantee expires, the payments would continue until the end of the 10-year period to pay the mortgage for your heirs.



What Are My Investment Goals?

If you decide an annuity is an appropriate investment for you, you'll need to answer four questions to determine the kind of annuity best suited to your needs.

How secure do you want the annuity to be?

- I want the returns from my annuity to be at a guaranteed predetermined interest rate: **Fixed annuity**, or
- I want a return that varies with the success of the investments made for me by the insurance company: **Variable annuity.**

How do you want to pay for the annuity?

- I want to make a single, lump sum payment for my annuity: **Single premium annuity**, or
- I want to make ongoing payments at intervals: **Flexible payment annuity**.

When do you want to begin getting returns (payout) on your money?

- I want to begin receiving the income from my annuity right away: **Immediate annuity**, or
- I want to begin receiving the income at some future date (e.g., at retirement): **Deferred annuity**.

How do you want deferred proceeds to be paid out?

- I want payments for the rest of my life: **Straight life option**, or
- I want payments for life and for the rest of my spouse's life: **Joint and survivor option**, or
- I want payments for life, but if I die before collecting all the premiums I paid, I want my beneficiary to collect the remaining money: **Life annuity with period certain** option.

For example, after receiving an inheritance, you could decide to invest a lump sum of money right away, and receive a specified interest rate beginning now for the next five (for example) years. In that situation, you might want to buy an immediate fixed annuity and pay for it with a single premium.

Considerations and Questions Before You Buy an Annuity

Before you buy an annuity, consider the following:

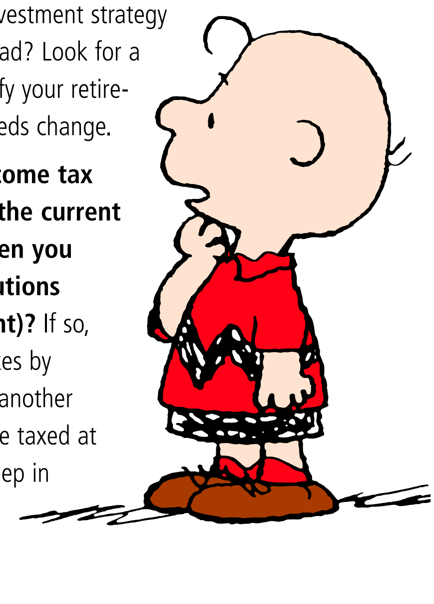
The money contributed to a nonqualified annuity may be in post-tax dollars. When you contribute after-tax savings to an annuity, you can put as much money in as you like. Before you put after-tax savings into an annuity, it may be advisable for you to put the maximum pre-tax amount into a retirement plan such as your IRA, SEP, 401(k) or 403(b). Also note that annuities may fund an IRA, SEP, 401(k) or 403(b). When an annuity is used to fund these vehicles there are contribution limits that apply, and federal tax laws generally require that you begin taking minimum distributions by April 1 of the calendar year following the year in which you reach age 70½. Failure to do so will result in a tax penalty of 50 percent of the amount of the shortfall. Additionally, once money is in your 401(k) or 403(b) plan, you generally cannot make withdrawals before age 59½ except for special circumstances, such as severance from employment, death or disability. If you meet an exception, withdrawals are subject to ordinary income taxes and may be subject to a 10 percent federal tax penalty for pre-59½ withdrawals.

Expenses can vary. Make sure that the annuity contracts you consider have competitive fees. Independent rating services such as Morningstar and Lipper Analytical Services publish reports that compare variable annuity fees. While cheaper doesn't necessarily mean better, if a contract is too expensive it could offset gains from the tax-deferred status.

All earnings from annuities are taxed as ordinary income. If your ordinary income tax rate at retirement is higher than the current long-term capital gains rate for certain investments, you would actually pay higher taxes. You do, however, gain a tax deferral on earnings. With some other investments, you could be subject to ordinary income as well as capital gains taxes annually, even if you have not cashed in the investment, which can reduce the value of your earnings.

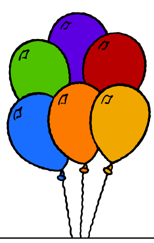
If you've decided that an annuity makes sense for you, here are several key questions to ask yourself before signing up:

- **Have you done some comparison shopping and considered all of your options?** Because annuities are long-term savings vehicles, you'll want to make sure the company you pick will be around at least as long as you will. And, as you learned in the previous discussion, different annuities offer a wide range of choices, prices, features and flexibility.
- **Does the rate on a fixed annuity look too good to be true?** You want a competitive interest rate at renewal time. If the company is offering bonus rates (a higher interest rate for a set period of time) make sure the underlying interest rate is financially attractive, considering any additional contract costs or early surrender fees. Once the bonus rate term expires, you have no guarantee going forward that renewal rates will be competitive. Be especially careful if you are exchanging annuities.
- **What are the annuity's surrender fees and how long are they in place?** If the surrender fee is high (typical fees are around 6 to 7 percent and decline over a period of approximately five-to-seven years), you could find yourself locked into a contract from which it will be costly to escape.
- **What is the track record of the funding options offered in a variable annuity?** Don't be swayed by last month's top performer. Look for strong returns over a three-to-five-year period or more. Newspapers such as *Barron's* and the *Wall Street Journal* publish rankings of various funding options on a regular basis. The history of various funding options also can be found in Morningstar and Lipper Analytical Services publications. Remember, *past performance is not a guarantee of future results.*
- **Does a variable annuity offer multiple funding options** in case you change your investment strategy a few years down the road? Look for a range of funds to diversify your retirement savings as your needs change.
- **Will your ordinary income tax rate be greater than the current capital gains rate when you begin to take distributions (possibly at retirement)?** If so, you may pay more in taxes by choosing annuities over another investment that would be taxed at the capital gains rate. Keep in



mind, however, that your money in an annuity is accumulating on a tax-deferred basis. By selecting an annuity, you can avoid paying yearly ordinary income tax on the earnings while your money can compound and grow.

- **What is the insurance company's rating?** While anyone who is properly licensed to sell insurance products (e.g., banks, brokers, agents) can sell annuities, the insurance company issues the annuity contract. So, you'll want to consider the company's rating. Is it financially secure, with a good claims-paying record? While this is most important for fixed annuities, it is relevant to any guarantees (e.g., death benefit) in a variable annuity as well. Checking up on an insurance company is easy at your local library or on the Internet, or you can contact your state's Department of Insurance. A.M. Best, Standard & Poor's and Moody's all rate the financial stability of insurance company general accounts. Morningstar and VARDs evaluate and report information on variable contracts only. Variable annuities are rated by independent sources such as Lipper Analytical Services, VARDs and Morningstar. It's a good idea to choose an annuity from a company that gets high marks from at least two independent rating sources.



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For More Information

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Websites

www.aarp.org
Provides Information on annuities and other topics related to financial planning for retirement.

http://www.sec.gov/investor/pubs/varannty.htm
The Securities and Exchange Commission's (SEC) online pamphlet, *Variable Annuities: What You Should Know*, offers information about all aspects of variable annuities.

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