locking in this gain. Two years later his annuity experiences a loss and is valued at $24,000. If Stanley were to die at this time, his named beneficiary would receive the annuity's stepped-up value of $27,000.

For estate planning purposes, annuities are considered contract assets. If you die prior to annuitization, funds will pass to your chosen beneficiary(ies) avoiding **probate** and will be considered part of your estate. Consult your tax and legal professionals for specific guidance regarding any estate tax implications.

Retirement Income Options

All your years of investing in your annuity are referred to as the **accumulation phase**. When it's time to begin receiving retirement income, you have entered the annuity's **payout phase** with several income options.

Lump Sum Option. While generally considered the least tax-efficient option, you may elect to receive the value of your contract in one lump sum, without penalty, provided you are over the age of 59½ and are past the contract's **surrender period**. Ordinary income tax will be due on your earnings in the year of withdrawal.

Other options are specifically tailored for retirees who would like to receive regular income payments on either a *fixed* or *variable* basis. Fixed payments consist of a set dollar amount, and they occur on a regular schedule, such as every month or quarter. In contrast, variable payments are based on the performance of the variable annuity's underlying subaccounts and, as a result, may fluctuate in value. Here is a brief discussion of some of the basic payout options:

Life Only provides income for life, and it is generally the largest benefit of all the options. You can receive

payments monthly, quarterly, semi-annually, or annually. Note that after you die, payments cease.

Life with Term Certain provides income for life. If you die before a stipulated time (the term certain), usually 5, 10, 15, or 20 years, the payments will then continue to a beneficiary for the remainder of the term certain.

Joint and Survivor Life offers *two* individuals payments for both of their lives. When one dies, the other continues to receive income, or some portion of it, for the remainder of his or her life.

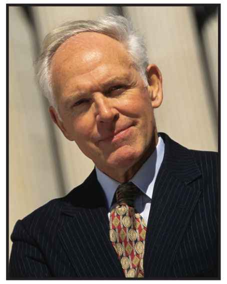
Installment Refund Life provides income for life, and if you die before you have received at least as much as your investment in the annuity, the balance will be paid out to a beneficiary in installments.

Unit Refund Life is similar to the installment refund life option, except that the beneficiary receives the balance in a lump sum.

Payments for a Specified Period provides income for a pre-specified term, generally ranging from one to 30 years. If you die before the term ends, payments continue to a beneficiary.

Variable annuities offer a variety of professionally managed investment options, tax benefits, guaranteed death benefits, and the potential of income for life. The sooner you invest, the longer your money has to work for you.

Note: Because variable annuities offer insurance benefits, a variable annuity may impose insurance-related fees in addition to sales and surrender charges, including mortality and expense risk charges, administrative fees, underlying fund expenses, and charges for special features such as stepped-up death benefits. These annual costs can reach 2% or more of the annuity's value. The variable annuity's prospectus will delineate your investment options, including the objective of each subaccount, as well as past performance, management history, fees, and risks. Read it carefully, and as always, past performance is no guarantee of future results.



Name, Designation(s)
Title

Company Name
Street Address
City, State Zip Code
Phone Number
Fax Number
E-mail Address

Variable Annuities

Invest in Your Future *Now*

will you outlive your retirement assets? While many people expect to receive Social Security benefits and income from a pension or an employer-sponsored retirement plan, such as a **401(k)**, most people will have to invest beyond these options to meet their retirement goals. One investment vehicle tailored specifically to investors who are saving for retirement is the **variable annuity**.

A variable annuity offers an investor retirement income for life, or another specified length of time, based on the money paid into it and the performance of the underlying investment portfolio. For long-term investors, they offer the following advantages: a variety of investment options, professional management, tax deferral, a variety of income payout options, guaranteed death benefits, and lump sum or installment purchase options.

Investment Options

With a variable annuity, you may choose from a range of investment options and allocate money to various, professionally managed **subaccounts** that invest in **stocks**, **bonds**, and **fixed-interest instruments**. The value of your annuity contract will fluctuate based on your contributions and the performance of the underlying subaccounts.

You can allocate your purchase payments based on your investment goals and your **risk tolerance**, which measures your ability to withstand a loss in your portfolio. Because variable annuities offer a range of investment options from aggressive to more conservative, you have the opportunity to choose a mix that feels comfortable for you and complements your long-term objectives.

Variable annuities offer investment opportunities in various asset categories (e.g., stocks, bonds, and cash), and within each category you can often further diversify. For example, money allocated to

stocks can often be spread between domestic and international securities. In addition, many annuities offer a fixed-interest option that guarantees a certain rate of return for a stated period of time. The asset allocation and diversification strategies you choose for your variable annuity should complement your overall investment portfolio and financial objectives.

Favorable Tax Treatment

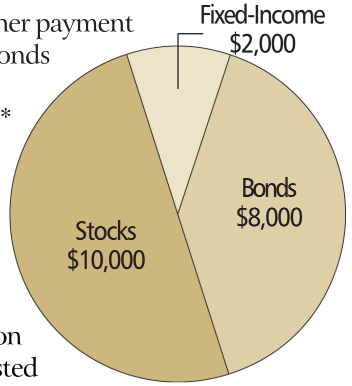
Over time, your investment strategies and objectives may change in response to your personal finances, time horizon, and risk tolerance. With a variable annuity, you may transfer funds between investment options *free* of tax (company charges may apply). This favorable tax treatment can help you manage your money in the best interest of your retirement without worrying about the current tax implications of capital gains.

Another feature long-term investors can benefit from over time is tax deferral. Any investment gains from your variable annuity will accumulate *free* of current income tax and will be reinvested, which can have a significant, favorable effect on the growth of your funds over the long-term. However, when payouts begin, your earnings will be taxed as ordinary income, rather than at the lower long-term capital gains rate. Withdrawals made before the age of 59½ may be subject to a 10% federal income tax penalty.

Unless you are investing in an annuity through a qualified retirement plan, your contributions will be made with after-tax dollars. Investors should consider first maximizing contributions to tax-qualified retirement plans, which will reduce current taxable income. If you are investing in an annuity through a qualified retirement plan that offers tax benefits, you will receive no additional tax benefits from the annuity.

A Case Study

Consider the following hypothetical case study. Sally Gibbons is 50 years old and contributes the maximum amount she can each year to her 401(k) account. To supplement her retirement savings plan, she purchases a variable annuity with an initial sum of $20,000. With 15 years until she plans to retire, she considers herself a relatively conservative investor and would like to allocate 50% of her payment to stocks ($10,000), 40% to bonds ($8,000), and 10% to fixed-interest investments ($2,000).*



Over the year, she realizes an 8% return from her stock allocation ($800), a 4% return from her bond allocation ($320), and a 3% return from her fixed-interest allocation ($60). Her total gain is reinvested free of tax, and the value of her annuity is $21,180 (minus any company fees and charges). The tax due on her earnings will be deferred until she makes withdrawals. When she retires, Sally anticipates she'll be in a lower tax bracket than during her working years.

Counter the Eroding Effects of Inflation

While variable annuities carry greater risk than fixed-income investments, their potentially higher returns can help retirees keep pace with inflation. More conservative investments that offer a fixed rate of return may fail to provide earnings that compete with the decreased purchasing power of the dollar over time. For example, if inflation is 3% and an investment returns 4%, then the real rate of return for that investment is only 1% — and that's before taxes.

**Note: This example is for illustrative purposes only. It does not represent the performance of any particular investment vehicle.*

Low earnings may mean that your savings will be unable to keep up with increases in the cost of living. At 3% inflation, one dollar today will be worth only fifty cents in 12 years and next to nothing in 24 years. How does this affect what your money buys? Suppose a soda costs one dollar today. With 3% inflation every year, it will cost $1.50 in 12 years and $2.00 in 24 years. As you plan ahead for financial security, it's important to look at the impact this dynamic will have on your retirement funds. What $100,000 will secure for you today may require twice as much in 24 years.

Variable annuities provide investors the opportunity to invest in instruments that have the potential to grow beyond moderate levels of inflation. Historically, stocks have outperformed fixed-income investments over the long term, but they carry a higher degree of risk because prices fluctuate with the markets. When shares are redeemed, they may be worth more or less than their original costs. Fixed-income instruments, on the other hand, may be less vulnerable to market fluctuations, but they are subject to inflation risk — they may return less than the inflation rate.

Guaranteed Death Benefits

Many investors are also concerned with preserving wealth for their heirs, and variable annuities offer a death benefit. In the event an annuitant dies before receiving annuity payouts, the chosen beneficiary(ies) will receive the *greater* of the value of the account or the amount invested. An additional offering of some variable annuities is a "stepped-up" death benefit, which "locks-in" investment gains on a set schedule and guarantees a death benefit equal to the stepped-up amount.

Consider the following hypothetical example. Suppose Stanley Harris purchases a variable annuity for $20,000. In five years it is valued at $27,000, and the death benefit is stepped-up,