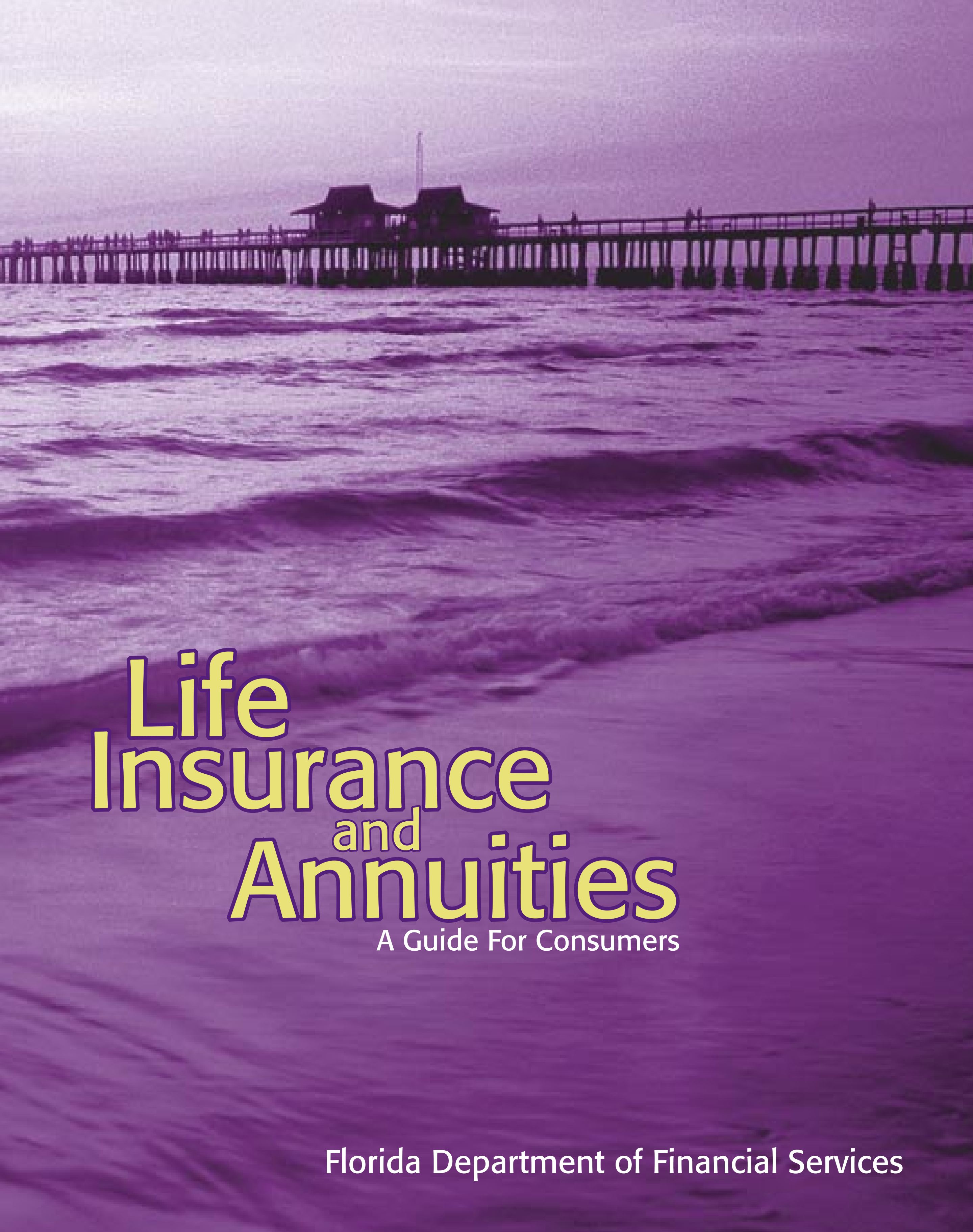


Life Insurance and Annuities

A Guide For Consumers

Florida Department of Financial Services

The need for insurance is a fact of life in many situations. Knowing how our insurance policies work, in addition to having the correct type and amount of insurance, can help us recover financially when we experience such things as illnesses, car accidents, natural disasters or even death. And since the insurance industry and insurance policies often change, it's essential to be aware of new developments.

The Florida Department of Financial Services publishes a variety of consumer guides to help you with this task. They include: *Automobile Insurance* (also available in Spanish), *Life Insurance and Annuities, Small-Business Owner's Insurance, Insuring Your Home, Health Maintenance Organization, Long-Term Care Insurance and Other Options for Seniors,* and *Medicare Supplement Insurance*. Each guide contains basic information, definitions of common terms and tips on selecting an insurance agent and company. Each guide also details your rights and responsibilities as an insurance consumer. You can have any of our guides sent to you by calling the Florida Department of Financial Services Consumer Helpline toll-free at 1-800-342-2762. They may also be downloaded from our Web site at www.fldfs.com.

If you have questions after reading this guide, please call our Consumer Helpline toll-free at 1-800-342-2762 between 8 a.m. and 7 p.m. (Eastern time) Monday through Friday. The hearing impaired may use a TDD to call 1-800-640-0886. You may also contact the service office in your area (listed inside the back cover of this guide).

Sincerely,

Tom Gallagher
Florida's Chief Financial Officer

CONTENTS

If you have a question or problem, call the

CONSUMER HELPLINE 1-800-342-2762

OR

visit us on the Web at www.fldfs.com.

Telecommunications Device for the Deaf: 1-800-640-0886

The Florida Department of Financial Services distributes this guide for educational purposes only; it does not constitute an endorsement for any service, company or person offering any product or service.

You may obtain this guide in alternative formats such as audio tape or large print by calling our Consumer Helpline toll-free at 1-800-342-2762. You may also download this guide from the Internet at www.fldfs.com; Telecommunications Device for the Deaf (TDD) users may obtain it by calling 1-800-640-0886.

Life Insurance

A life insurance policy allows you to set aside money now to provide a measure of financial security for your family upon your death. It can help your family meet the financial needs previously covered by your income.

If you decide to buy an insurance policy, you should decide how much protection you need and can afford, and what kind of insurance policy to buy. With some life insurance contracts, you can build up a cash accumulation to use as income after you retire. The main purpose of a life insurance policy, however, is to provide survivor benefits for beneficiaries, such as family members or creditors, after your death.

Traditional Life Insurance

You have a choice of two traditional types of life insurance. Term insurance, or a "term policy," involves coverage purchased for a specific period of time. A term policy pays a death benefit only if the policyholder dies within the time period for which the policy is written and premiums are paid. Whole life insurance, "whole life policy," or "permanent insurance" involves coverage effective for the entire life of the policyholder. A whole life policy pays a death benefit when the policyholder dies, regardless of his or her age. Other kinds of life insurance are simply variations of term and whole life policies.

Term Insurance

Key Characteristics:

- Provides more life insurance coverage for your premium dollar in the early years
- Pays benefits only if the insured dies during the coverage period
- Does not usually accumulate cash value
- Is suitable for large amounts of coverage for specific periods (i.e., one, five, 10 or 20 years, etc.) or to age 60 or 65

Useful for:

- Parents of young children
- People with large financial obligations and home buyers

With term insurance, the coverage ends after the term specified by your policy, unless it is renewable. Such a provision means you can renew your policy without providing evidence of insurability, such as passing a physical exam. However, your premiums will increase as you age.

A term insurance policy may be convertible. This means you can exchange the policy for a whole life policy without providing evidence of good health. Although the premium for the whole life policy will initially be higher, it will remain the same for the rest of your life.

Whole Life

Key Characteristics:

- Provides a fixed amount of life insurance coverage and a fixed premium amount
- Benefits are payable upon the death of the insured or on the maturity date - often the policyholder's 100th birthday.
- The face amount is locked in after purchase.
- Coverage can increase only with the purchase of an additional policy, or, if available, through additional riders or dividends.
- Policy coverage is provided for life.
- Premiums are paid at a fixed rate throughout your lifetime, if the policy remains active.
- The cash value accumulates from premiums paid and increases over the years. The earnings (for tax purposes) include only the amount accumulated in excess of the premiums paid. You may owe taxes on such earnings if you surrender the policy. In most cases, you will not owe taxes on the earnings if you do not surrender the policy. Check with your tax professional.
- Policies with cash values include provisions that allow you to take out loans on your policy for up to the amount of the cash value. The loans accumulate with interest, but repayment is not required prior to death.
- If you die and the loan has not been repaid, the insurance company deducts the owed amount, plus interest, from the death proceeds paid to your beneficiary.

Useful for:

- Death or burial expenses - Be wary of policies sold specifically as burial expense policies, as you may end up paying more in premiums than the policy is worth.
- Estate or probate taxes
- Cash - the insured can give up the policy and receive the accrued cash value.

Other Common Characteristics:
(Check with your company or agent.)

- If you miss a premium payment, the company can draw from the cash value to keep the policy in force, but only if such a provision is included in the policy or the insured has given prior authorization.
- You may elect to stop paying premiums and use the cash value to continue the policy at a reduced level of protection, or the contract may let you continue the policy as extended term insurance for a specified time.

- You can use the cash value to buy an annuity that provides a guaranteed monthly income for a specified time. (For more information, refer to the section on annuities.)
- You may use the policy as collateral to borrow from the insurance company or bank.
- You may assign the accumulated cash value to the lender.

Some whole life policies are called "participating" or "par" policies, which means they earn dividends. Policy dividends can be taken in cash, used to pay premiums or used to buy more insurance. They are refunds of excess premiums, so they are usually not taxable.

Each whole life policy contains a table that shows you how much cash value it accumulates. These policies provide larger values the longer you keep them. If you cancel your policy, you can receive its cash value in a lump sum. If you surrender or cash in your policy, you pay taxes only when the sum of the cash value and the policy dividends, if any, exceed the total of the premiums you have paid.

Note: If you surrender your policy during its early years (for example, during its first or second year), you might receive much less than, or none of, what you paid into the policy. So read your policy thoroughly.

Variations of Traditional Life Insurance

Universal Life

Key Characteristics:

- You can adjust the death benefit, or "face amount," of your insurance to meet changing needs.

- You can increase or decrease the death benefit after buying the original policy. You may have to provide evidence of insurability, such as a physical exam.
- You can decide, within policy guidelines, on the amount of premiums and the schedule of payments. There may be limits on premiums because of tax laws. Check with your tax professional.
- You may select a policy that is interest sensitive or one that has a guaranteed rate.

Useful for:

- Meeting various financial obligations that may occur during the course of a lifetime, such as those that involve marriage or raising a family
- Providing guaranteed death benefits for people who need them but want the opportunity to earn more interest on the policy's cash value

With an interest-sensitive policy, you accept at least part of the investment risk.

Note: A combination of low interest rates and the rising cost of insurance could result in the future elimination of your policy's death benefit and cash value. Make sure you ask your agent about this possibility. Also, be sure you understand which cash values are guaranteed and which are not.

As you get older, the cost of insurance rises. Therefore, if returns do not meet projections, your premium payments may need to increase to keep the policy in force. See the guaranteed section of your policy.

Excess Interest Whole Life

Key Characteristics:

- Any interest that exceeds the amount guaranteed is credited to the policy.
- The premiums and death benefits are fixed and the rate of increase on cash value depends on interest credits.
- These policies are interest and/or market sensitive, depending upon investment of premiums.

Useful for:

- People who need guaranteed death benefits but want the opportunity to gain more interest on a policy's cash value

With most universal life and excess interest whole life policies, you will receive annual statements showing the insurance protection accrued, the cash values and the interest rates paid, with interest rates varying annually or more frequently. The statement also shows how much of your premium money goes toward buying the insurance and how much goes toward paying a company's administrative fees.

Variable Life

Key Characteristics:

- These policies allow for limited control over the investment of the policy's cash value.
- Depending on the policy chosen, premiums can be either fixed or flexible.
- Policies can be interest and/or market sensitive, depending on how premiums are invested.

Useful for:

- People comfortable with making investment decisions who want to choose from the limited investment options available through their policies

Under this plan, benefits and cash values fluctuate according to the performance of the investment account.

As a policyholder, you assume both the benefits of high-paying investments and the risks of negative investment performance. Since there are no guarantees, you could lose your investment. (Some policies have optional guarantees available for an additional charge. Check your policy for any guarantees that may be available.)

There are two kinds of variable life policies:

- *Scheduled* premium variable life insurance policies have premiums with set payment times and amounts.
- *Flexible* premium variable life insurance policies have premiums that allow changes in payment time and amount.

In addition to a Florida insurance agent's license, an agent who sells variable life policies must also be registered as a representative with a broker-dealer licensed by the National Association of Securities Dealers, and be registered with the Securities and Exchange Commission. Be sure to request a prospectus that contains extensive information about the company's investments and investment policies.

Limited-Payment Whole Life

You pay premiums over a shorter period, such as 20 years, but the policy provides protection for life. Due to the shorter payment period, you pay higher premium rates than you would for a traditional whole life policy with the same face amount.

Single-Premium Whole Life

You pay the total premium in one lump sum when you submit your application. This provides you protection for life.

Combination Plans

These policies combine whole life with term insurance in one contract. For example, you may buy a permanent whole life policy and later decide to increase your coverage for a specified time to meet a specific need (such as a mortgage, business debt, etc.). You could do this by adding a term "rider" to your whole life policy for an additional premium. A rider adds specific coverage and benefits to an existing policy for a specified period of time, usually for a charge.

Endowment Policies

These policies offer insurance protection for a specified period of time, with emphasis placed on the rapid accumulation of money. The policy "endows" if the insured lives to the end of the policy period. When the policy endows, the owner will receive a payment equal to the policy's face amount.

In the past, insurers sold these policies with endowment dates, such as the 10th or 20th anniversary, or with a stated age, such as 65. This made them attractive for use as savings plans for college or retirement. Federal tax changes now require such policies to endow at age 95 or later to qualify as insurance for tax purposes. There will most likely be tax consequences when the policy endows. Therefore, these policies are not often sold. See your tax professional for more information.

Modified Premium Life

You pay a lower premium initially, which increases in the later years of the policy. Such policies may be suitable for people who want whole life insurance but need lower initial premiums.

Modified Death Benefit Life

You pay a premium that usually remains the same during your lifetime, but the death benefit or face amount changes at a set time. Such policies may be suitable for people whose insurance coverage needs will decrease after retirement.

When buying either a modified premium life or a modified death benefit life policy, either the premiums or the amount of life insurance will change. Make sure you have a clear understanding of these changes before completing an application.

Graded Death Benefit

You pay a level premium that pays the full amount of your death benefit for accidental death, but a much smaller amount for other causes of death in the first few years. After the first few years, this type of policy will behave like a standard whole life policy.

The graded death benefit policy is often sold as a guaranteed issue policy through the mail or other media.

Make sure you ask your agent or financial advisor about any potential tax consequences of buying any insurance products.

Compare for Yourself

Kinds of Life Insurance

Term Life

- Low initial premium
- May be renewable and convertible to whole life insurance
- Protection for a specified period
- Premium increase with each new term
- Typically no cash value

Traditional Whole Life

- Permanent protection
- Fixed premium
- Fixed table of cash values
- Fixed death benefit
- Policy loan availability is usually free of current taxation. Such loans may become retroactively taxable if the contract terminates.

Universal Life

- Flexible premium
- Flexible death benefit
- Cash value reflects premiums paid and current interest after deducting any "mortality charge," surrender charge, investment fee, etc. (A mortality charge is the cost of life insurance based upon a mortality table used by the insurer.)
- Deferment of taxes on the earnings generated by the policy unless you withdraw cash value or interest
- Policy loans usually are not subject to current taxation. The excess value of such loans may become taxable, however, if the contract terminates.

Will Your Premiums Change?

Insurance companies sell many modern term life policies and some whole life policies with indeterminate or non-guaranteed premiums. In the first few years, these policies typically feature a lower premium than a policy having similar benefits with guaranteed or fixed premiums. The company can, and usually will, raise the premiums.

Check your policy for a table of guaranteed maximum premiums. Be sure to find out if the policy you are considering has guaranteed fixed premiums or premium rates that can rise. Make sure you can afford the premiums for as long as you want to keep the policy.

Excess Interest Whole Life

- Permanent protection
- Fixed premium
- Fixed death benefit
- Cash value growth depends on current interest credited to the cash value account.
- Additional funds can be "dumped" into the policy. The company credits excess interest to these funds, making them grow faster.
- You can defer taxes on the earnings generated by the policy until you withdraw cash value or interest.
- You can usually take out policy loans without being subject to current taxation.
- Such loans may become retroactively taxable, however, if the contract terminates.

Variable Life

- Long-term protection
- Fixed or flexible premiums
- Investment control of cash value stock, bond, money market or other accounts. The policyholder bears the investment risk.
- Varying death benefits and cash values in relation to the performance of funds in separate accounts
- Deferred taxes on earnings generated by the policy until cash value or dividends are withdrawn

Disappearing Premiums

Life insurance policies with accumulated cash values frequently offer the policyholder the option of using the policy's cash value or dividends to cover premium payments at a future date. Although the premiums seem to "disappear" or "vanish," charges are still being made, which reduce the policy's cash value.

If you choose this option, you should carefully monitor your policy's cash value. Changes in interest rates, cost of insurance, policy expenses and loans can quickly eliminate your policy's ability to pay for itself. Such changes could force you to resume premium payments to keep your policy.

How Cost is Determined

The cost of life insurance can vary from company to company. More than 700 licensed insurance companies sell life insurance in Florida, and comparing costs can be very difficult. For example, a company might offer a policy that is competitively priced for 25-year-olds, but not for 40-year-olds.

Several factors determine the cost of a policy. They include:

- Type and amount of coverage
- Age, health and habits (such as smoking)
- Family history
- Mortality tables (see page 26 in the glossary)
- Administrative expenses (such as policy fees)
- Current interest rates
- Surrender charges (what you pay if you cash in your policy)

The Cost Index

The insurance industry developed a system called the Cost Index to aid in comparison shopping. It is worth your time to understand this system because it can help you find the best buy for your insurance needs.

This system compares costs of similar life insurance plans. A policy with a smaller index number is usually a better buy than a comparable policy with a larger index number.

Insurance agents and companies must provide you with the Cost Index and a "Buyers' Guide to Life Insurance." These fully explain the use of cost and payment indexes.

Accelerated Death Benefits and Viatical Settlements

Accelerated Death Benefits (also called "living" benefits)

Some life insurance companies offer to pay a portion of the death benefit for a policy before death occurs if the policyholder is diagnosed with a life-threatening illness. Upon the death of the insured, the designated beneficiary receives the remainder of the death benefits.

The insurer may charge a small service fee for the accelerated payment. Contact your company or agent to learn more about the living benefit before selling your policy.

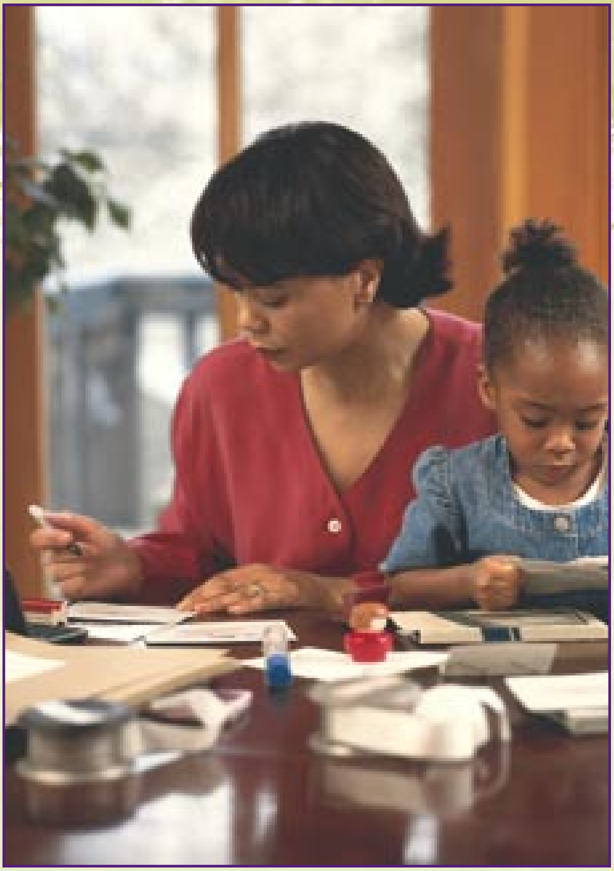
Viatical Settlements

A viatical settlement can provide cash benefits before death when an individual sells his or her life insurance policy. The policyholder, or viator, receives a payment represented as a percentage of the face amount of the policy.

There are two types of viators: An "allegedly terminally ill" person; and a healthy person. Typically, the healthy person is an older individual who wants to sell an existing policy, or who buys a new policy for the purpose of selling it. These latter types of policies are known as senior settlements. Senior settlements occur when an older person, without a serious or life-threatening illness, sells the ownership of his or her insurance policy, including the beneficiary rights. The individual may do this with an existing policy, or may be approached by an investor or agent who promises to buy the policy if the older person obtains new life insurance coverage.

By entering into a viatical settlement contract, the owner of a life insurance policy sells that policy, including the death benefit, to an individual or a licensed viatical settlement provider in return for payment. The payment amount will be substantially lower than the death benefit of the policy, and even lower than what you might receive as an accelerated benefits payment.

In theory, the viatical settlement provider will make any future premium payments and recoup the investment when the insurance company pays the full death benefit, to the



purchaser or designee, after the death of the insured; however, the party responsible for paying the premiums needs to be clearly identified and understood.

A viatical settlement contract requires close scrutiny by the original policy owner (viator) and investor, since the agreement will result in a complicated financial and legal transaction.

In this transaction, the insured loses his or her ownership rights, and there are no guarantees for the investor.

If you are considering selling a policy you own, you should consult with your attorney, physician, life insurance agent or company, accountant or financial planner, and any government agency from which you receive government benefits or entitlements. The proceeds a viator receives from the viatical settlement may affect Medicaid and other program eligibility.

If you are considering a viatical investment or policy sale, be very careful. The investor, as a result of being the beneficiary, has a financial interest in the viator's death.

The Florida Department of Financial Services monitors viatical providers and settlement brokers. If you need help, have questions, or would like to order our free guide on viatical settlements and accelerated benefits, call the Florida Department of Financial Services Consumer Helpline toll-free at 1-800-342-2762.

Credit Insurance

Financial institutions, such as banks, loan finance companies and credit card companies, offer credit insurance that pays for the credit holder's debt in case of disability or death.

Credit insurance can be of two basic types: *credit life* and *credit disability*. Credit life pays if you die and credit disability pays if you become disabled.

When you obtain and sign for a loan, the financial institution will likely offer you credit life and/or disability protection. If your transaction takes place primarily by telephone, the insurance company or agent has 30 days to provide you with a written copy of the disclosures. Once you receive the copy, you then have 30 days to change your mind and cancel the policy. Make sure you shop around before purchasing this type of coverage so you get the best buy.

Lending institutions cannot require you to buy credit life or disability insurance. Such lenders may require you to assign a portion of your existing life or disability coverage to repay the loan, however, in the event of your death or disability. For example, if you buy a car and finance it, the lender may offer you credit life insurance. If you already have a life insurance policy and the lender requires insurance protection before granting the loan, you don't have to buy it from the lender. You could assign some of your current policy's benefits to cover the value of the loan.

When you receive a disclosure form, read it carefully or take it home with you to review more closely before you sign it. This will give you time to decide if you want to buy the policy.

Debit Life Insurance:

These types of policies differ from ordinary life policies in several ways:

- The cost is very expensive for the value.
- Death benefits may not pay funeral expenses.
- Policies build very little cash value.
- Unlicensed agents are allowed to sell and service these policies.
- Companies often don't send a regular statement of your policy benefits.

Note: Do not give cash to a company representative without obtaining a clearly written receipt with date, agent and company identification.

Debit life policies are primarily marketed and sold to low-income families, minorities and the elderly. Insurance companies originally offered such policies to low-income laborers in industrial areas at the beginning of the 20th century. Agents sold the product through door-to-door visits as a "way to cover burial expenses." Today, however, the actual coverage for a debit life policy seldom exceeds $2,000, while funeral expenses often exceed $5,000, not including the cost of a cemetery plot. Although debit life sales are on the decline, there are nearly three dozen companies that still have policyholders in Florida.

If you own a debit life policy or know someone who does, please follow these steps, or encourage him or her to do so, as a precaution:

- Request a written statement from the insurer that includes the policy's date of issue, amount of premiums paid during its entire history, total cash value and dollar amount payable upon death. You should also check with the insurer at least once a year to update this information.
- Once you obtain your statement, ask for help if you don't understand the information or need to make an informed decision. Pay close attention to the cash value of the policy when compared to the amount payable upon death.
- Don't buy any additional insurance until you complete your review. If you need help or have questions, you may call the Florida Department of Financial Services Consumer Helpline toll-free at 1-800-342-2762.

CONSUMER BEWARE!

Debit life, also commonly known as "industrial life," "street" or "home service" insurance, almost always costs more than the benefits are worth. (Industrial life insurance is referred to as "debit" in this section.)

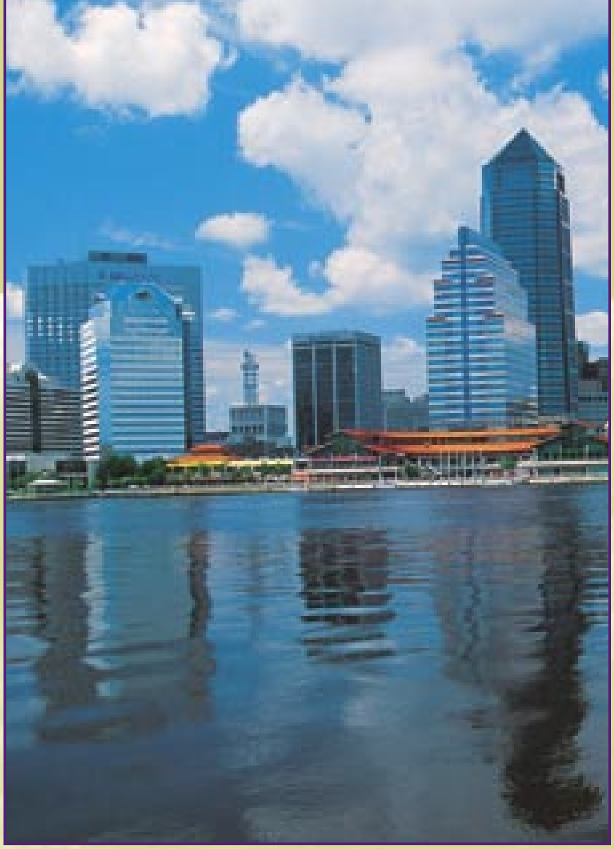
How to Select an Agent

It is important to remember that most agents are reputable professionals, trained in their areas of expertise. Check with the Department of Financial Services to verify whether an agent has a license to sell insurance in Florida.

Insurance agents must take classes and pass certain tests to become licensed. In addition to the required exams, some agents choose to further their knowledge in various insurance courses. These courses can lead to professional insurance designations such as the following:

CEBS ..... Certified Employee Benefits Specialist
CFP .... Certified Financial Planner
ChFC ...... Chartered Financial Consultant
CIC .... Certified Insurance Counselor
CLU .... Chartered Life Underwriter
CPCU ..... Chartered Property and Casualty Underwriter
LUTCF .... Life Underwriting Training Council Fellow
RHU .... Registered Health Underwriter

When selecting an agent, choose one licensed to sell insurance in Florida. Also, choose an agent with whom you feel comfortable and who is available to answer your questions. Remember: An insurance agent may represent more than one company. To verify an agent's licensure status, call the Consumer Helpline toll-free at 1-800-342-2762.



How to Select an Insurance Company

As with any major purchase, it is wise to shop around to make sure you get the most for your money. Also, make sure you find the insurance product that best fits your needs.

When selecting an insurance company, check the company's rating. Several organizations publish insurance company ratings, available in your local library. These organizations include: A.M. Best Company, Standard and Poor's Corp., Weiss Ratings Inc., Duff & Phelps and Moody's Investors Service.

These organizations rate companies on elements such as financial data, including assets and liabilities; management operations; and the company's history.

To verify a company's license, get the full, legal name of the company, then call the Consumer Helpline toll-free at 1-800-342-2762.

Consumer Tips

- Shop around. Compare plans from more than one company. Don't feel pressured to make a quick decision. Life insurance is a long-term contract.

- Ask questions. Your life insurance policy represents a considerable investment in your family's future.

- Read and understand your contract. Make sure your premium dollars are doing what you want them to do. Be aware of the limitations and conditions of your policy. Most companies must offer a 10-day free look period that starts once the policy is in your hands.

- Know what you have purchased. The main purpose of a life insurance policy is to provide coverage for your family upon your death. If you prefer a retirement plan, you should consider other options, such as buying an annuity. Make sure it specifies the premiums, guaranteed interest rate, investment period, payout period and surrender fees.

- Be aware that a life insurance policy will have the words "life insurance policy" somewhere in the contract.

- Understand the cash value. With many policies, the cash value that accumulates is generally very low in the first years the policy is in force. This cash value may be exposed to surrender fees.

- Know the difference between the "guaranteed" rate and the "projected" rate. The guaranteed rate is the minimum rate at which your cash value will accumulate. In making a sale, an agent may highlight a much higher projected rate based on current and/or anticipated interest rates. The company does not guarantee, however, that the policy will achieve the higher rate of return.

- Ask your agent and tax professional about any potential tax consequences.

- Be sure your agent provides you with a "Cost Index" and a "Buyer's Guide to Life Insurance" with any contract issued. This information will fully explain the use of cost and payment indexes.

- Beware of high initial interest rates. Although initial interest rates may be high, some companies lower the interest rates on a policy after the first year. Many companies also charge high surrender fees for early withdrawal of funds.

- Make sure you compare the rates and charges. These include guaranteed interest rates for all years, the surrender charges for the length of years and the severity of the surrender charges.

Annuities

An annuity is a series of payments that acts similar to a savings plan to provide primary or supplementary retirement income. An insurance company pays annuity benefits while you are alive (except for fixed period annuities).

You can convert some life insurance policies into annuities by taking the cash value of the insurance policy and buying the annuity contract that best suits your needs.

An annuity also has a tax advantage. For example, a deferred annuity accumulates tax-deferred interest until you withdraw the funds.

The Department of Financial Services regulates life insurance agents and companies that sell annuities.

Kinds of Annuities

There are several ways to categorize annuities, and any one annuity may fit into several categories.

Immediate Annuities

With an immediate annuity, you pay a single premium and immediately start receiving payments at the end of each payment period, which is usually monthly or annually.

Deferred Annuities

With a deferred annuity, you pay one or more premiums over what is often called the accumulation period. The premiums you pay and the interest credited to the premiums goes into a fund called an accumulation fund. There may be a minimum guaranteed interest rate at which your money will accumulate during the accumulation period.

The annuity payments you will receive begin at a future point in time called the maturity date. You will receive payments during a time period called the payout period or "annuitization phase." You do not pay income taxes on the interest earned during the accumulation period unless you draw on its cash value. These taxes are deferred until the payout period.

Fixed Annuities

A fixed annuity provides fixed-dollar income payments backed by the guarantees in the contract. You cannot lose your investment once your income payments begin. The amount of those payments will not change. With fixed annuities, the company bears the investment risk.

Equity Indexed Annuities

These are a form of annuity, either immediate or deferred, that earns interest or provides benefits that are linked to an external equity index, such as Standard and Poor's 500 Composite Stock Price Index. When you purchase an equity-indexed annuity, you own an insurance contract - not shares of any stock or index.

Variable Annuities

Variable annuity investments are types of securities, usually stocks and unsecured bonds, which tend to fluctuate with economic conditions. The value of a variable annuity depends upon the investment history of the security.

You, the owner or annuitant, bear the investment risk for the value of the securities. The value of the annuity will increase with a favorable investment performance of the security.

The annuity's value will decrease, however, with a poor investment performance. In fact, you can lose your investment. A product receives the classification of a variable annuity if the value during either the accumulation period or the payout period depends on the value of the security.

Some variable annuities provide a choice of either a variable payout or a fixed payout.

The Department of Financial Services and the Federal Securities and Exchange Commission regulate companies authorized to sell variable annuities in Florida.

Licensed life insurance agents who sell variable annuities must also register with the Securities and Exchange Commission.

With a tax-sheltered fixed or variable annuity, you defer income taxes on the interest earned until the payout period. You may also defer taxes on the income used to make premium payments until the funds are withdrawn. There may be a limit on the amount of income you can defer, depending on the tax-sheltered plan selected. These contracts, also known as qualified or "tax qualified," must meet the conditions outlined by the Internal Revenue Service. A non-qualified annuity is a product with premiums paid from after-tax dollars.

For more information, call the Consumer Helpline toll-free at 1-800-342-2762.

Common Annuity Product Provisions

You should carefully compare the following features, depending on the type of annuity you are considering.

Accumulation period: Time between the purchase of the annuity contract and the payout period when annuity premiums are paid - be sure that the contract will allow the annuity payouts to begin when you will need them.

Administrative/maintenance fees: Deductions taken from premiums or the accumulation fund

Agent commissions: Level of commission earned by agents who sell the annuity - this level is usually a percentage of the annuity premium. In general, a higher commission results in less money to provide your benefits, and a lower commission results in greater benefits, such as a higher credited interest rate or lower surrender charges.

Annuitization phase: Period of time when you receive payments, defined by the annuity contract

Bailout provision: Provision offered by some companies that allows you to withdraw all your money without penalty if the interest rate drops below a specified rate

Contractually guaranteed bonuses: Bonus interest credit offered by some annuities. Make sure you understand the conditions necessary to earn the credits.

Expense charges, fees and loading: Administrative fees the company deducts from your premiums or the accumulation fund

Free withdrawal provisions: Allowance provided by deferred annuity contracts to withdraw a limited amount of funds on an annual basis without a surrender penalty - the IRS Code may charge a penalty for those younger than 59 1/2 who make such withdrawals. Decisions to make an early withdrawal may include early retirement or a financial need.

Guaranteed minimum interest rate: Lowest interest rate a company may credit to a fixed annuity accumulation fund, as stated in the contract

Initial credited interest rate: Interest rate the insurance company credits to your premium when first issuing the policy - the company may guarantee this rate for an initial guarantee period of one or more years. Otherwise, the rate is not guaranteed, which means it may change at the company's discretion.

Interest rate credited on renewal: Interest rate credited on the premium dollars paid into a policy after the first year - companies may advertise a high initial interest rate, but after the first anniversary credit a much lower interest rate. Ask your agent how the renewal interest rate compares with the initial interest rate.

Issue age range: Age range during which the company will issue a policy to a consumer

Market value adjustment (MVA): A feature of some annuity contracts in which the value could be affected by changing interest rates on other investments

Minimum premium required: Minimum premium level required by some annuities for initial and subsequent premiums

Monthly income per $1,000: Rates for annuity payout plans in terms of a monthly income per $1,000 applied - the company multiplies the value of the accumulation fund by this rate to determine the monthly payments that you will receive during the annuitization phase or payout period.

Surrender charge schedule: Penalty imposed by most annuity contracts for withdrawals or surrenders made during the early years of the policy - the amount of these charges varies widely among insurance companies and may change over the life of the contract.

Tax-qualified annuity: Contract that allows you to defer income taxes on the interest earned in an annuity - it also allows you to deduct your premium payments from your taxable income when filing your tax return with the IRS.

Waiver of surrender charges if confined to a nursing home: Rider or policy provision allowing you to withdraw your money without penalty if you become disabled and confined to a hospital, nursing home or extended care facility for a specified period - policies usually require that you purchase them before you reach a certain age to be able to use this option. Ask your agent and check your contract for restrictions.

Benefit Payment Plans

Payments for annuities come in four basic plans: life income, fixed period, fixed amount, and joint and last survivor. These appear in deferred annuities, as well as some life insurance contracts, usually as options for payments of the death benefit proceeds.

Life Income

This payout plan includes three basic variations:

Life Only:

- Payments are made only until your death.
- Pays the most income for each dollar of premium paid into the fund
- Payments stop when the annuitant dies. If you die before payment of all the funds, the company keeps the excess.

Certain and Life:

- Payments made during a predetermined time frame, called the period certain
- If you die before this period expires, your beneficiary receives payments until the end of the period.
- If you live beyond this time frame, payments will continue until your death.

Installment Refund:

- You, the annuitant, receive a lesser payment amount than you'd receive with the "life only" variation.

- The beneficiary receives the balance of the unpaid account value, if any, upon your death.

Fixed Period
With this plan, the company guarantees payments for the number of years allowed by your contract and selected by you, the annuitant. This number is called the years certain and is frequently 10 or 20 years. If you die before the specified number of years, the company pays the remainder of the contract to your beneficiary or estate.

Fixed Amount
With this plan, you receive payments in the amount you choose until the funds are exhausted. If you die before the payment of all funds, the company pays the remaining proceeds to your beneficiary or estate in a lump sum.

Joint and Last Survivor
This plan makes payments as long as the two people named in the policy are alive. When one dies, the amount of the payments may diminish according to the terms of the contract.

Group Versus Individual Annuities

Insurance companies are marketing an increasing number of annuities on a group basis. Group annuities typically benefit from economies of scale, which means the insurer passes on cost savings for marketing and administering the product to the consumer.

Group annuities fund many tax-sheltered retirement programs. These programs, whether sponsored by employers, unions or other groups, often draw a multistate membership. Differences in state laws, however, sometimes create difficulties for groups providing benefits for members from different states under a single contract. Many states, including Florida, enacted laws to eliminate conflicts that might prevent a group from providing benefits to its members. These laws allow out-of-state contracts in which groups may issue contracts in one state and send coverage certificates to members in other states.

In some cases, insurance companies create "groups" in other states to which they issue master annuity contracts. (The terms of such annuities are subject to the laws of the jurisdiction where the master contract is issued, not Florida law.) The annuities are then marketed to individuals in Florida. To be permitted to issue individual annuity certificates through such a group, the insurer is required by law to provide proof to the Department of Financial Services that some savings can be expected. But the amount saved may or may not offset the loss of the protections of Florida law. Be very careful when you are offered an annuity as part of an out-of-state group.

Consumers with questions about group annuities should contact their insurance agent or company or call the Consumer Helpline toll-free at 1-800-342-2762.

Other Types of Annuities

Market Value Adjustment Annuities
These annuities contain a provision that changes the amount of money you can withdraw from the policy by a formula in the contract. This formula reflects changes in the investment environment.

Two-Tier Annuities
These annuities contain two payout plans. With the first, accumulation funds are available only if the policyholder "annuitizes" the value. This means the issuer distributes the value in periodic payouts. The second offers a lower total payout, but the funds are paid out in one lump sum.

Companies usually advertise two-tier contracts based upon the higher fund value. This higher value is never available as a lump sum cash surrender. Make sure you know the conditions necessary to receive each fund value.

No Cash Value Annuities

These annuities do not provide any cash surrender values until the maturity date. You should not consider this type of annuity unless you feel certain you will not need your money in a lump sum but as monthly income beginning at the maturity date.

What to Consider Before Buying an Annuity

Annuity products primarily offer a source of income, either now or at a set future date such as your retirement. If this is not what you are seeking, then you should consider other types of investments.

An annuity involves a long-term commitment. Other more appropriate investments exist for those seeking short-term opportunities (i.e., less than a decade). You might wish to consult a trusted financial advisor who has no vested interest in your investment choice.

Many annuity marketing programs encourage you to move funds from maturing certificates of deposit into annuities. These are not comparable investment instruments because they have different purposes and time frames. Be sure you invest your money in a way that best suits your needs.

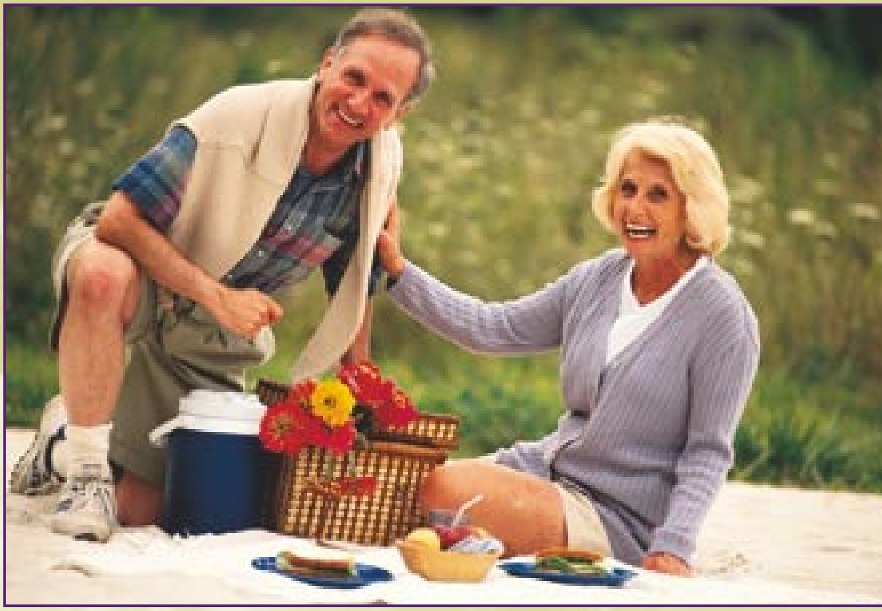
There is a wide range of annuity products currently available on the market. Any one agent may not have access to all possible contracts, but you can talk to as many agents as you choose. You should also shop around before investing your money.

You should consider all of the consequences if you currently have funds in an annuity and the opportunity arises to move the funds into a surrender charge schedule. Also, the guaranteed minimum interest rate in the new contract may be lower. Be sure you consider both the advantages and disadvantages of the replacement purchase.

You should review the complete plan, considering such factors as the guaranteed interest rate, the surrender charges, and the administrative and maintenance fees. A high interest rate during the first year is not always the better choice. This is especially true if the interest rates drop to a low minimum rate the next year with high surrender charges and additional fees. Ask your agent for the company's history on crediting its interest rates and check to see how credited interest rates vary between new issues and renewal years.

Ask for the required disclosure material used with the plan that interests you. The advertising material should reflect the actual payouts of the contract.

Most companies will offer you computer-generated sales illustrations that provide a customized projection for the contract under consideration. Be sure that you receive all pages of the illustration and that you read and understand all the features.



Also, be sure you understand which values the contract guarantees and which values are not guaranteed, but are merely projections or estimates.

Ask the agent or broker about the type of investments for the company and whether these are secure. The company may also address this in its advertisements.

The ideal annuity contract would be one that offered the highest interest rate overall with the lowest surrender charges and lowest investment risk for the shortest number of years. It would have a bailout clause that would allow you to withdraw your money without penalty if your financial circumstances changed because of your health.

Your Rights and Responsibilities

Your Rights

You have the right to receive a policy summary that includes a "Cost Index" and a "Buyer's Guide to Life Insurance" from a company or agent. These publications fully explain the use of cost and payment indexes. This does not include variable life insurance policies.

You have the right to receive either a policy summary or a 10-day "free look" period to decide whether to keep a life insurance policy. (This does not include variable life insurance policies.) You may still receive a full refund if you have paid a premium and decide to return the policy during this period. You should return the policy to the company by certified mail within the 10 days.

You have the right to a 30-days grace period during which you may pay overdue premiums. Your policy remains in force during this grace period. This provision applies to life insurance only.

You have the right to receive a prospectus when considering a variable life or annuity contract. Upon request, an agent or company must provide you with a prospectus that contains extensive information about the investments backing the variable life or annuity contract you are considering.

Your Responsibilities

You are responsible for evaluating your needs and making sure the insurance company and policy or contract you choose can fit those needs.

You are responsible for shopping around and comparing costs and services.

You are responsible for finding out the licensure status of an insurance agent and company. To verify a license, call the Consumer Helpline toll-free at 1-800-342-2762.

You are responsible for buying only the amount of life insurance you need and can afford.

You are responsible for reading your policy or contract and making sure you understand what it covers.

You are responsible for keeping your insurance policy and records at home. Keep copies in a safe deposit box or with a friend or attorney.

You are responsible for telling your beneficiaries about the kinds and amounts of life insurance you own and where you keep your policies.

You are responsible for reviewing your coverage periodically to be sure it meets your needs.

You are responsible for filling out your application truthfully and disclosing all pertinent information.

Insurance Discrimination Against Victims of Abuse

Florida has adopted laws to protect victims of abuse from discrimination. Florida law (Section 626.9541) provides that it is illegal for insurers to use information that someone has sought, or should have sought, treatment, protection or shelter in the past for abuse, or that abuse might occur in the future as a result of an assault, battery or sexual assault by a family or household member. Insurers cannot:

- Base a decision to underwrite a policy;
- Refuse to issue, reissue or renew a policy;
- Refuse to pay a claim;
- Cancel or otherwise terminate a policy; or
- Increase rates based on a person's status as a victim, or potential victim, of abuse.

Abuse is broadly defined to mirror the definition of domestic violence in Section 741.28. These laws protect all Floridians from discriminatory actions by health, life, disability, property and casualty, or automobile insurers or managed care providers.

Steps to Take!

- Call the Florida Domestic Violence Hotline at 1-800-500-1119. You may also call your local certified domestic violence center and ask to speak with an advocate, or call the Battered Women's Justice Project at 1-800-903-0111.
- If you are a victim of domestic violence or abuse and you are denied insurance, if your rates are raised or if the insurer refuses to pay a claim, demand in writing that the insurer explain in writing why they took this action.
- Find out if information about your medical history is in the Medical Information Bureau (MIB), and request a report to see if it mentions abuse or any abuse-related matters. The report is free if you have a letter from an insurance company saying they used MIB information to make a decision about you. [Medical Information Bureau, (617) 426-3660, P.O. Box 105, Essex Station, Boston, MA 02112; www.mib.com]
- File an appeal with the insurer, as described in your policy.
- Call the Department of Financial Services Consumer Helpline toll-free at 1-800-342-2762, or go to the Department's Web site at www.fldfs.com.

Medical Privacy and Information Bureau

The Medical Information Bureau is a data bank of medical and non-medical information on nearly 15 million Americans. Are you one of them? You are if you have ever applied for health insurance from any of the MIB's 800 insurance company members.

The companies send the MIB any information you have written on any applications, enrollment forms or requests for upgrading coverage for health, life or disability insurance. The MIB also records information from medical exams, blood and lab tests, and hospital reports, when such information is legally obtainable.

If you have been denied life or disability insurance and you wonder why, your file at the MIB may be the answer. Although the MIB's database seems like an invasion of your privacy, it prevents fraud and abuse of the nation's private insurance system. However, you have the right to make sure the information in your MIB file is correct. Call the MIB and ask for a copy of your records.

Now that you know about the MIB, you understand why it is important to provide truthful information on any insurance application. If the MIB spots false information, your insurer may cancel your policy. Even worse, you may never be issued another policy.

FRAUD

Insurance Fraud Costs Us All

Insurance fraud costs each Florida family an additional $1,500 per year* in increased premiums. In fact, it can inflate your premiums by as much as 30 percent, according to the National Insurance Crime Bureau. This includes the money you pay for life, auto, health, homeowners' and other types of insurance.

You can protect your personal and family pocketbook by learning about the many different types of fraud schemes and scams.

Some common examples include:

Failure to forward premiums - An insurance agent convinces a consumer to pay each premium by a check written directly to the agent or in cash. The agent then pockets these payments, leaving the consumer without coverage.

Rogue agent commits churning - An agent tricks an unknowing consumer into draining the cash value of one policy to buy a new policy with the same insurer.

Applicant fraud - An applicant deliberately provides false information to a life insurance company in hopes of obtaining a lower premium or to prevent the applicant's rejection.

Understatement of risk or "cleansheeting" - An agent omits pertinent health information from a consumer's application to make a sale that might not otherwise meet the insurance company's risk-management requirements.

Deceptive claims - A financially strapped consumer files false claims on credit disability and health insurance policies after staging an accident and exaggerating a pre-existing injury.

There are many other types of insurance fraud. If you suspect such a crime has occurred, call the Department of Financial Services' toll-free Fraud Hotline at 1-800-378-0445.

***Source:** *The Coalition Against Insurance Fraud Report*

COPS

Community Outreach Programs

The Department of Financial Services offers free community outreach programs on a variety of topics to help you make sound financial decisions and avoid becoming a victim of insurance or financial fraud. Speakers are available on the topic of your choice and will work with you to tailor programs to your group's needs. Choose from one of the topics listed here or call us with your requests. For more information, please contact the Service Office in your area, or call toll-free 1-800-342-2762.

Consumer Protection Topics

- Consumer Beware: Insurance Scams and Financial Fraud
- Wheels, Deals and Credit Card Spiels
- Are You Covered? Avoid Illegal Insurance Practices
- Predatory Lending
- Living in a Danger Zone: Hurricane and Disaster Preparedness
- New to Florida? How to Cover your Assets
- Young Drivers
- Insurance and Financial Needs in the Golden Years
- Health, HMOs, Long-Term Care and Medicare Supplement Insurance
- Small-Business Insurance Needs
- Workers' Compensation

Glossary

In this guide, we discuss several topics that we hope will help you make a more informed decision when purchasing life insurance and/or annuities. To assist you in understanding some of the terminology used in the guide, we've defined the following terms:

Accelerated Death Benefit
This allows the owner to receive a percentage of the face amount of a policy if the insured is diagnosed as "terminally ill" and wants to use proceeds of the policy for immediate needs. (Terminally ill usually means that a person is expected to live for a short period of time. Individual policies will have their own definition of "terminally ill.")

Accidental Death Benefit
Also known as a "double indemnity," this policy provision pays an additional amount should the insured's death occur by accident. In some circumstances, policies will pay up to three times the face amount should death occur by a specific type of travel accident, such as a plane crash. Some pay a partial benefit for dismemberment, i.e., loss of an eye or limb.

Amendment
This is an attachment that modifies certain policy benefits.

Annuitant
This is the person who receives the annuity payments during his or her lifetime.

Automatic Premium Loan
This is an optional provision that allows for the automatic payment of unpaid premiums by a policy loan. You may only obtain such a loan if your life insurance policy has sufficient cash value. This feature acts as a safeguard if you forget or cannot make a particular payment.

Beneficiary
This is the person or entity who receives the insurance money when the insured dies.

Benefit
This is the payment made by the insurance company in accordance with your policy.

Cash Value (or Cash Surrender Value)
This is the money available to borrow as a life insurance policy loan or withdraw upon surrender of the policy before maturity.

Churning
This is a fraudulent practice in which insurance agents mislead consumers into giving up the cash value of, or taking loans against, current life policies to buy new coverage with the same company. These schemes usually include the misrepresentation or omission of pertinent information about the consumer's existing policy and how it will be affected by the use of its value to fund the new policy.

Cost Index
This is a system for comparing the costs of similar plans of life insurance. A policy with a smaller index number is usually a better buy than a comparable policy with a larger index number.

Disappearing (or Vanishing) Premiums
This is a provision that enables the policyholder to use excess cash deposits to allow for the discontinuance or disappearance of premium payments at some future date. It offers no guarantees, however, as to when you will have enough excess deposits to allow for this occurrence. The rate of return on the policy affects its ability to pay for itself.

Dividend
This is money paid annually to a policyholder as a partial return on the paid premium. Many times, you may use the dividends to increase cash values and death benefits.

Endorsement
This is an addition to a policy that modifies its benefits.

Evidence of Insurability
This is a signed health questionnaire or a physical examination, depending on a company's requirement.

Excess Interest
This is interest credited beyond the contractual guarantee. Please note that this can change at the company's discretion.

Extended Term Insurance
This is a non-forfeiture option where the cash value is used to buy term insurance equal to the face amount of the original policy for as long a period of time as the cash value will provide. (see "non-forfeiture options")

Face Amount (Face Value)
This is the dollar amount stated on the specification page of a policy and paid by the company upon policy maturity or death. It does not include dividends or additional amounts payable under special provisions, such as an accidental death.

Free Look
This is a 10-day or longer period that allows you to decide whether to keep a life insurance policy or annuity. You can receive a full refund if you change your mind during this period. Be sure to return the policy by certified mail within the free-look period to obtain the refund. (This might not apply to variable life and variable annuity policies.)

Grace Period
This is a 30-day period in which you may pay an overdue premium while keeping your policy in force.

Guaranteed Insurability
This is an option that allows you to buy additional life insurance at specified times without evidence of insurability, such as a questionnaire or physical exam.

Lapsed Policy
This is a policy terminated for nonpayment of premium following the grace period.

Level Premium Insurance
This is a policy with a fixed payment plan over a specified period.

Loading
These are administrative fees you pay when buying either life insurance or an annuity.

Maturity
This is the period when the insurance contract becomes payable to the policyholder.

Mortality Charge
This is the cost of a life insurance risk based upon a mortality table used by the insurance company.

Mortality Table
This is a statistical table that identifies death probabilities by age.

Mutual Life Insurance Company
This is a life insurance company owned by its policyholders, who elect a board of directors. Policyholders usually receive dividends from the company's surplus earnings.

No-Lapse Guarantees
This is a feature of flexible premium (universal) life contracts that sets a minimum premium requirement for guaranteed death benefits.

Non-Forfeiture Options
These are policy values you may choose if there is still cash value after stopping payment of premiums. These include cash surrender value, reduced paid-up insurance (RPU) and extended term insurance (ETI).

Nonparticipating Insurance
This is insurance on which you are paid no dividends.

Participating Insurance
This is insurance that entitles the policyholder to share in the company's surplus earnings.

Policy Loan
This is the amount that you can borrow against a life insurance policy's cash value.

Premium
This is the amount of money, usually in installments, a policyholder pays for an insurance policy or annuity. Payment plans vary depending on the type of policy or annuity.

Premium Waiver Provision
This is a contract provision that takes effect if the named insured (or in some policies, the person paying the premiums) becomes disabled. The disabled party will not have to pay premiums for the duration of the disability, even for a lifelong one.

Prospectus
This is a statement about a security (such as most variable insurance plans) disclosing extensive information about a company's investments and investment strategies.

Reduced Paid-up Insurance
This is a non-forfeiture option where the cash value is used to buy a reduced amount of insurance with no further premiums while still continuing coverage for the same length of time as the original policy. This is required in every cash value policy issued in Florida.

Reinstatement
This is the restoration of a lapsed policy to its original premium-paying status after you pay past due premiums and interest.

Rider
This is an attachment to an insurance policy that adds benefits to the original contract for an additional cost.

Stock Company
This is a publicly traded insurance company whose board of directors is elected by its stockholders. A stock company's policies may or may not pay dividends, depending on the terms of the contract.

Surrender
This is turning in a policy to the company in exchange for its cash value.

Surrender Charges
This is a charge you pay if you cash in your policy. Certain annuities and life insurance policies are subject to surrender charges upon cash surrender.

Twisting
This is a fraudulent practice in which insurance agents mislead consumers into giving up the cash value of current life policies to buy new coverage with a different company. Like churning, these schemes usually involve the misrepresentation or omission of pertinent information about the consumer's existing policy.

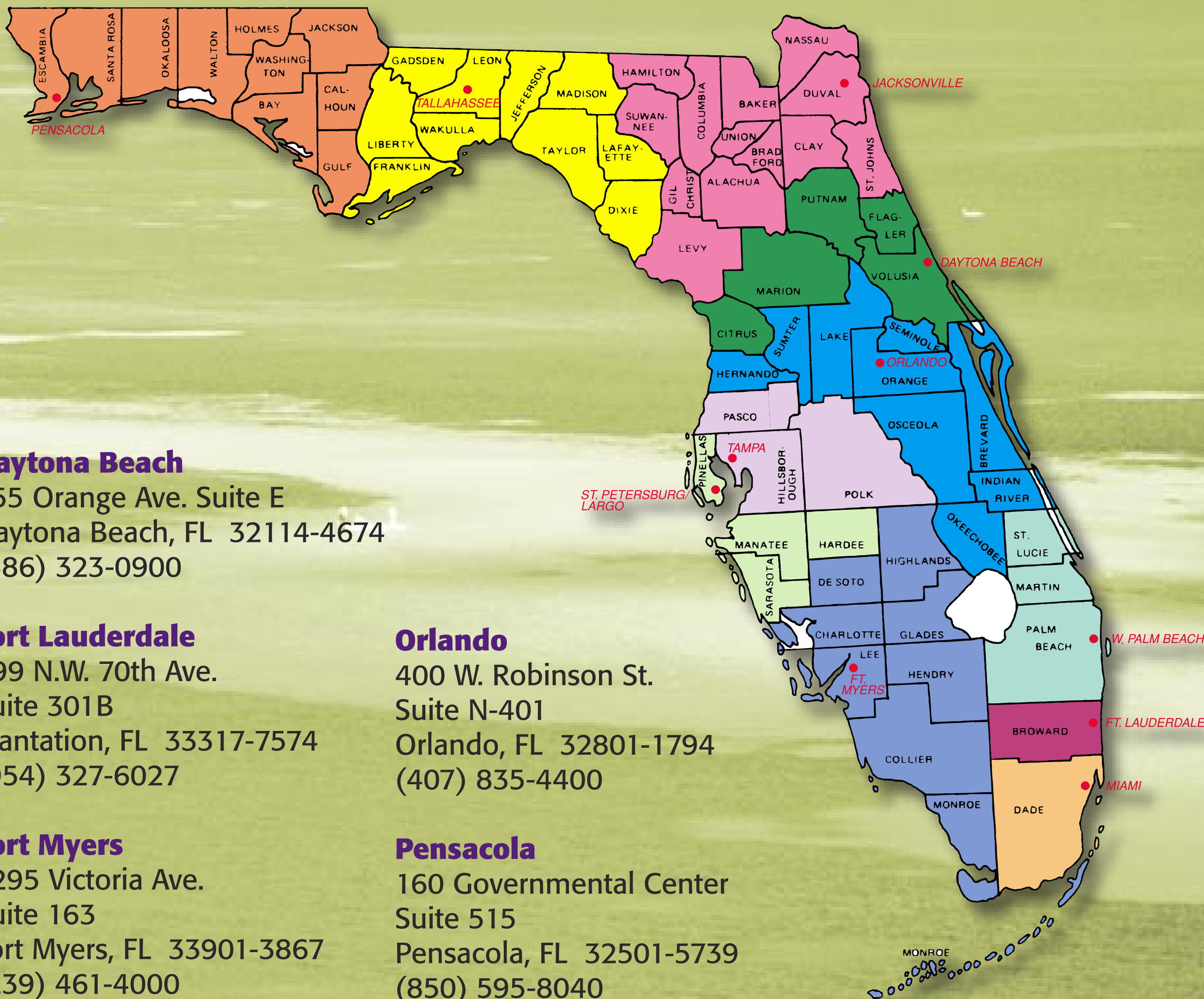
Viatical Investor
This is the individual(s) who buys and agrees to a viatical purchase agreement contract.

Viatical Settlement Contract
This is a written agreement between a viatical settlement provider and a policyholder (viator) that establishes terms under which the provider will pay the policyholder and the cancellation rights of the policyholder.

Waiver of Surrender Charges
This is a policy provision allowing the annuitant or owner of an annuity to surrender his or her contract with no penalty or surrender charges if he or she becomes terminally ill, disabled and/or confined to a hospital, nursing home or extended care facility for a specified period.

Notes:

Service Offices



Daytona Beach
955 Orange Ave. Suite E
Daytona Beach, FL 32114-4674
(386) 323-0900

Fort Lauderdale
499 N.W. 70th Ave.
Suite 301B
Plantation, FL 33317-7574
(954) 327-6027

Fort Myers
2295 Victoria Ave.
Suite 163
Fort Myers, FL 33901-3867
(239) 461-4000

Jacksonville
9000 Regency Square Blvd.
Suite 201
Jacksonville, FL 32211-8100
(904) 798-5800

Miami
401 N.W. Second Ave.
Suite N-307
Miami, FL 33128-1700
(305) 377-5235

Orlando
400 W. Robinson St.
Suite N-401
Orlando, FL 32801-1794
(407) 835-4400

Pensacola
160 Governmental Center
Suite 515
Pensacola, FL 32501-5739
(850) 595-8040

St. Petersburg/Largo
11351 Ulmerton Rd.
Suite 240
Largo, FL 33778-1636
(727) 587-7260

Tallahassee
Larson Building
200 E. Gaines St.
Tallahassee, FL 32399-0323
(850) 413-3132

Tampa
5309 E. Fowler Ave.
Tampa, FL 33617-2221
(813) 899-6160

West Palm Beach
400 N. Congress Ave.
Suite 210
West Palm Beach, FL 33401-2913
(561) 681-6392

FLORIDA DEPARTMENT OF FINANCIAL SERVICES
DIVISION OF CONSUMER SERVICES
200 E. GAINES ST
TALLAHASSEE, FL 32399 - 0323