

# Life Insurance and Annuities

A Guide for Consumers



## Dear Fellow Floridian:

Insurance coverage is an integral part of a solid financial foundation. Insurance can help us recover financially after illness, accidents, natural disasters or even the death of a loved one. But with the wide variety of insurance products available, choosing the correct type and amount of coverage can be a challenge. The policies and laws that regulate financial matters often change, so it is essential to be aware of new developments.

The Florida Department of Financial Services (DFS) publishes a variety of consumer guides to help you understand how different types of insurance policies work. These publications define some of the industry's terminology and outline your rights and responsibilities. Each guide also contains basic information and tips on selecting an insurance agent and company.

Topics include homeowners, automobile, life, health, small-business and many other types of insurance. The Department also publishes guides and brochures covering other financial issues such as mortgages and securities.

You can receive any of our publications by calling the DFS Consumer Helpline toll-free at 1-877-MY-FL-CFO (1-877-693-5236). They may also be downloaded from our Web site at [www.MyFloridaCFO.com](http://www.MyFloridaCFO.com). For availability of Spanish versions of these guides, please check the Web site.

If you have questions after reading this guide, please call our Consumer Helpline toll-free at 1-877-MY-FL-CFO (1-877-693-5236) between 8 a.m. and 5 p.m. (Eastern time) Monday through Friday.

Sincerely,

*Tasha Carter*

Tasha Carter  
Director of the Division of Consumer Services  
State of Florida

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### NOTE:

Most insurance rates and forms in Florida are regulated by the Office of Insurance Regulation (OIR). Other financial services are regulated by the Office of Financial Regulation (OFR). Although both are administratively housed within the Department of Financial Services (DFS), they are separate entities that report to the Florida Cabinet. Because DFS handles consumer-related matters, consumers should remember that DFS is their point of contact for all problems and questions.

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# 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 a life insurance policy, you should decide how much protection you need and can afford, and what kind of insurance policy to buy. The main purpose of a life insurance policy is to provide survivor benefits for beneficiaries.



## Traditional Life Insurance

You have a choice of two traditional types of life insurance: Term or Whole Life.

### Term Insurance

A “term policy” involves coverage purchased for a specific time period and pays a death benefit only if the policyholder dies during the time for which the policy is written and premiums are paid.

#### A term policy:

- 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, coverage ends after the specified term in your policy is reached, unless it includes a provision allowing you to 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 be higher initially, it will remain the same for the rest of your life.

### Whole Life

Whole life insurance, a “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.

#### 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.
- 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.
- 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.

#### 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 owner 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.

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: Due to surrender charges, 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

Other kinds of life insurance are simply variations of term and whole life policies. These include...

### Universal Life

#### Key Characteristics:

- You can increase or decrease the “face amount” of your insurance, within limits stated in the policy, to meet your changing needs. 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

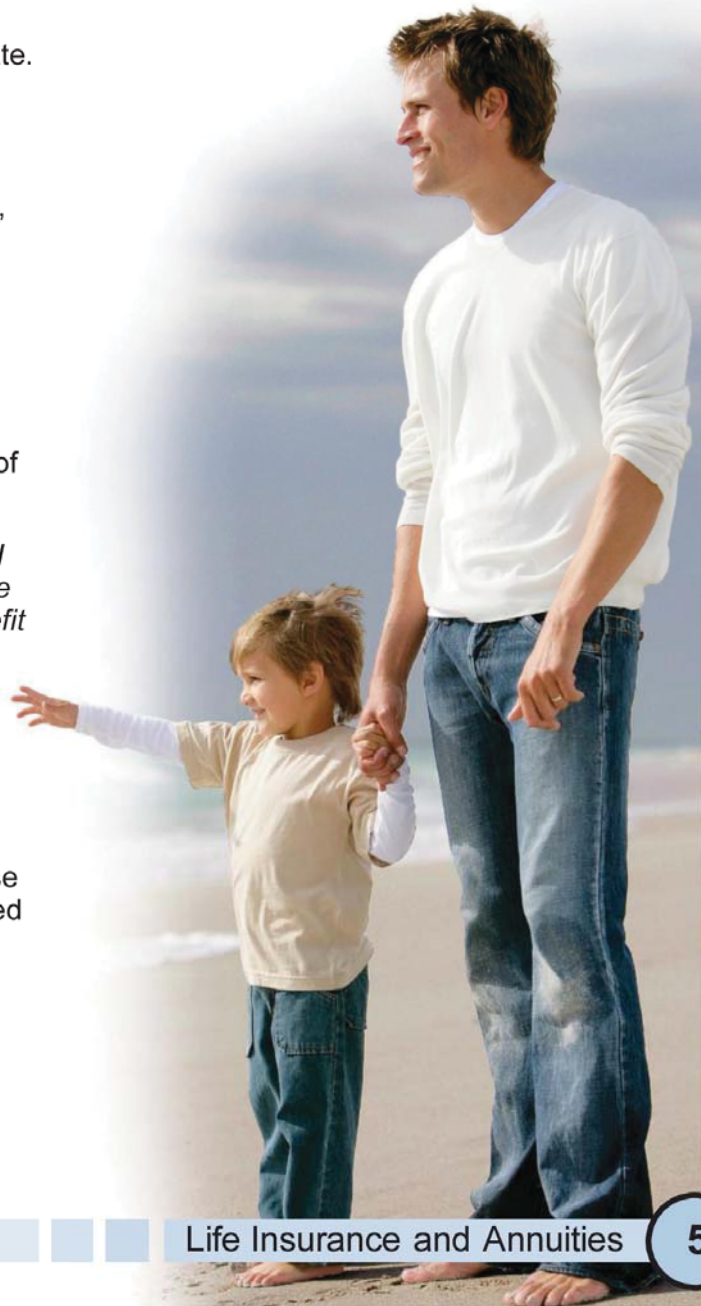
#### Key Characteristics:

- 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 the company’s administrative fees.



## Variable Life

### Key Characteristics:

- These policies allow for limited control over the investment of the policy's cash value through allocation of premiums to and transfers between the policy's "subaccounts" with variable rates of return.
- 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 subaccounts.

*Note: 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 of a broker-dealer licensed by the National Association of Securities Dealers, and be registered with the U.S. 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 premiums 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 normally 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 adviser about the potential tax consequences of buying any insurance product.



## 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” (the cost of life insurance based on a mortality table used by the insurer), surrender charge, investment fee, etc.
- 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.

## 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.

## Will Your Premiums Change?

Insurance companies sell many modern term life policies and some whole life policies with indeterminate or nonguaranteed 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.

## 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, which identify statistical death probabilities by age
- 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 lifethreatening illness or is confined in a nursing home. 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, sometimes called a “life settlement” or “senior settlement,” can provide cash benefits before death when an individual sells his or her life insurance policy. Viatical settlements may involve healthy insureds or insureds who have a terminal illness.

The policyholder, or viator, receives a payment represented as a percentage of the face amount of the policy. By entering into a viatical settlement contract, the owner of a life insurance policy sells the death benefits of that policy to a licensed viatical settlement provider in return for payment. The payment amount will be substantially lower than the death benefit of the policy.

Under Florida law, viatical settlements are defined as “securities.” The Office of Financial Regulation exercises regulatory authority over settlement providers. Florida securities law requires the seller to provide full and fair disclosure to the investor after considering the investor’s financial and tax status, age and investment objectives.

Brokers selling viatical investments must be licensed by the Florida Office of Financial Regulation. Also, individuals who estimate the life expectancies on policies purchased by investors must be registered with the Office of Insurance Regulation. The law also requires viatical settlement companies to provide regulators with names of the life expectancy providers it has used.



Before considering a viatical settlement, a policyholder should check with his or her insurance company or agent to find out if the policy qualifies for an accelerated death benefit. An accelerated death benefit pays part of the policy's death benefit, minus any outstanding policy loans, before the death of the insured. This option provides a portion of the death benefit prior to death and leaves the remainder of the money to the beneficiaries. A viatical settlement contract requires close scrutiny by the policy owner (viator), since the agreement will result in a complicated financial and legal transaction. In this transaction, the policyholder loses his or her ownership rights. It will also subject the insured to being "tracked" to ensure the investors get timely notice of his or her death. The purchaser of your policy, as a result of becoming the beneficiary, will have a financial interest in the insured's death.

All viatical settlement contracts entered into in Florida must contain an unconditional rescission provision that allows the viator to rescind the contract within 15 days after

receiving the proceeds. The viator will be required to return the proceeds and the policy will be restored to the viator as the policy owner.

If you are considering selling a policy, you should consult with your accountant or investment professional, an attorney and any government agency from which you receive benefits or entitlements. The proceeds a viator receives from the viatical settlement may affect Medicaid and other program eligibility.

Be sure you're dealing with viatical settlement providers and life insurance agents who are licensed and regulated by the Florida Department of Financial Services (DFS). If you need help, have questions or would like to order a free booklet on viatical settlements, call the Consumer Helpline toll-free at 1-877-MY-FL-CFO (1-877-693-5236), or visit the Web site at [www.MyFloridaCFO.com](http://www.MyFloridaCFO.com).

## 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, call the Consumer Helpline toll-free at 1-877-MY-FL-CFO (1-877-693-5236.)

## 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 life" in this section.)



## How to select an insurance agent

When selecting an agent, choose one who is licensed to sell insurance in Florida. Some agents have 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

Make sure you select an agent with whom you feel comfortable and who will be available to answer your questions. Remember: An agent may represent more than one company. To verify whether an agent is licensed, call the Consumer Helpline toll-free at 1-877-MY-FL-CFO (1-877-693-5236). You can also go to [www.MyFloridaCFO.com](http://www.MyFloridaCFO.com) and click on the “Verify Before You Buy” button at the bottom of the page to search for licensing information.

## How to select an insurance company

When selecting an insurance company, it is wise to know that company’s rating. Several organizations publish insurance company ratings, available in your local library and on the Internet. These organizations include: A.M. Best Company, Standard & Poor’s, Weiss Ratings Inc., Moody’s Investors Service and Duff & Phelps. Companies are rated on a number of elements, such as financial data (including assets and liabilities), management operations and the company’s history.

Before buying insurance, verify whether a company is licensed to sell insurance in Florida by calling the DFS Consumer Helpline toll-free at 1-877-MY-FL-CFO (1-877-693-5236). Be sure to have the full, legal name of the insurance company when you call. You can also go to [www.MyFloridaCFO.com](http://www.MyFloridaCFO.com) and click on the “Verify Before You Buy” button at the bottom of the page to search for licensing information.



# 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 14-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.
- 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.
- Make sure you compare the rates and charges. These include guaranteed interest rates for all years, the surrender charges for the length of years applicable and the severity of the surrender charges.

# Annuities

An annuity is a series of payments that acts similarly 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. DFS 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 securities, and fluctuate with economic conditions. The value of a variable annuity depends upon the value of the underlying investment portfolios associated

with the annuity. You, the owner or annuitant, bear the investment risk for the value of the security. The value of the annuity will increase or decrease with the 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.

DFS and the U.S. Securities and Exchange Commission regulate the issuers of variable annuities. Licensed life insurance agents who sell variable annuities must also be registered with the Florida Office of Financial Regulation and a self-regulatory organization, such as the New York Stock Exchange (NYSE) or National Association of Securities Dealers (NASD).

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 nonqualified annuity is a product with premiums paid from after-tax dollars. For more information, call the Consumer Helpline toll-free at 1-877-MY-FL-CFO (1-877-693-5236).

## 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 ½ 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.

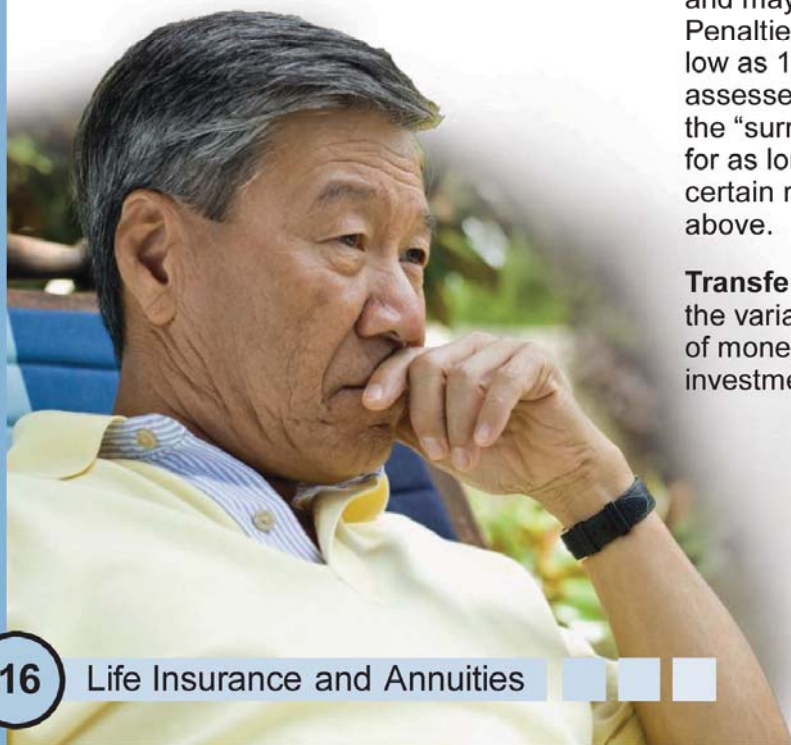
**Market value adjustment (MVA):** A feature of some annuity contracts in which the value could be affected by changing interest rates on other investments.

**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. Penalties can be as high as 25 percent or as low as 1 percent. Also, these penalties may be assessed any time during what is known as the “surrender period,” which can be applicable for as long as 20 years. However, there are certain restrictions for senior's age 65 and above.

**Transfer privileges:** Generally, the issuer of the variable annuity will permit a limited number of money transfers among the underlying investment portfolios free of charge.



**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.

*Note: Many companies will now allow the date that you may begin to receive payments to be changed. For more information please ask your agent or refer to your contract.*

## 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 are 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. 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.

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

DFS 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 1-877-MY-FL-CFO (1-877-693-5236).

## 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.

### 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 adviser 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.

Contact DFS to check on the license and complaint history of an investment professional you are considering working with. Call the toll-free Consumer Helpline at 1-877-MY-FL-CFO (1-877-693-5236).

There is a wide range of annuity products currently available. 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.

Florida law requires insurance companies and agents offering annuity products to clearly document the basis for selling the product, including consideration of a purchaser's financial and tax status, as well as investment objectives. 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 new annuity with a new 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.

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 offered by the company and whether these are secure. The company may also address this in its advertisements.



# 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. Both publications fully explain the use of cost and payment indexes. This does not apply to variable life insurance policies.

**You have the right** to receive either a policy summary or a “free look” period (at least 14 days for life insurance and 21 days for annuities) to decide whether to keep a policy or contract. 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 (return receipt requested) within the specified period.

**You have the right** to a 30-day 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 contract you choose can fit those needs. You are responsible for shopping around and comparing costs and services.

**You are responsible** for reviewing and understanding the surrender charges that may be imposed if the policy is surrendered.

**You are responsible** for finding out the licensure status of an insurance or securities agent and company. To verify a license, call the Consumer Helpline toll-free at 1-877-MY-FL-CFO (1-877-693-5236).

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

**You are responsible** for keeping your insurance and annuity policies 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 contracts you own and where the policies are located.

**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. An incorrect answer on an application could result in a claim being denied.

## Insurance Discrimination Against Victims of Abuse

Florida law prevents insurance companies from discriminating against victims of domestic violence or abuse. If 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 it took this action. If you believe you have been discriminated against, call the Florida Domestic Violence Hotline at 1-800-500-1119 or the Battered Women's Justice Project at 1-800-903-0111. You can also file a complaint through the Department of Financial Services Consumer Helpline toll-free at 1-877-MY-FL-CFO (1-877-693-5236), or go to the Department's Web site at [www.MyFloridaCFO.com](http://www.MyFloridaCFO.com).

## Protecting Your Privacy

### Your Insurers and Financial Institutions

Under federal law, some banks and insurance companies may have the right to share sensitive and personal information about you with other entities and business interests—without your permission. As the policyholder, you must take the lead in protecting your personal information.

Many companies will send you a privacy notice that will give you the opportunity to tell them that you want your personal information kept confidential. Unless you complete and return these forms, your personal financial

and medical information may be shared with other companies. You may have to complete these forms on an annual basis.

When you receive a privacy notice form, read it carefully before signing it to avoid unintentionally giving the company permission to share information about you. If you have questions or concerns about these forms, call the Consumer Helpline toll-free at 1-877-MY-FL-CFO (1-877-693-5236).

## Medical Privacy and the Medical Information Bureau

The Medical Information Bureau (MIB) is a data bank of medical and nonmedical information on nearly 15 million Americans, collected from the MIB's 800 insurance company members.

The companies send the MIB information you have written on applications, enrollment forms, and 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 wonder why, your file at the MIB may be the answer. You have the right to make sure the information in your MIB file is correct. Call the MIB at (866) 692-6901 and ask for a copy of your records, or access its Web site at [www.mib.com](http://www.mib.com).



# 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:

**F**ailure 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.

**R**ogue 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.

**A**pplicant 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.

**U**nderstatement 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.

**D**eceptive 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.

If you suspect insurance fraud, call the Department of Financial Services' toll-free Fraud Hotline at 1-800-378-0445.

*\*Source: The Coalition Against Insurance Fraud*



# Glossary

## Accelerated Death Benefit

Allows the owner to receive a percentage of the face amount of a policy if the insured is diagnosed as “terminally ill” or confined to a nursing home 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

An attachment that modifies certain policy benefits.

## Annuitant

The person who receives the annuity payments during his or her lifetime.

## Automatic Premium Loan

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

The person or entity who receives the insurance money when the insured dies.

## Benefit

The payment made by the insurance company in accordance with your policy.

## Cash Value (or Cash Surrender Value)

The money available to borrow as a life insurance policy loan or withdraw upon surrender of the policy before maturity.

## Churning

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

A system for comparing the 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.

## Disappearing (or Vanishing) Premiums

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

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

An addition to a policy that modifies its benefits.

## Evidence of Insurability

A signed health questionnaire or a physical examination, depending on a company's requirement.

## Excess Interest

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

## Extended Term Insurance

A nonforfeiture 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 "nonforfeiture options").

## Face Amount (Face Value)

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

A 14-day or longer period that allows you to decide whether to keep a life insurance policy. Annuities require a 21-day free-look period. You can receive a full refund if you change your mind during this period. Be sure to return the policy by certified mail (return receipt requested) within the freelook period to obtain the refund.

## Grace Period

A 30-day period in which you may pay an overdue premium while keeping your policy in force.

## Guaranteed Insurability

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

A policy terminated for nonpayment of premium following the grace period.

## Level Premium Insurance

A policy with a fixed payment plan over a specified period.

## Loading

Administrative fees you pay when buying life insurance or an annuity.

## Maturity

The period when the insurance contract becomes payable to the policyholder.

## Mortality Charge

The cost of a life insurance risk based upon a mortality table used by the insurance company.

## No-Lapse Guarantee

A feature of flexible premium (universal) life contracts that sets a minimum premium requirement for guaranteed death benefits.

## Nonforfeiture Options

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

Insurance on which you are paid no dividends.

## Participating Insurance

Insurance that entitles the policyholder to share in the company's surplus earnings.

## Policy Loan

The amount that you can borrow against a life insurance policy's cash value.

## Premium

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

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

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

A nonforfeiture 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

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

## Rider

An attachment to an insurance policy that adds benefits to the original contract for an additional cost.

## Stock Life Insurance Company

A publicly traded 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.

## Stock Mutual Life Insurance Company

A life insurance company owned by its policyholders, who elect a board of directors. Policyholders usually receive dividends from the company's surplus earnings.

## Surrender

Turning in a policy to the company in exchange for its cash value.

## Surrender Charge

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

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

The individual(s) who buys and agrees to a viatical purchase agreement contract.

## Viatical Settlement Contract

A written agreement between a viatical settlement provider and a policyholder (viator) that establishes terms under which the provider will pay the policyholder in exchange for the cancellation rights of the policyholder.

## Waiver of Surrender Charges

A policy provision allowing the annuitant or owner of an annuity to surrender the 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.

