

ANNUITIES LANGUAGE GLOSSARY

MAKING ANNUITIES EASIER
TO UNDERSTAND

Alliance for
Lifetime
Income



ANNUITIES LANGUAGE GLOSSARY

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The Alliance for Lifetime Income is a non-profit organization committed to educating consumers about the value and importance of protected income through annuities. Part of our commitment includes making the language of annuities simpler and more transparent.

We realize that annuities, like most other financial products, can be difficult to understand, which is why we've created a glossary of terms and definitions to help simplify and demystify some of the language used when describing annuities. We believe increasing transparency and reducing this complexity will help you make better decisions about annuities, which can lead to better outcomes in your retirement planning.

This is the second edition to our glossary, including additional terms and language from our first edition.

This glossary is intended to provide a general summary, in non-technical terms, of certain concepts relating to annuities. It is not intended to provide investment, legal or tax guidance, and should not be relied upon as such. You should consult with a financial advisor prior to making any investment decisions.

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ANNUITIES LANGUAGE GLOSSARY

MAKING ANNUITIES EASIER TO UNDERSTAND



ACCOUNT VALUE

The amount of money in the annuity.

Simpler term: Account balance

ACCUMULATION PHASE

The period that you are allowing your money the potential to grow. (Some annuities allow you to add more money over time.)

Simpler term: Growth stage

ADVISOR

A qualified person who can help you understand your options and make financial decisions to work toward your financial goals.

Simpler term: Financial professional

ANNUAL LOCK (when referencing fixed indexed annuities)

An opportunity to lock in, or protect, interest earned up to the annuity's caps each year, protecting those gains from any future index decreases.

ANNUITY

A financial product that can offer protected lifetime income and even potentially grow your money.

ANNUITY OWNER

A person who owns the annuity and has the authority to make any changes.

APPETITE FOR RISK

The level of market risk you're comfortable with.

Simpler term: Risk comfort level

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BENEFICIARY

The person you designate to receive any remaining account balance or income payments should you pass away.

BENEFIT

A feature that can provide benefits or protection to you or your beneficiaries at an additional cost.

Simpler term: *Optional benefit*

BENEFIT TO YOUR HEIRS

A benefit that pays your beneficiary the remaining account balance or income should you pass away.

Simpler term: *Beneficiary benefit*

BONUS

The ability to permanently adjust your income based on a pre-set guaranteed growth rate. This guaranteed growth rate is periodically applied to your benefit base (which is your income base plus any additional guaranteed growth increases), which permanently increases the benefit amount you receive.

Simpler term: *Guaranteed growth*



CAP

The maximum amount your annuity may be able to earn at the end of a selected time period. You choose the time period that's best for you from a set of available options.

CHARGE

The amounts associated with owning an annuity, which may include setting up the annuity, adding optional benefits, etc.

Simpler term: *Fee or Cost*

COMMISSION

The amounts associated with owning an annuity, which may include setting up the annuity, adding optional benefits, etc.

Simpler terms: *Fee or Cost*

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CONTRACT VALUE

The amount of money in the annuity.

Simpler term: Account balance

COST

The amounts associated with owning an annuity, which may include setting up the annuity, adding optional benefits, etc.

Simpler terms: Cost or Fee

COST BASIS

Your original investment amount.

COVERED PERSON(S)

The person who lifetime income payments are based on and whose age determines the guaranteed withdrawal rate.

Simpler term: Protected person(s)

COVERING YOUR [ESSENTIALS, BASIC NEEDS, NON-NEGOTIABLES]

Financial priorities that impact the objectives you set for how to save or spend your money during important life stages.

Simpler term: Financial needs and goals

CREDITING STRATEGY

The method used to determine how interest is credited to certain annuities, when applicable.



DEATH BENEFIT

A benefit that pays your beneficiary the remaining account balance or income should you pass away.

Simpler term: Beneficiary benefit

DECUMULATION PHASE

The point you start receiving income from your annuity.

Simpler term: Income stage

DEFERRAL BONUS

A bonus amount that could potentially be credited to your income base annually during the growth stage for each year you wait to take income, up to a certain age.

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DEFERRED INCOME ANNUITY (LONGEVITY ANNUITY)

A type of income annuity that allows you to contribute a lump sum, choose the frequency and amount you'd like to set for your annuity income payments, and then delay those payments until a pre-determined point in time.

DEGREE OF CERTAINTY

The level of market risk you're comfortable with.

Simpler term: Risk comfort level

DISCRETIONARY EXPENSES VS. NON-DISCRETIONARY EXPENSES

Two main types of retirement expenses: essential expenses cover everyday needs, such as housing and meals, and non-essential expenses cover your lifestyle, such as travel and entertainment.

Simpler term: Essential expenses vs. non-essential expenses

DISTRIBUTION PHASE

The point you start receiving income from your annuity.

Simpler term: Income stage

DIVERSIFICATION

Strategically spreading your money among different types of investments to help reduce the impact of market downturns. Diversification does not guarantee a profit or protection against a loss.

DOLLAR COST AVERAGE

A strategy to invest specified amounts spread out over a period of time, instead of one larger amount, to reduce the risk of investing all at once when prices are high.



EARNINGS SENSITIVE ADJUSTMENT

Additional income received on top of the guaranteed amount, or on top of any other permanent income increase. This additional income is based on the market performance rate, and allows you to add earnings to the amount of otherwise permissible withdrawals. This gives you the potential to take greater withdrawals and receive the same after-tax withdrawal amount annually.

Simpler term: Bonus income increase

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FAMILY PROTECTION

A benefit that pays your beneficiary the remaining account balance or income should you pass away.

Simpler term: Beneficiary benefit

FEE

The amounts associated with owning an annuity, which may include setting up the annuity, adding optional benefits, etc.

Simpler terms: Fee or Cost

FEE-BASED ANNUITY

An annuity that allows financial professionals to receive an annual advisory fee, rather than a commission.

FIDUCIARY

A qualified financial professional who is required to help you make financial decisions in your best interest. (A fiduciary is not the only type of financial professional required to help you make financial decisions in your best interest. Certain non-fiduciaries must also comply with best-interest requirements.)

FINANCIAL ADVISOR

A qualified person who can help you understand your options and make financial decisions to work toward your financial goals.

Simpler term: Financial professional

FINANCIAL CONSULTANT

A qualified person who can help you understand your options and make financial decisions to work toward your financial goals.

Simpler term: Financial professional

FINANCIAL EMPOWERMENT

The ability to cover your financial needs and reach your financial goals.

Simpler term: Financial security

FINANCIAL FUTURE

The ability to cover your financial needs and reach your financial goals.

Simpler term: Financial security

FINANCIAL INDEPENDENCE

The ability to cover your financial needs and reach your financial goals.

Simpler term: Financial security

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FINANCIAL PRIORITIES

Financial priorities that impact the objectives you set for how to save or spend your money during important life stages.

Simpler term: Financial needs and goals

FIXED ACCOUNT

An account that earns a guaranteed interest rate and is not invested in or tied to the market.

Simpler term: Fixed rate account

FIXED ANNUITY

An annuity that delivers 100% protection from market downturns with the potential for earned interest. Note that for a deferred fixed annuity, there is the benefit of a guaranteed interest rate, in addition to downside protection and the potential for earned interest.

FIXED INDEXED ANNUITY

An annuity that guarantees principal protection from market downturns with the potential for growth tied to a market index.

FREE AMOUNT

The maximum amount the annuity owner can withdraw without being charged any fees.

Simpler term: Free withdrawal amount



GROWTH PERIOD

The period that you are allowing your money the potential to grow. (Some annuities allow you to add more money over time.)

Simpler term: Growth stage

GUARANTEED INCOME

Income that can last your whole life — and potentially go to your beneficiaries.

Simpler term: Protected lifetime income

GUARANTEED MINIMUM

An optional benefit that guarantees a minimum amount the annuity will pay or grow by, assuming all contract terms are met by both the annuity owner and the company.

GUARANTEED MINIMUM WITHDRAWAL RATE

An optional benefit that guarantees you can withdraw a minimum percentage of your annuity's value annually, typically guaranteed for life or for a specified period of time.

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IMMEDIATE INCOME ANNUITY

A type of income annuity that allows you to contribute a lump sum, choose the frequency and amount you'd like to set for your annuity income payments, and then start receiving those payments immediately or delay receiving them for up to 12 months.

INCOME BASE

The amount that the annuity owner can withdraw money against.

INCOME STAGE

The point you start receiving income from your annuity.

INDEX

A benchmark used to represent a specific portion of a market in order to evaluate the performance of investments.

INDEX PARTICIPATION RATE

The percentage increase of the underlying index's value that will be credited to the annuity at the end of a selected time period.

INTEREST RATE FLOOR (when referencing fixed indexed annuities)

Your guaranteed minimum interest rate for a specified period of time, even during market downturns.

INVESTMENT DIVISIONS

The different investment options a variable annuity owner can choose to allocate their money to.

Simpler term: Variable annuity investment options

INVESTOR CONFIDENCE

The level of market risk you're comfortable with.

Simpler term: Risk comfort level



JOINT LIFE

An added protected person, usually a spouse, who can lengthen the benefit of guaranteed income for life if they outlive the primary protected person.

Simpler term: Joint protected person

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LEGACY

A benefit that pays your beneficiary the remaining account balance or income should you pass away.

Simpler term: Beneficiary benefit

LEGACY BENEFIT

A benefit that pays your beneficiary the remaining account balance or income should you pass away.

Simpler term: Beneficiary benefit

LEGACY PROTECTION BENEFIT

A benefit that pays your beneficiary the remaining account balance or income should you pass away.

Simpler term: Beneficiary benefit

LIFE CHANGES

Where you are in terms of your financial priorities and needs; for instance, growing your money or drawing from your money later in life.

Simpler term: Life stage

LIFE PRIORITIES

Financial priorities that impact the objectives you set for how to save or spend your money during important life stages.

Simpler term: Financial needs and goals

LIFE TRANSITION

Where you are in terms of your financial priorities and needs; for instance, growing your money or drawing from your money later in life.

Simpler term: Life stage

LIQUIDITY RISK

The risk that your money will need to be accessed sooner than anticipated, which could result in penalties or impact performance.

Simpler term: The risk you won't be able to access your money when you need it

LIVING BENEFITS

Optional benefits available for an additional cost that can offer you guarantees, like a minimum level of income for life.

Simpler term: Protected income benefits

LONGEVITY RISK

The chance that you may live longer than your income will last.

Simpler term: The risk you won't have enough money to last

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MARKET RISK

As with most investments, there is the chance you could lose money because of market downturns.

MARKET VALUE ADJUSTMENT

A positive or negative adjustment during the holding period to the amount you're able to withdraw from a fixed annuity above the free withdrawal amount. The adjustment is dependent on how the interest rate environment has changed since opening your account.

MARKET VOLATILITY

The way stocks, bonds and other market investments change in value, sometimes very quickly. This market movement may affect the value of your annuity or other investments. Some annuities can protect your income even when the markets go down.

Simpler term: Market ups and downs

MINIMUM GUARANTEED SURRENDER VALUE

The minimum amount the annuity owner is guaranteed to receive when withdrawing money from their account, after applying early withdrawal costs.

Simpler term: Minimum guaranteed annuity value



NEEDS AND WANTS

Financial priorities that impact the objectives you set for how to save or spend your money during important life stages.

Simpler term: Financial needs and goals



OPTION

A feature that can provide benefits or protection to you or your beneficiaries at an additional cost.

Simpler term: Optional benefit

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PARTICIPATION RATE

The percentage increase of the underlying index's value that will be credited to the annuity at the end of a selected time period.

Simpler term: Index performance crediting rate

PENALTY-FREE WITHDRAWAL AMOUNT

The maximum amount the annuity owner can withdraw without being charged any fees.

Simpler term: Free withdrawal amount

PERFORMANCE TRIGGER

A pre-set amount credited to your account if the annuity's underlying index change is positive or flat at the end of the term.

Simpler term: Performance credit

PERIOD CERTAIN

A payout option that allows the annuity owner to choose when and how long to receive payments, which beneficiaries may also be able to receive.

PREMIUM

For most annuity types, this is the money you put into the annuity.

Simpler term: Annuity contribution

PRICE

The amounts associated with owning an annuity, which may include setting up the annuity, adding optional benefits, etc.

Simpler terms: Fee or Cost

PRODUCT

What you use to pursue your specific financial goal.

Simpler terms: Product or Strategy

PURCHASE PAYMENTS

For most annuity types, this is the money you put into the annuity.

Simpler term: Annuity contribution

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QUALIFIED DOLLARS (when referencing annuities)

Money that hasn't been taxed yet can be used to fund annuities connected to tax-qualified retirement plans, such as 401(k)s.

Simpler term: Pre-tax dollars

QUALIFIED MONEY (when referencing annuities)

Money that hasn't been taxed yet can be used to fund annuities connected to tax-qualified retirement plans, such as 401(k)s.

Simpler term: Pre-tax dollars



REQUIRED MINIMUM DISTRIBUTION

The amount of income that you're required to receive from your account each year, once you reach retirement age.

RETIREMENT

Where you are in terms of your financial priorities and needs; for instance, growing your money or drawing from your money later in life.

Simpler term: Life stage

RETIREMENT GOALS

Financial priorities that impact the objectives you set for how to save or spend your money during important life stages.

Simpler term: Financial needs and goals

RIDER

A feature that can provide benefits or protection to you or your beneficiaries at an additional cost.

Simpler term: Optional benefit

RISK-ADJUSTED RETURNS

An estimated measure of the returns relative to the amount of risk involved.

Simpler term: Estimated performance

RISK APPROPRIATENESS

The level of market risk you're comfortable with.

Simpler term: Risk comfort level

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RISK TOLERANCE

The level of market risk you're comfortable with.

Simpler term: Risk comfort level

ROLL-UP

The ability to permanently adjust your income based on a pre-set guaranteed growth rate. This guaranteed growth rate is periodically applied to your benefit base (which is your income base plus any additional guaranteed growth increases), which permanently increases the benefit amount you receive.

Simpler term: Guaranteed growth



SAVING FOR RETIREMENT

Financial priorities that impact the objectives you set for how to save or spend your money during important life stages.

Simpler term: Financial needs and goals

SEQUENCE OF RETURNS RISK

The potential for a market downturn early in retirement, which can have a disproportionately negative impact on your long-term account balance if withdrawals are already being taken.

SOLUTION

What you use to pursue your specific financial goal.

Simpler terms: Strategy or Product

SPENDING PHASE

The point you start receiving income from your annuity.

Simpler term: Income stage

SPOUSAL CONTINUATION

An option to transfer ownership or continuation of your guaranteed income to your spouse in the event you pass away.

SPREAD

An index crediting method where a pre-determined rate is subtracted from any percentage increase in the underlying index and the annuity is credited the difference.

STRATEGY

What you use to pursue your specific financial goal.

Simpler terms: Strategy or Product

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SUBACCOUNTS

The different investment options a variable annuity owner can choose to allocate their money to.

Simpler term: Variable annuity investment options

SUSTAINABLE WITHDRAWAL RATE

The estimated maximum percentage that you can withdraw each period without running out of money during your lifetime.



VARIABLE ANNUITY

A financial product that offers the potential to grow your money through various market investment options, but with the potential for market loss — with the option of receiving protected lifetime income.

VARIABLE PORTFOLIOS

The different investment options a variable annuity owner can choose to allocate their money to.

Simpler term: Variable annuity investment options

VEHICLE

What you use to pursue your specific financial goal.

Simpler terms: Strategy or Product



WAIVER

A feature that can provide benefits or protection to you or your beneficiaries at an additional cost.

Simpler term: Optional benefit

WITHDRAWAL BASE

The amount that the annuity owner can withdraw money against.

Simpler term: Income base

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