

A Fresh Look at the Variable Annuity

Many investing pundits criticize **variable annuities** as the ugly ducklings of the investing world. Critics often claim that the tax benefits may not be to your advantage and that fees are expensive. However, for long-term investors who have taken advantage of their employer-sponsored retirement plans and are planning for retirement income, variable annuities remain a viable option. They offer investors a range of investment options with varying levels of risk, professional management, tax deferral, a variety of income payout options, and guaranteed death benefits.

“Taxing” Issues

One of the main bones of contention for critics of variable annuities is the issue of taxation. Income earnings from a variable annuity are taxed as ordinary income, rather than as long-term **capital gains**. However, because variable annuities are designed to help investors prepare for retirement, funds have the potential to grow on a *tax-deferred* basis. Therefore, any investment gain will accumulate free of current income tax and be reinvested, which can have a significant, favorable effect on the growth of your funds over the long term. When withdrawn or annuitized, gains will be taxed as ordinary income.

Variable annuities offer a variety of investment options. Based on your time horizon and risk tolerance, you can allocate your money to professionally managed subaccounts that invest in stocks, bonds, and fixed-interest instruments. The value of your annuity will fluctuate based on your payments and the performance of the underlying subaccounts. Because of this, your subaccount values, when redeemed, may be worth more or less than their original cost. With a variable annuity, you may transfer funds between investment options *free* of tax, although company charges may apply. This favorable tax treatment can help you manage your money considering the best interests of your retirement without worrying about the current tax implications of capital gains.

Unless you are investing in an annuity through a qualified retirement plan, your payments will be made with *after-tax* dollars and are not subject to contribution limits or income restrictions. Annuities that are part of a qualified retirement plan offer no additional tax deferral benefits.

The “Benefit” of Death Benefits

Investors with their sights set on retirement often factor their portfolios into their estate plans, and variable annuities offer guaranteed death benefits. In the event an annuitant dies before receiving annuity payouts, the chosen beneficiaries will receive the greater of the value of the account or the amount invested. Some variable annuities offer an additional feature—a **“stepped-up”** death benefit, which secures investment gains on a set schedule and guarantees a death benefit equal to the stepped-up amount. There is generally an extra annual fee for this benefit.

In addition to favorable tax treatment and guaranteed death benefits, variable annuities offer investors a variety of payout options, including potential income for life. With current trends indicating that individuals will be increasingly responsible for funding their own retirement, variable annuities provide investors with an opportunity to build and preserve wealth.

Variable annuities are offered by prospectus only, which is available from your registered representative. You should carefully consider the product’s features, risks, charges and expenses, and the investment objectives; risks and policies of the underlying portfolios; and other information about the underlying funding choices. The amounts allocated to the variable investment options of your account balance are subject to market fluctuations so that, when withdrawn or annuitized, they may be worth more or less than their original value. The principal value and rate of return in a variable annuity will fluctuate due to market conditions. Therefore, at any point in time, the value of the annuity contract may be worth more or less than the owner’s actual investment in the contract. There is no guarantee that any of the variable options in this product will meet their stated goals or objectives. This and other information is available in the prospectus, which you should read carefully before investing. Product availability and features may vary by state. All product guarantees are based on the claims-paying ability of the issuing insurance company.

In addition to sales and surrender charges, variable annuities may impose a variety of fees, including mortality and expense risk charges, administrative fees, underlying fund expenses, and charges for special features, such as stepped-up death benefits.

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