The Variable Annuity Edge
Glossary: Language of variable annuities
A variable annuity (VA) is a long-term, tax-deferred investment designed to help investors save for retirement. It’s important to understand this information about VAs:

- VAs typically offer optional benefits or features that may incur additional costs.
- Product guarantees associated with a VA are subject to the claims-paying ability of the issuing life insurance company.
- VAs involve investment risk and can lose value.
- VA earnings are taxable as ordinary income when distributed and, if withdrawn prior to age 59½, may be subject to a 10% federal tax penalty.

This glossary will help you understand the language of VAs.

**1035 exchange**
A tax-free exchange of an existing VA contract for a new one that may offer more appropriate features for the owner's circumstances, such as a larger death benefit. Surrender charges may apply.

**Account value**
The amount of money in subaccounts. The value increases with additional premiums and investments gains, and it decreases with withdrawals, investment losses and fees.

**Accumulation phase**
The phase of a VA contract during which assets accumulate tax deferred from the owner’s lump sum payment or premium payments and reinvested interest, capital gains and dividends.
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<th>Term</th>
<th>Definition</th>
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<td><strong>Accumulation unit</strong></td>
<td>A share in a separate account held by issuing insurance companies to invest in subaccounts for VA contract owners.</td>
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<td><strong>Annuitant</strong></td>
<td>The person whose life expectancy determines the amount of VA payments or the person who receives annuity payments.</td>
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<td><strong>Annuitization</strong></td>
<td>The process of converting an annuity investment into a series of periodic income payments, generally for life.</td>
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<td><strong>Annuity unit value</strong></td>
<td>The measurement that determines the VA payment amount.</td>
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<td><strong>Assumed interest rate (AIR)</strong></td>
<td>The interest rate designated by an insurance company to help determine the value of an annuity contract.</td>
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<td><strong>Beneficiary</strong></td>
<td>The person designated by the VA owner to receive payments that may be due when the owner dies.</td>
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<td><strong>Benefit base</strong></td>
<td>A hypothetical amount (not actual cash value) used to calculate the owner’s optional benefits within a VA. A benefit base cannot be withdrawn for cash and is used solely to calculate the VA's optional guarantees.</td>
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<td><strong>Cash surrender value</strong></td>
<td>The amount an insurance company pays (minus any surrender charge) to the VA owner when the contract is voluntarily terminated prematurely.</td>
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Contingent deferred sales charge (CDSC)
A fee charged on the early withdrawal of funds from a VA, generally ranging between 5% and 7% during the first year and declining to zero over several years.

Death benefit
A benefit that guarantees the beneficiary receives either the amount invested, adjusted for withdrawals, or the contract value (whichever is greater) should the VA owner die.

Deferred annuity
An annuity purchased with premiums paid either over a period of years or as a lump sum, during which savings accumulate, in return for a future lump sum or periodic payments for a specific length of time or for life.

Dollar cost averaging\(^1\) (VA)
A strategy that may enable VA holders to pay less per unit than a one-time purchaser by adding regular contributions to the annuity as new purchases or by having previously contributed funds invested in one or more subaccounts at regular intervals.

Dollar-for-dollar withdrawal (VA)
A method of calculating the reduction of a VA benefit base after a withdrawal in which the benefit is reduced by one dollar for every dollar withdrawn.

Enhanced death benefit
An optional benefit (available for an additional cost) that locks in investment gains annually, or every few years, or pays a minimum stated interest rate on purchase payments to the beneficiary.

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1 Dollar cost averaging does not guarantee a profit or eliminate the risk of loss. Investors should consider their ability to continue investing regardless of fluctuating security prices.
**Equity-indexed annuity**
An annuity linked to a specific stock index, such as the S&P 500 Index; the index returns determine the interest credited to the annuity's value.

**Fixed account (fixed investment option)**
An option that enables a VA owner to allocate a portion of or all premium payments to a part of an insurance company's general account in return for a guaranteed minimum interest rate.

**Fixed annuity**
An annuity that guarantees a set annual rate of return for a specified period of time.

**Free-look period**
The time period (usually 10 days) during which a VA purchaser may cancel the contract and receive a refund according to contract terms and state regulations.

**General account**
All insurance company assets not allocated to separate accounts.

**Guaranteed lifetime withdrawal benefit (GLWB)**
An optional benefit (available for an additional cost) that guarantees the contract holder can withdraw a specified percentage (generally 4% to 5%) of a guaranteed benefit base annually for the duration of the contract holder’s life, regardless of account performance. Also called guaranteed withdrawal benefit for life (GWBL) and Guaranteed Minimum Withdrawal Benefit for Life (GMWBL).

**Guaranteed minimum accumulation benefit (GMAB)**
An optional benefit (available for an additional cost) that guarantees the VA holder will receive a minimum contract value after the accumulation period or other specified number of years.

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1 The S&P 500® Index is an unmanaged index considered representative of the US stock market.
Guaranteed minimum death benefit (GMDB)
An optional benefit (available for an additional cost) that guarantees the beneficiary an extra amount based on step-ups and/or investment performance, adjusted for withdrawals, should the VA owner die.

Guaranteed minimum income benefit (GMIB)
An optional benefit (available for an additional cost) that guarantees a minimum income stream for life after a specified number of years; income payments are calculated on the greater of the VA account value or a payout base benefit amount comprising premiums plus a predetermined interest rate.

Guaranteed minimum withdrawal benefit (GMWB)
An optional benefit (available for an additional cost) that guarantees the VA owner can annually withdraw a specific percentage (typically 5% to 7%) of a guaranteed benefit base until the owner receives the entire amount of the base, regardless of account performance.

Immediate annuity
A type of annuity for which the owner pays a lump sum and receives periodic payments immediately or soon after purchase.

Insurance company ratings
A system that assigns ratings to life, general and reinsurance companies based on underwriting, expense control, reserve adequacy and investments. A.M. Best, Fitch, Moody’s and Standard and Poor’s¹ provide independent evaluations of the financial strength and claims-paying ability of life insurance companies. While ratings can be objective indicators of an insurance company’s financial strength and can provide a relative measure to help select from among insurance companies, they are not guarantees of future financial strength and/or claims-paying ability of a company and do not apply to any underlying variable investment options.

¹ Invesco Distributors, Inc. is not affiliated with A.M. Best, Fitch, Moody’s or Standard and Poor’s.
Investment-only variable annuity (IOVA)
Variable annuities without living benefits, otherwise known as investment-only variable annuities, or IOVAs. This product was popular during the 1980s and is relevant again due to providers seeking tax-deferral options. The current generation of IOVAs generally offers more diversified lineups, spanning more asset classes.

Joint and survivor annuity
A type of annuity issued on two annuitants that continues payments for the lifetimes of both.

Level annuity payments
VA contract payments that remain the same for a guaranteed period, adjust according to investment performance and remain at the adjusted level for a guaranteed period of the same duration.

Life annuity
A type of annuity that guarantees payments for the annuitant’s lifetime.

Living benefits
Optional benefits (available at additional cost) that guarantee that the owner will get back at least his original investment when the money is withdrawn.

Mortality and expense risk fee
A fee charged by insurance companies to compensate for the risk they take by issuing VA contracts.

Partial withdrawal
Withdrawal of an amount less than the entire cash surrender value of a VA.
**Payout phase**
Phase of a VA contract that begins when the owner receives money as either a lump sum payment or annuitized periodic payments.

**Period certain**
Type of annuity that guarantees payments to the annuitant for a specified time period and to the beneficiary if the annuitant dies before the period ends.

**Premiums (purchase payments)**
Money paid into an annuity contract.

**Pro-rata withdrawal (VA)**
A method of calculating the reduction of a VA benefit base after a withdrawal in which the benefit is reduced by the same percentage as the percentage of the withdrawal; for example, a 20% withdrawal of the money reduces the death benefit by 20%.

**Pure life annuity (straight life annuity)**
Type of annuity that ceases payments upon the annuitant’s death.

**Qualified annuity**
Type of annuity funded with pretax dollars as part of a tax-advantaged retirement savings vehicle, such as a 401(k) plan.

**Ratchet guaranteed minimum death benefit**
An optional enhanced death benefit (available at additional cost) equal to premium payments less prior withdrawals or the contract value on a specified prior date, whichever is greater.

**Rider**
An optional feature or benefit that a VA contract holder can purchase at additional cost.
**Roll-up rate**
The guaranteed percentage that the benefit base increases by each year.

**Separate account**
An insurance company account, segregated from the general account, that holds the VA contract assets or subaccount investments.

**Step up**
An optional VA feature (available at additional cost) that can increase the benefit base amount if the VA account value is higher than the benefit base on specified dates.

**Subaccount**
An investment option offered in VA contracts. Subaccounts can be actively or passively managed and invest in stock, bond or money market portfolios.

**Surrender charge**
A fee paid by a VA contract owner for withdrawal of an amount that exceeds a specific percentage or for cancellation of the contract within a specified amount of time after purchase.

**Tax-deferral**
An investment with earnings such as interest, dividends or capital gains that accumulate tax free until the investor withdraws and takes possession of them. The most common types of tax-deferred investments include those in individual retirement accounts (IRAs) and deferred annuities.

**Variable annuity**
A type of annuity that offers guaranteed periodic payments for a defined period of time or for life and gives purchasers the ability to invest in various markets through the underlying investment options (also called subaccounts), which may result in potentially higher, but variable, returns.
Diversification does not guarantee a profit or eliminate the risk of loss.

Note: Not all products, materials or services available at all firms. Advisors, please contact your home office.

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This glossary is not intended to be legal or tax advice. Rather, it is intended only as a general summary, in nontechnical terms, of certain basic concepts applicable to variable annuities. It is not intended to provide a comprehensive discussion of variable annuities. Consult your tax advisor. Annuity benefits and features vary, so you should carefully consider whether this product is right for you. Some benefits may incur additional costs. All contract and rider guarantees, including optional benefits and any fixed subaccount crediting rates or annuity payout rates, are backed by the claims-paying ability of the issuing insurance company.