VA101

The Language of variable annuities

What is a variable annuity?

+ A variable annuity (VA) is a long-term, tax-deferred investment vehicle designed to provide investors with a way to accumulate funds and then distribute those funds as income during retirement.
+ Many VAs offer a wide range of investment options that may align with an investor's personal investment objectives.
+ Much like an IRA, VA earnings are taxable as ordinary income when distributed. If funds are withdrawn prior to age 59½ a pre-mature withdrawal penalty may be assessed.[1]

Variable annuity glossary

This glossary is intended to help investors understand the language associated with variable annuities (VA) and provide a clear image of the product and its features.

1035 exchange
A tax-free exchange of an existing variable annuity contract for a new variable annuity contract that should be beneficial to the contract owner. The new contract may offer new, more appropriate, or lower cost features more suitable for the client. Surrender charges may apply.

Account value
The amount of money in the underlying annuity subaccounts. The value of the subaccounts can increase and decrease due to market fluctuation, account withdrawals or additional premiums paid.

Accumulation phase
The phase of a VA contract during which assets accumulate tax deferred.

Accumulation unit
A share in the issuing insurance companies separate account used to invest in subaccounts inside the VA contract during the accumulation phase.

Annuitant
A person who collects the benefits of an annuity. They could be the contract holder or another person designed by the contract holder.

Annuitization
The process of converting an annuity investment into a series of periodic income payments. Contracts may be annuitized for a specific period of time or for the life of the annuitant.

Annuity unit value
The measurement that determines the VA payment amount.

Assumed interest rate (AIR)
The interest rate designated by an insurance company to help determine the value of an annuity contract. It is the minimum interest rate that must be earned on the investments in contracts account in order to maintain specified payment levels.

Beneficiary
The person designated by the VA owner to receive any payments that may be due when the owner dies.

Cash surrender value
The amount an insurance company pays (minus any surrender charge if applicable) to the VA owner when the contract is voluntarily terminated prematurely.

Contingent deferred sales charge (CDSC)
A fee deducted from the cash value of the contract if you surrender (terminate) the contract before the end of the surrender charge period.

Death benefit
A benefit that pays the contract's beneficiary a guaranteed specified amount if the annuitant dies.

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.

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.

Free-look period
The time period (usually 10–30 days) during which a VA purchaser may cancel the contract and receive a refund according to contract terms and state regulations.

Why invest in a variable annuity?

+ When planning for income needs during retirement, investors may include a VA as a portion of their overall retirement portfolio, as it is commonly used to provide guaranteed lifetime income[2].
+ A VA can be customized to each individual client's needs by adding optional contract riders, usually for an additional cost, such as different income and death benefits.
+ VAs are often included in an overall retirement plan to provide income (sometimes viewed as a "paycheck") that may help cover any potential income gaps between social security payments and monthly retirement income needs.

General account
The account in which policy premium payments are deposited and aggregated. It is used as a loss reserve and also to fund day-to-day operations of the business.

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.

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.

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's[3] 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.

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/her 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. This is also known as the core contract charge.

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 their purchase payments plus income and gains as either a lump sum payment or as a stream of payments at regular intervals.

Period certain
Type of annuity payout option 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.

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

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

Rider
An optional feature or benefit that a VA contract holder can purchase.

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 an additional cost) that can increase the death benefit amount. When the value of the investment rises, the new higher amount can be locked in, and that becomes the new guaranteed death benefit.

Subaccount
The separate account into which VA premiums are placed. This account allows contract holders to allocate their money across the investment options available on the VA platform.

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. No taxes are paid on the income and/or gains in the contract until the money is withdrawn. Transfers from one investment option into another investment option inside of the annuity are also tax-deferred at the time of the transfer.

Find out more

If you are an investor seeking more information, please speak with your financial advisor. Advisors, contact your Invesco representative in the Third Party Sales Division at 800 410 4246 to learn how we can help you help your clients.

1 Invesco does not offer tax advice. Please consult your tax adviser for information regarding your own personal tax situation.
2 Product guarantees associated with a VA contract are subject to the claims-paying ability of the issuing life insurance company. VAs involve investment risk and can lose value.
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