



# ANNUITIES LANGUAGE GLOSSARY

MAKING ANNUITIES EASIER TO UNDERSTAND



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.

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Guarantees associated with annuities are subject to the claims-paying ability of the issuing insurance company. 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 terms: Fee or Cost**

### **COMMISSION**

Similar to other financial products, commissions are compensation paid by an insurance company to a financial professional who sells an annuity to a client.

**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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