



# ANNUITIES LANGUAGE GLOSSARY I

MAKING ANNUITIES EASIER TO UNDERSTAND

# 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 lifetime 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 Language Glossary to help demystify some of the language used when describing annuities. We believe reducing this complexity will help you make better decisions about annuities, which can lead to better outcomes in your retirement planning.

This is version I of the glossary, which we expect to refine and expand in the future to include additional terms and language.

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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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\*The extent to which Protected Lifetime Income is guaranteed will depend upon the claims-paying ability of the insurer that issues the annuity.

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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

Related term: Contract value

## 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

Related term: Growth period

## 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

Related terms: Financial advisor, Financial consultant

## ANNUITANT

A person who will receive the income payments from an annuity. (They could be the direct owner of the annuity or another person chosen by the direct owner, and they are the person whose lifetime income the payments are based on.)

Simpler term: Annuity owner

## ANNUITIZE

When you turn your current account balance into a series of periodic income payments, either for a specific period of time or for your whole life.

## ANNUITY

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

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## **APPETITE FOR RISK**

The level of market risk you're comfortable with.

Simpler term: Risk comfort level

Related terms: Risk tolerance, Degree of certainty, Risk appropriateness, Investor confidence



## **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

Related terms: Rider, Waiver, Option

## **BENEFIT TO YOUR HEIRS**

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

Simpler term: Beneficiary benefit

Related terms: Death benefit, Legacy benefit, Legacy, Legacy protection benefit, Family protection

## **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

Related term: Roll-up



## **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.

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## **CHARGE**

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

Simpler term: Fee or Cost

Related terms: Price, Commission

## **CO-OWNER OPTION**

An optional benefit that offers guaranteed withdrawals for life for both you and a loved one.

Simpler term: Joint income option

Related terms: Joint option, Spousal option, Income for two, Joint guaranteed lifetime withdrawal benefit, Joint protected lifetime withdrawal benefit

## **COMMISSION**

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

Simpler terms: Fee or Cost

Related terms: Price, Charge

## **CONTRACT VALUE**

The amount of money in the annuity.

Simpler term: Account balance

Related term: Account value

## **COST**

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

Simpler terms: Cost or Fee

Related terms: Price, Charge, Commission

## **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

Related terms: Retirement goals, Life priorities, Needs and wants, Saving for retirement

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## **DEATH BENEFIT**

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

Simpler term: Beneficiary benefit

Related terms: Legacy benefit, Benefit to your heirs, Legacy, Legacy protection benefit, Family protection

## **DECUMULATION PHASE**

The point you start receiving income from your annuity.

Simpler term: Income stage

Related terms: Distribution phase, Spending phase

## **DEFERRAL BONUS**

A bonus amount that could potentially be added to your annuity for each year you wait to take income. This allows for the annuity to remain in the stage where growth is possible. Typically, this bonus is added each year, up to a certain age.

## **DEFERRED ANNUITY**

A type of annuity that delays payments until you choose to receive them, while providing an opportunity for growth or income during the deferral period. Payments can be installment or lump-sum.

## **DEGREE OF CERTAINTY**

The level of market risk you're comfortable with.

Simpler term: Risk comfort level

Related terms: Risk tolerance, Appetite for risk, Risk appropriateness, Investor confidence

## **DISTRIBUTION PHASE**

The point you start receiving income from your annuity.

Simpler term: Income stage

Related terms: Decumulation phase, Spending phase

## **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.

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## **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



## **FAMILY PROTECTION**

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

Simpler term: Beneficiary benefit

Related terms: Death benefit, Legacy benefit, Benefit to your heirs, Legacy, Legacy protection 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

Related terms: Charge, Price, 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

Related terms: Advisor, Financial consultant

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## **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

Related terms: Financial advisor, Advisor

## **FINANCIAL EMPOWERMENT**

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

Simpler term: Financial security

Related terms: Financial independence, Financial future

## **FINANCIAL FUTURE**

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

Simpler term: Financial security

Related terms: Financial empowerment, Financial independence

## **FINANCIAL INDEPENDENCE**

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

Simpler term: Financial security

Related terms: Financial empowerment, Financial future

## **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

Related terms: Retirement goals, Life priorities, Needs and wants, Saving for retirement, Covering your [essentials, basic needs, non-negotiables]

## **FINANCIAL PROFESSIONAL**

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

Related terms: Financial advisor, Advisor, Financial consultant

## **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.

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## **FIXED INDEXED ANNUITY**

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



### **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

Related term: Accumulation phase

### **GUARANTEED LIFETIME INCOME**

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

Simpler term: Protected lifetime income



### **IMMEDIATE ANNUITY**

An annuity that begins paying out guaranteed income within one year after the date of purchase, either for life or for a selected time period.

### **INCOME BASE**

The amount that the annuity owner can withdraw money against.

Related term: Withdrawal base

### **INCOME FOR TWO**

An optional benefit that offers guaranteed withdrawals for life for both you and a loved one.

Simpler term: Joint income option

Related terms: Joint option, Spousal option, Co-owner option, Joint guaranteed lifetime withdrawal benefit, Joint protected lifetime withdrawal benefit

### **INCOME STAGE**

The point you start receiving income from your annuity.

Related terms: Distribution phase, Decumulation phase, Spending phase

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## **INDEX PARTICIPATION RATE**

For some indexed annuities, if the underlying index value increases, you receive a portion of that increase. This is called the participation rate. For example, if the market went up 10% and the annuity's participation rate was 80%, the annuity would be credited with an 8% return (80% of the gain).

## **INVESTMENT DIVISIONS**

The underlying investment choices available in a variable annuity. These typically include stock, bond and money market funds.

Simpler term: Annuity investment options

Related term: Subaccounts

## **INVESTOR CONFIDENCE**

The level of market risk you're comfortable with.

Simpler term: Risk comfort level

Related terms: Risk tolerance, Appetite for risk, Degree of certainty, Risk appropriateness



## **JOINT GUARANTEED LIFETIME WITHDRAWAL BENEFIT**

An optional benefit that offers guaranteed withdrawals for life for both you and a loved one.

Simpler term: Joint income option

Related terms: Joint option, Spousal option, Income for two, Co-owner option, Joint protected lifetime withdrawal benefit

## **JOINT OPTION**

An optional benefit that offers guaranteed withdrawals for life for both you and a loved one.

Simpler term: Joint income option

Related terms: Spousal option, Income for two, Co-owner option, Joint guaranteed lifetime withdrawal benefit, Joint protected lifetime withdrawal benefit

## **JOINT PROTECTED LIFETIME WITHDRAWAL BENEFIT**

An optional benefit that offers guaranteed withdrawals for life for both you and a loved one.

Simpler term: Joint income option

Related terms: Joint option, Spousal option, Income for two, Co-owner option, Joint guaranteed lifetime withdrawal benefit

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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

Related terms: Death benefit, Legacy benefit, Benefit to your heirs, Legacy protection benefit, Family protection

## **LEGACY BENEFIT**

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

Simpler term: Beneficiary benefit

Related terms: Death benefit, Legacy, Benefit to your heirs, Legacy protection benefit, Family protection

## **LEGACY PROTECTION BENEFIT**

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

Simpler term: Beneficiary benefit

Related terms: Death benefit, Legacy benefit, Benefit to your heirs, Legacy, Family protection

## **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

Related terms: Retirement, Life transition

## **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

Related terms: Retirement goals, Needs and wants, Saving for retirement, Covering your [essentials, basic needs, non-negotiables]

## **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

Related terms: Retirement, Life changes

## **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

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## **LIVING BENEFITS**

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

Simpler term: Guaranteed 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



## **MARKET RISK**

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

## **MARKET VALUE ADJUSTMENT**

You can permanently increase the amount in the annuity you can withdraw money from (your income base) when the account balance, or total amount of money in the annuity, exceeds a certain level. This may occur on an annual or daily basis, depending on the annuity.

Simpler term: Income base lock-in

Related terms: Market value step up, Market value increase, Permanent income base increase

## **MARKET VALUE INCREASE**

You can permanently increase the amount in the annuity you can withdraw money from (your income base) when the account balance, or total amount of money in the annuity, exceeds a certain level. This may occur on an annual or daily basis, depending on the annuity.

Simpler term: Income base lock-in

Related terms: Market value step up, Market value adjustment, Permanent income base increase

## **MARKET VALUE STEP UP**

You can permanently increase the amount in the annuity you can withdraw money from (your income base) when the account balance, or total amount of money in the annuity, exceeds a certain level. This may occur on an annual or daily basis, depending on the annuity.

Simpler term: Income base lock-in

Related terms: Market value adjustment, Market value increase, Permanent income base increase

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## 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

## MONEY PAID INTO A CONTRACT

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

Simpler term: Annuity contribution

Related terms: Premium, Purchase payments



## 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

Related terms: Retirement goals, Life priorities, Saving for retirement, Covering your [essentials, basic needs, non-negotiables]



## OPTION

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

Simpler term: Optional benefit

Related terms: Rider, Benefit, Waiver

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## **PAYMENT(S)**

Amount of income paid to you with a set frequency.

Simpler term: Income payments

Related term: Payout

## **PAYOUT**

Amount of income paid to you with a set frequency.

Simpler term: Income payments

Related term: Payment(s)

## **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.

## **PERMANENT INCOME BASE INCREASE**

You can permanently increase the amount in the annuity you can withdraw money from (your income base) when the account balance, or total amount of money in the annuity, exceeds a certain level. This may occur on an annual or daily basis, depending on the annuity.

Simpler term: Income base lock-in

Related terms: Market value step up, Market value adjustment, Market value increase

## **PREMIUM**

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

Simpler term: Annuity contribution

Related terms: Purchase payments, Money paid into a contract

## **PRICE**

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

Simpler terms: Fee or Cost

Related terms: Charge, Commission

## **PRODUCT**

What you use to pursue your specific financial goal.

Simpler terms: Product or Strategy

Related terms: Vehicle, Solution

## **PROTECTED LIFETIME INCOME**

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

Related term: Guaranteed lifetime income

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## **PURCHASE PAYMENTS**

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

Simpler term: Annuity contribution

Related terms: Premium, Money paid into a contract



## **QUALIFIED OR NON-QUALIFIED DEDUCTION**

When you purchase an annuity, you can choose to have taxes deducted either when you receive the money from your annuity (qualified) or when you invest the money in your annuity (non-qualified).

Simpler term: Funded with pre-tax or post-tax dollars



## **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

Related terms: Life transition, Life changes

## **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

Related terms: Life priorities, Needs and wants, Saving for retirement, Covering your [essentials, basic needs, non-negotiables]

## **RIDER**

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

Simpler term: Optional benefit

Related terms: Benefit, Waiver, Option

## **RISK APPROPRIATENESS**

The level of market risk you're comfortable with.

Simpler term: Risk comfort level

Related terms: Risk tolerance, Appetite for risk, Degree of certainty, Investor confidence

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## **RISK TOLERANCE**

The level of market risk you're comfortable with.

Simpler term: Risk comfort level

Related terms: Risk appropriateness, Appetite for risk, Degree of certainty, Investor confidence

## **RISK-ADJUSTED RETURNS**

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

Simpler term: Estimated performance

## **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

Related term: Bonus



## **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

Related terms: Retirement goals, Life priorities, Needs and wants, Covering your [essentials, basic needs, non-negotiables]

## **SOLUTION**

What you use to pursue your specific financial goal.

Simpler terms: Strategy or Product

Related term: Vehicle

## **SPENDING PHASE**

The point you start receiving income from your annuity.

Simpler term: Income stage

Related terms: Distribution phase, Income stage, Decumulation phase

## **SPOUSAL CONTINUATION**

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

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## **SPOUSAL OPTION**

An optional benefit that offers guaranteed withdrawals for life for both you and a loved one.

Simpler term: Joint income option

Related terms: Joint option, Income for two, Co-owner option, Joint guaranteed lifetime withdrawal benefit, Joint protected lifetime withdrawal benefit

## **STRATEGY**

What you use to pursue your specific financial goal.

Simpler terms: Strategy or Product

Related terms: Vehicle, Solution

## **SUBACCOUNTS**

The underlying investment choices available in a variable annuity. These typically include stock, bond and money market funds.

Simpler term: Annuity investment options

Related term: Investment divisions

## **SURRENDER**

An amount you pay if you withdraw a certain amount of money from your annuity before the end of a set time period. For example, your annuity may allow you to withdraw up to 10% of your income base within a period of time. If you withdraw more than 10% during this time, you would be charged a fee.

Simpler term: Early withdrawal fee

Related terms: Surrender charge, Withdrawal

## **SURRENDER CHARGE**

An amount you pay if you withdraw a certain amount of money from your annuity before the end of a set time period. For example, your annuity may allow you to withdraw up to 10% of your income base within a period of time. If you withdraw more than 10% during this time, you would be charged a fee.

Simpler term: Early withdrawal fee

Related terms: Surrender, Withdrawal

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## **VARIABLE ANNUITY**

A financial product that offers the potential to grow your money through various market investment options and that can provide income during retirement. These annuities may offer optional benefits, available at an additional cost, that can protect your lifetime income from market downturns, combined with potential growth.

## **VEHICLE**

What you use to pursue your specific financial goal.

Simpler terms: Strategy or Product

Related term: Solution



## **WAIVER**

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

Simpler term: Optional benefit

Related terms: Rider, Benefit, Option

## **WITHDRAWAL**

An amount you pay if you withdraw a certain amount of money from your annuity before the end of a set time period. For example, your annuity may allow you to withdraw up to 10% of your income base within a period of time. If you withdraw more than 10% during this time, you would be charged a fee.

Simpler term: Early withdrawal fee

Related terms: Surrender, Surrender charge

## **WITHDRAWAL BASE**

The amount that the annuity owner can withdraw money against.

Simpler term: Income base

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