

Annuity Basic Training Manual



GUARANTY

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BRIEF HISTORY OF ANNUITIES

Annuities were invented by Babylonian landowners in approximately 1700 B.C. They set aside the income from a specific piece of farmland to reward soldiers or loyal assistants for the rest of their lives. Today's annuities substitute cash for farmland; however the concept is the same.

Annuities were first sold in the United States in 1770, about ten years after the first life insurance company in the United States, the Presbyterian Ministers Fund, was founded in 1759. These survivorship annuities were issued by church corporations for the benefit of ministers and their families.

MODERN ANNUITIES

Annuities have grown on a tax-deferred basis since enactment of the Federal Income Tax Code in 1913. They began to gain widespread acceptance in the early 1980s when interest rates credited exceeded 10%. During the last two decades, annuities have been the fastest growing sector of premiums for life insurance companies.

DEFINITION OF AN ANNUITY

An annuity is a legal contract between an insurance company and the owner of the contract. It is an agreement whereby the insurance company makes specific guarantees in consideration of money being deposited with the company. An annuity can only be issued by a life insurance company and can only be sold by a currently licensed person.

Basically, an annuity contract is an insurance policy that promises the periodic payment of a sum of money for a term of years or for the life of a person.

There are five types of annuities.

1. SPDA – Single premium deferred annuity,
2. FPDA – Flexible premium deferred annuity,
3. INDEX – Indexed rate deferred annuity,
4. VARIABLE – rate deferred annuity, and
5. IMMEDIATE – annuity.



As their names indicate, the first four annuities are designed for saving funds to accumulate for future use. They are growth products where the tax on the interest earned is put off (deferred) until a later date (when money is withdrawn). The fifth type of annuity is used for withdrawing money for immediate PAY OUT of funds.

- A **single premium** deferred annuity is an annuity in which only one payment is made to the insurance company.
- A **flexible premium** deferred annuity is an annuity in which continual payments can be made. The amount of these payments varies according to the provisions of the policy.
- An **indexed rate** annuity is similar to a variable annuity because the value changes and is based upon a stock market **index**, usually the Standard and Poor's 500 stocks index.
- A **variable annuity** can be either a single premium or a flexible premium deferred annuity. The value of the annuity is variable and can be compared to a mutual fund. There is typically no safety of principal (unless death), because the insurance company invests the money as the policy owner selects in separate funds that have market risk, i.e., stocks, bonds, etc. There are also administrative and sales charges associated with variable annuities.
- An **immediate annuity** is a contract in which payouts begin immediately or within one year. This type of annuity is designed for a steady flow of cash income. The amount of that income paid to the policy owner depends upon the frequency of payments, the size of the premium and the length of the guarantee of income the owner requests from the insurance company. Once an immediate "payout" annuity is established, the decision becomes **irrevocable** and the owner gives up all rights to their money other than the systematic payment option chosen. The policyholder cannot change the flow of income, nor change his or her mind about the timing or amount of the annuity.



SIZE OF THE ANNUITY MARKET*

Over \$100 billion of annuity premiums have been written in the United States every year since 1988, and sales exceeded \$300 billion for the first time in calendar year 2000.

Over 56% of total U.S. life insurance company premium receipts are from annuities!

PREMIUM INCOME OF U.S. INSURANCE COMPANIES (IN MILLIONS)

YEAR	ANNUITY	LIFE	HEALTH	TOTAL
1983 %	\$29,900 25%	\$50,265 43%	\$38,201 32%	\$118,366 100%
1990 %	\$129,064 49%	\$76,692 29%	\$58,254 22%	\$264,010 100%
2000 %	\$303,123 56%	\$130,616 24%	\$105,619 20%	\$539,358 100%

UNITED STATES LIFE INSURANCE COMPANY POLICY RESERVES BY LINE OF BUSINESS AT 12/31/00 (\$ IN BILLIONS)

Annuity Reserves	\$1,875	(69%)
Life Reserves	741	(27%)
Health Reserves	95	(4%)
TOTAL	\$ 2,711	(100%)

There were \$1.875 Trillion of Annuity Reserve Values at Year-End 2000!

**This compares to \$4 Trillion of Certificates of Deposit
and Money Market Funds.**

Call GILICO at 800-535-8110 to see how you can access the CD market.

** Source – ACLI Fact Book 2001*

ANNUITY TYPES – DEFERRED AND IMMEDIATE

1. Deferred Annuities – **The decision to annuitize is DEFERRED.**

- Deferred Annuities can be described as a “tax-deferred” CD with an insurance company.
- Banks and savings & loans have CDs, but you pay tax on your interest each year whether you take it out or not.
- Insurance companies do not have CDs, they have annuities. The primary advantage of an annuity is that you don’t pay tax on your interest until you take it out.

2. Immediate/Pay-Out Annuities – **The decision to annuitize is IMMEDIATE.**

- The orderly liquidation of both principal and interest over a period of time.

Caution! The Selection of an Immediate Annuity is an Irrevocable Decision!

KINDS OF ANNUITIES – FIXED, INDEXED AND VARIABLE

1. Fixed Annuity – Value of Principal is FIXED.

- A. Fixed annuities are **guaranteed safe** with the principal (premium) guaranteed not to vary in value due to market conditions. It will increase in value as interest earnings accumulate.
- B. Insurance companies are **required by state insurance laws** to maintain a **reserve fund** equal to the **total value** of fixed annuities, including credited interest.
- C. The insurance company accepts **all investment risks** in fixed annuities.
- D. Fixed annuities are protected by State Guaranty Fund Laws.
- E. A state insurance license is required to sell fixed and indexed annuities.

2. Indexed Annuity – Value Linked with Minimum Guarantee.

- A. This type of annuity combines the basic elements of both variable and fixed annuities.
- B. The annuity interest earnings are variable because they are linked to a **percentage** of increase in an index, such as the Standard & Poor’s 500 Composite Stock Price Index (S&P 500). This **percentage** is called the Participation Rate and may be guaranteed for the term of the annuity or adjusted each year.
- C. The principal is fixed because the annuity offers a 100% money-back guarantee at the end of each term. The insurance company and contract owner **share the investment risk** in an indexed annuity.
- D. If the S&P 500 Index goes up, so do interest earnings. If it declines, the insurance company guarantees the principal and the contract owner accepts the risk of an unknown interest yield based on the growth or decline of the S&P 500 Index.
- E. Some states require special agent training to qualify to sell indexed products.

3. Variable Annuity – Value Of Principal is VARIABLE.

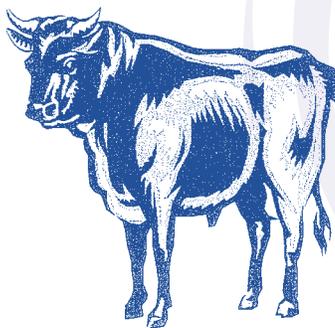
- A. Variable Annuities are **not** guaranteed. The appreciation or depreciation in value is totally dependent on market conditions.
- B. They are similar in nature to **mutual funds** with multiple investment options, such as:
 - 1) Fixed Account (30% of VA funds are in these accounts.)
 - 2) Stock Account
 - 3) Bonds
 - 4) Real Estate
 - 5) Managed Funds and other accounts
 - 6) Money-Market (20% of VA funds are in these accounts.)
- C. Variable Annuity Assets are maintained in separate accounts. The contract owner **accepts all investment risks** with a variable annuity. It is possible to lose principal in a variable annuity.
- D. Variable Annuities are **NOT** protected by State Guaranty Fund Laws.
- E. NASD & Variable Annuity License (Series 6) is required to sell variable annuities.

Variable Annuities sell more during bull markets,

Fixed Annuities sell more during bear markets.

Sales of variable annuities, which were first introduced in the 1950s, exceeded sales of Fixed Annuities in the United States for the first time in 1994.

Variable sales were more than fixed annuity sales each year from 1994 to 1999, but the declining stock market provided more sales of fixed annuity products in 2000 and 2001. Variable sales totaled \$137 billion in 2000 and \$113 billion in 2001.



TAX STATUS OF ANNUITIES – QUALIFIED AND NON-QUALIFIED

1. **Qualified – Purchased with Before Tax Dollars – Premium IS Tax Deductible.**
 - A. IRA
 - B. TSA (403-b)
 - C. SEP (Simplified Employee Pension Plan)
 - D. Pension Plans (Defined Contribution and Defined Benefit)
2. **Non-Qualified – Purchased with After Tax Dollars – Premium is Not Tax Deductible.**
 - A. Income taxes have been paid on the principal.
 - B. Funds may be in a checking or savings account.
 - C. Often funded with transfers from a CD, Mutual Fund, Stocks or Money-Market Funds
 - D. No tax deferral on corporate owned annuity earnings.
 - E. Life Insurance Proceeds are often placed in annuities.
 1. To be held tax deferred until payment at a later time.
 2. To provide immediate income for beneficiary's lifetime or for a certain period.

Qualified and Non-Qualified Money cannot be mixed!

THE 15 MOST FREQUENTLY ASKED QUESTIONS ABOUT ANNUITIES

1. Q: What is a tax-deferred annuity?

A: It is a tax-advantaged product issued by an insurance company where long term financial needs can be solved better than with most other financial alternatives.

2. Q: What is the major advantage of annuities?

A: Interest (earnings) accumulates income tax deferred until dollars are withdrawn. This helps clients build substantial funds for their retirement and can give them an income they cannot outlive.

3. Q: Is an annuity safe?

A: Yes, insurance companies are the only financial institutions that may underwrite and issue annuity contracts. **Fixed Annuity values are backed by the general assets of the insurance company.** The Department of Insurance in each state must issue licenses to the insurance company and their agents who solicit business in that state.

4. Q: Who wants to own an annuity?

A: People who want a safe way to reduce taxes; people who want to decide when to pay taxes.

5. Q: Who is the average annuity purchaser?

A: The average age is 57 with an average premium of \$36,000 at GILICO. Generally, the buyers are not “currently spending” the interest they earn on their taxable alternatives.

6. Q: What kind of dollars are going into annuities?

A: Maturing CDs, checking and savings accounts, money market funds, mutual fund accounts, stocks and bond funds, IRA rollovers, Treasury bonds and bills.

7. Q: Is the annuity for everyone?

A: No. Dollars earmarked for short-term needs should not go into the annuity. In addition, at least six months of income should be saved for emergencies outside of the annuity. Also, those who need current income should consider an **immediate annuity**, not a deferred annuity. On the other hand, those looking for one of the safest ways “to accumulate” dollars on a tax-advantaged basis will find the deferred annuity extremely beneficial.

8. Q: Since a withdrawal of principal is tax-free and IRS penalty free, can principal be withdrawn first and then interest?

A: No, the IRS considers that interest earnings are withdrawn first. Naturally, any portion of a withdrawal exceeding interest earned would be a tax-free return on principal.

9. Q: What if the annuity is paying an interest rate less than other financial alternatives?

A: You should first compare the value of the “no market risk” feature of the annuity to other alternatives you are considering. You then must remember that the interest on many alternatives is currently taxable every year. Also, Section 1035 of the Internal Revenue Code allows annuity owners to move their dollars from one annuity to another annuity income tax-free.

10. **Q: How is the interest rate declared after the initial guarantee period?**

A: Current market conditions and the insurance company's investment portfolio will dictate renewal rates. GILICO uses the "Portfolio Rate" method to determine rates after the initial guarantee period. This means that renewal credited rates may float up or down, depending on overall portfolio investment yield.

11. **Q: Why do you guarantee rates on some policies and do not guarantee rates on others?**

A: Generally, the longer the surrender charge, the higher the interest rate, and guaranteed rates are generally lower than non-guaranteed rates. GILICO is pleased to offer a wide variety of annuity products to meet many policyholder needs. Surrender charges vary from 4 to 12 years. Agents work with clients to determine the needs and financial situation of the prospective policyholder. The agent helps the policyholder to determine which product(s) best fit their individual, specific needs. Some products have shorter time horizons (surrender charges) than others. Some have higher rates and first year bonuses. Some have guarantees. We have developed consumer-oriented products with several options. A prospective buyer should discuss product options with his or her agent.

12. **Q: How will clients know their annuity balance?**

A: GILICO provides a statement of annuity value on each policy anniversary or whenever requested by the policy owner.

13. **Q: Will the annuity be tied up in probate proceedings?**

A: No! If you list a "named" beneficiary, other than your estate, annuity dollars will avoid the delay, expense and frustrations of probate.

14. **Q: Will the beneficiary be taxed on the interest that has accumulated inside the annuity?**

A: Yes, beneficiaries will be taxed on the tax-deferred interest when they receive those dollars. However, if a beneficiary is the spouse of the owner and the owner dies, he/she may elect to **continue the annuity and postpone taxes**. Once again, the client decides when to pay income taxes. If the beneficiary is not the spouse and the owner dies, then dollars must be totally withdrawn within five years or they may be received over the beneficiary's life expectancy. However, this latter option must be elected during the first 12 months following the owner's death.

15. **Q: Is the annuity identical to an IRA?**

A: No. Although the annuity is often used as a funding vehicle for an IRA, many sales are for non-qualified annuities with premiums from after-tax dollars. Therefore, dollars deposited into a non-qualified annuity are not deductible. However, there is no government imposed ceiling on how much premium can go into an annuity and distributions do not have to begin at age 70 ½. Some people have said that an annuity picks up where the IRA leaves off.

ANNUITY TAXATION MADE EASY

Clients should always seek tax advice from their own tax professionals!

Our job is to help people accumulate more money! Most agents are not trained as tax attorneys or CPAs.

The Four Basics of Annuity Taxation

1. Withdrawals

Your clients will pay taxes only when interest is withdrawn. Withdrawals from annuities are taxed in one of two ways depending upon when the annuity was issued. Annuities issued prior to 8/14/82 had FIFO accounting (first in, first out). Since principal was first in, it came out first, tax-free. With annuities issued on 8/14/82 and thereafter, taxation changed to LIFO (last in, first out). Simply put, withdrawals are now taxable since interest is withdrawn first. Many of your clients will appreciate paying taxes **only** when interest is withdrawn since most of them are now paying taxes on interest even if they don't withdraw it.

2. The 10% Excise Tax Penalty

Just like an IRA, there is a 10% excise tax penalty on premature withdrawals. The government extends tax advantages to the annuity for retirement purposes. The government also extends tax disadvantages to taxpayers who do not use the annuity for retirement. All interest withdrawn prior to the owner being age 59½ will be subject to a 10% excise tax penalty.

Are there exceptions? Yes, here are some of the most common.

Six Ways to Avoid the 10% Excise Tax Penalty

1. Don't withdraw until owner is age 59½
2. Disability of taxpayer
3. Distribution from a pre 8/14/82 annuity
4. Death of owner (may not be owner's preference)
5. Payout from an immediate annuity
6. Substantially equal payments over taxpayer's life expectancy

3. The Exclusion Ratio

When and if the owner annuitizes (applies their annuity value toward a payout option), the annuitant will receive equal monthly payments. An exclusion ratio is applied to each payment received. A percentage of each annuity payment is considered a return of the owner's cost basis (principal) and is tax-free. The balance is taxable.

4. 1035 Exchanges

One unique tax advantage with annuities is that you can transfer money from one annuity to another annuity income tax-free. The provision in the Internal Revenue Code that allows this is section 1035(a). However, great care should be exercised when making a 1035 exchange.

Five Important Tips for 1035 Exchanges

1. **BEWARE OF SURRENDER CHARGES WHEN MAKING AN EXCHANGE.**
2. Exchange the entire annuity when possible. In many cases, you cannot transfer a portion of the annuity. **Some insurance companies (including GILICO) will accept and make partial 1035 exchanges.**
3. If there are loans outstanding, repay all loans before exchanging.
4. Parties designated in the old contract as owner, annuitant, and beneficiary must be the same in the new contract. "Joint owners" in the old contract must retain their same percentage ownership in the new annuity contract.
5. Clients should consult with their tax advisor before making the exchange.

These are the Four Basics of Annuity Taxation!

1. **Taxes are only paid when interest is withdrawn.**
2. **The 10% excise tax penalty is the same as for an IRA, another tax advantaged product.**
3. **Your client can receive income partially tax-free with the exclusion ratio.**
4. **A 1035 exchange allows your clients to move their annuity money income tax-free.**

MAJOR CHANGES IN THE TAXATION OF NON-QUALIFIED DEFERRED ANNUITIES

Since the inception of the modern individual income tax under the Revenue Act of 1913, amounts credited to a non-qualified deferred annuity contract have not been taxed to the policyholder until he or she receives them. A number of proposals to change this fundamental treatment of annuities and to tax the “inside build-up” of annuities have been made. All such proposals have been rejected.

Nevertheless, in recent years Congress has enacted significant changes in the way non-qualified, deferred annuities are taxed. These changes were made to assure that non-qualified deferred annuities are used to accumulate retirement savings. The changes – while quite restrictive for short-term investors – have achieved Congress’s purpose: **(non-qualified deferred annuities are now widely used by middle-class Americans to save for their retirement income needs).**

TEFRA (1982)

- Taxation changed from FIFO to LIFO. Prior to 1982, amounts received under an annuity before the annuity starting date, such as withdrawals, were first treated as a return of the policyholder’s premiums and were taxable (as ordinary income) only after all of the policyholder’s premiums had been recovered. Since the 1982 changes, partial withdrawals are income to the extent that the cash value of the contract exceeds the premiums paid. In other words, withdrawals are now taxed on an “income-out-first” basis.
- Loans are treated as distributions (subject to the income-out-first rule).
- Assignments or pledges of annuity contracts are treated as distributions (subject to the income-out-first rule).
- A 5% penalty tax was imposed on certain distributions from annuity contracts prior to age 59½ if withdrawals were within 10 years of the purchase date.

DEFRA (1984)

- The excise penalty tax was broadened to apply (with certain limited exceptions such as death and disability) to any withdrawals prior to age 59½.
- A new “distribution at death” rule was imposed. As a result of this change, to be treated as an annuity contract (i.e., to not be taxed currently on the inside buildup), the contract must contain specific language requiring that distributions be made upon the death of the policyholder. This rule prevents continuing deferral of tax after the death of the annuity policyholder (except in the case of a husband and wife).
- Investment diversification requirements were imposed on insurance companies for variable annuity contracts. This rule prevents use of publicly available mutual funds as funding vehicles for variable annuity contracts.

TAX REFORM ACT (1986)

- The inside buildup was taxed currently if the owner of the annuity was not an individual (e.g., corporations pay current tax on any inside buildup from any non-qualified, deferred annuities they own).
- The excise penalty tax on distributions before age 59½ was increased from 5% to 10%.
- Transfers and gifts of annuity contracts are treated as taxable distributions to the transferor, unless the transfer is between spouses.

TAMRA (1988)

- All deferred annuity contracts issued by the same company to the same policyholder during any calendar year were treated as one annuity contract. This rule prevents avoidance of the “income-out-first” rules through the use of multiple deferred annuities.

OBRA (1990)

- Issuers of deferred annuity contracts were required to capitalize their acquisition cost to pay the industry’s \$8 billion “DAC” tax.
- Conference Report on OBRA (1989) states that the aggregation rule (multiple deferred annuity contracts) does not apply to immediate annuities.

TAX LAWS CHANGES AFFECTING THE TAXATION OF NON-QUALIFIED ANNUITIES

		TEFRA	DEFRA	TRA	TAMRA
The Date Annuity Was Issued	Pre – 8/14/82	8/14/82 to 1/18/85	1/19/85 to 4/22/87	4/23/87 to 10/21/88	10/22/88 to 2002
How Are Withdrawals Taxed?	Premiums first, Interest last	Interest first, Premiums last	Interest first, Premiums last	Interest first, Premiums last	Interest first, Premiums last
Premiums = Tax-Free Interest = Taxable				Corporations not allowed to defer tax	Corporations not allowed to defer tax
Distribution at Death Rules	No	No	Yes, also in Joint Owner situations, the death of <i>Both</i> Owners	Yes, also in Joint Owner situations, the death of the <i>First</i> Owner	Yes, the death of any Owner
Are Multiple Contracts Aggregated	No	No	No	No	Yes
Excise Tax Penalty	None	Yes, 5%	Yes, 5%	Yes, 10%	Yes, 10%
Ways in Which the Excise Tax Penalty can be Waived	Not Applicable Since There Were No Excise Tax Penalties	<ul style="list-style-type: none"> • Age 59.5 • Disability • 10 Year Holding Period • Death of Annuitant • Lifetime Payout • Immediate Annuity 	<ul style="list-style-type: none"> • Age 59.5 • Disability • Death of Annuitant • Lifetime Payout • Immediate Annuity 	<ul style="list-style-type: none"> • Age 59.5 • Disability • Death of Owner • Lifetime Payout • Immediate Annuity 	<ul style="list-style-type: none"> • Age 59.5 • Disability • Death of Owner • Lifetime Payout • Immediate Annuity

THIS CHART IS A SIMPLIFIED SUMMARY OF COMPLEX TAX LAW CHANGES. PROSPECTIVE BUYERS ARE URGED TO CONSULT WITH THEIR OWN TAX ADVISOR TO DETERMINE THE SUITABILITY OF ANNUITIES FOR THEIR OWN FINANCIAL SITUATION.

ANNUITY SALES IDEAS!

1. The Two Trillion Dollar Market!

Millions of seniors have purchased bank Certificates of Deposit (CD), and banks are now holding \$4 trillion in CD and Money Market Funds. Why? There are several reasons people place funds in a bank, but the primary reasons are often safety (FDIC insurance) and aggressive advertising that creates the perception of attractive yield. People trust their bank and believe they are receiving a good return on their money. **Show your prospect how to do better with a tax-deferred annuity!**

Ask the prospect:

1. Are you still paying taxes on your interest?
2. Are you getting 5.0% on your CD?
3. Are you paying taxes on your Social Security benefits?
4. Do you want this money to grow more efficiently?
5. Are you pleased with the performance of your CD?
6. If rates go down, can you add more money to your existing CD?
7. How can you access your CD money quickly?
8. When does your CD come due?



Rule of 72

2. Rule of 72

To Estimate the Length of Time for Money to Double in Value,
Divide the Interest Rate Earned into 72.

$$72 \div \text{Rate of Return} = \text{Years to Double Your Money}$$

Question 1: “How long does it take my money to double in an annuity?”

Answer: “At 6%, it will take 12 years.”

Formula:
$$6\% \quad \left| \begin{array}{l} 12 \text{ Yrs.} \\ \hline 72 \end{array} \right.$$

Question 2: “How long does it take my money to double in a CD if I am in a 33% tax bracket?”

Answer: “At 6%, it will take 17.9 years.”

Formula: $100\% - 33\% \text{ Taxes} = 67\% \text{ of After-Tax Earnings}$
 $6\% \times 67\% = 4.02\% \text{ After-Tax Net Yield}$

$$4.02\% \quad \left| \begin{array}{l} 17.9 \text{ Yrs.} \\ \hline 72 \end{array} \right.$$

Question 3: “What is the taxable equivalent yield on my annuity, in a 33% tax bracket?”

Answer: “At 6%, it is 8.96%.”

Formula: $100\% - 33\% = 67\%$

$$67\% \quad \left| \begin{array}{l} 8.96\% \\ \hline 6\% \end{array} \right.$$

8.96% is the “Equivalent After-Tax Yield.”

Everyone should know how to use these formulas!

You are never too OLD, or too YOUNG to put your money in an Annuity.

So why wait?

The SOONER you put your money in a GILICO Tax-Deferred Annuity,
the sooner your money will DOUBLE!

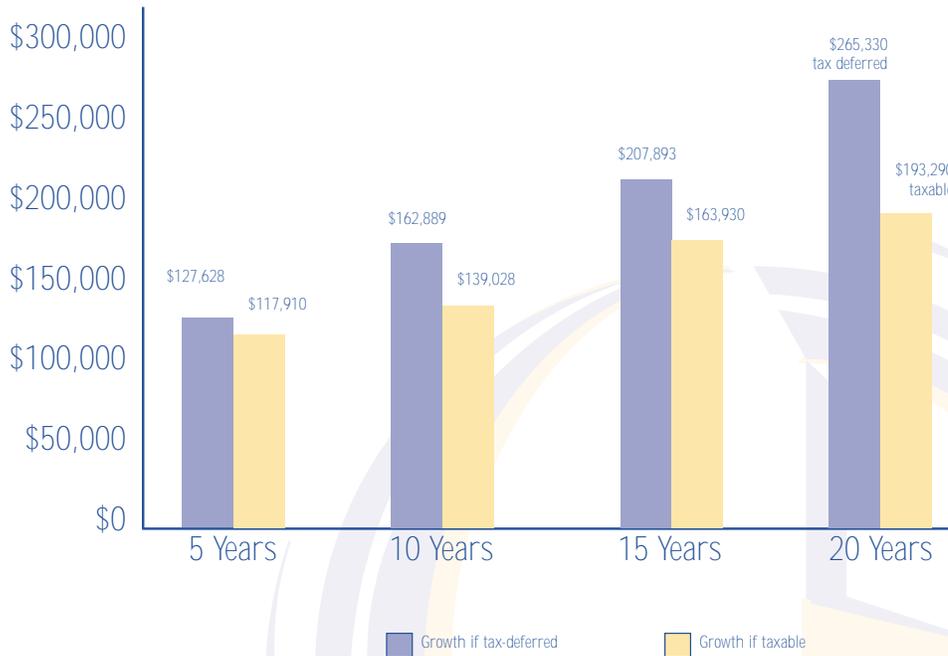
3. Just say NO to 1099s.

Nothing beats the power of tax-deferred growth! If your clients are just reinvesting the interest from their CD, they're throwing away 33% of their growth!

Show your prospect the value of tax-deferred growth with an annuity.

Unlike a bank CD, an annuity offers interest that grows tax-deferred. No income taxes are due until the funds are withdrawn. This graph shows the difference this tax-deferred advantage can make. If your clients are still paying taxes on their interest, be sure they're aware that annuities represent a sensible alternative.

This calculation assumes \$100,000 invested at 5% effective annual yield tax-deferred compared to 5% EAY at a 33% tax bracket.



Give your clients the advantage of triple compounding with a GILICO annuity.

Your clients will:

1. Earn interest on their money.
2. Earn interest on their interest.
3. Earn interest on the money they would have lost in taxes.

4. When Does 5.0% = 7.46%?

When you're in a GILICO tax-deferred annuity!

This table tells you at a glance the interest rate a bank CD (or other taxable savings product) would have to generate to equal the net earnings of a tax-deferred annuity. Unless the CD is in an IRA, your clients' CD interest is taxable even if it is left on deposit with the bank.

Rate for Tax-Deferred Annuity	Equivalent CD Rate in a 33% Tax Bracket
4.00%	5.97%
4.50	6.72
5.00	7.46
5.25	7.84
5.50	8.21
5.75	8.58
6.00	8.96
6.25	9.33
6.50	9.70
6.75	10.07
7.00	10.45
7.25	10.82
7.50	11.19
7.75	11.57
8.00	11.94

Formula for After Tax Yields:

$$\frac{\text{GILICO Annuity Rate}}{1 - \text{Tax Rate}} = \text{Equivalent After Tax Yield}$$

Example:

$$\frac{5.0\% \text{ Annuity Rate}}{1 - .33 = .67} = 7.46\% \text{ Equivalent Yield}$$

5. It's not what you save that counts, but what you can buy with what you save.

What's the Real Rate of Return on Your Client's Money?

Some clients aren't sure what to do with their money so they think they'll do nothing and just put it in a CD. Help your clients understand that by putting their "safe money" in a CD, it's attacked by taxes and inflation and could go backwards.

What cripples a CD the most?

- Interest Rates
- Inflation
- Taxes

Premium of \$100,000

Plus Interest @ 4.5%	+	\$4,500.00
Minus Taxes @ 33%	-	\$1,485.00
= Amount After Tax	=	\$103,015.00
Minus Inflation @ 3.5%	-	\$3,605.53
Equals Amount Left	=	\$99,409.48

Net Loss (\$590.52)

Overcome these crippling effects with a GILICO annuity.

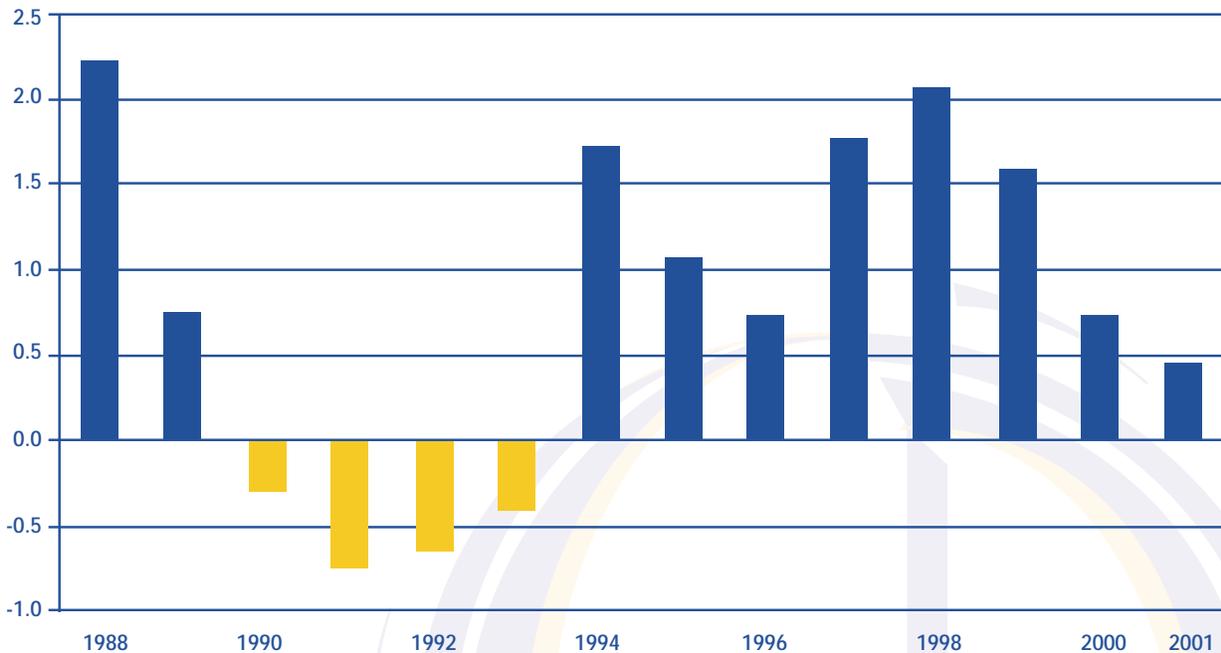
Call the GILICO Sales Team at 800-535-8110 for more information.

6. Is Your "Safe Money" Losing Value?

The Real Rate of Return: 1988-2001

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
CD Rate	9.28	8.12	7.64	4.41	3.55	3.35	6.78	5.49	5.47	5.82	5.01	6.07	6.30	4.50
*Inflation Rate	4.0	4.7	5.4	3.7	3.0	2.6	2.8	2.6	2.9	2.1	1.3	2.5	3.5	2.6
Real Rate of Return less 33% Tax & Inflation	2.22	0.74	-0.28	-0.75	-0.62	-0.38	1.74	1.08	0.76	1.80	2.06	1.57	0.72	0.42

The Real Return of a Bank CD: 1988-2001



**Source: Consumer Price Index increases from 3rd quarter of prior year to 3rd quarter of current year*

Help your clients get a better rate of return by eliminating the taxes and increasing the interest.

GILICO's Flex 7, Flex 10 and Flex 12 "Bonus Annuities" are a terrific inflation hedge!

4 Choice and Ultra Choice are ideal for clients with a short time horizon for their funds!

Call the Sales Team at 800-535-8110 for current annuity rates or check rates at www.gilico.com.

7. Are You Aware Your CD Surrender Charge Renews Every Year?

Many annuity prospects put their money in bank CDs because they are uncomfortable with annuity surrender charges. They think CDs provide easier access to their money.

In reality, CD holders are subject to a surrender penalty that they renew every year!

To demonstrate this fact, simply illustrate the true difference between surrender charges of an annuity and premature withdrawal penalties of a CD.

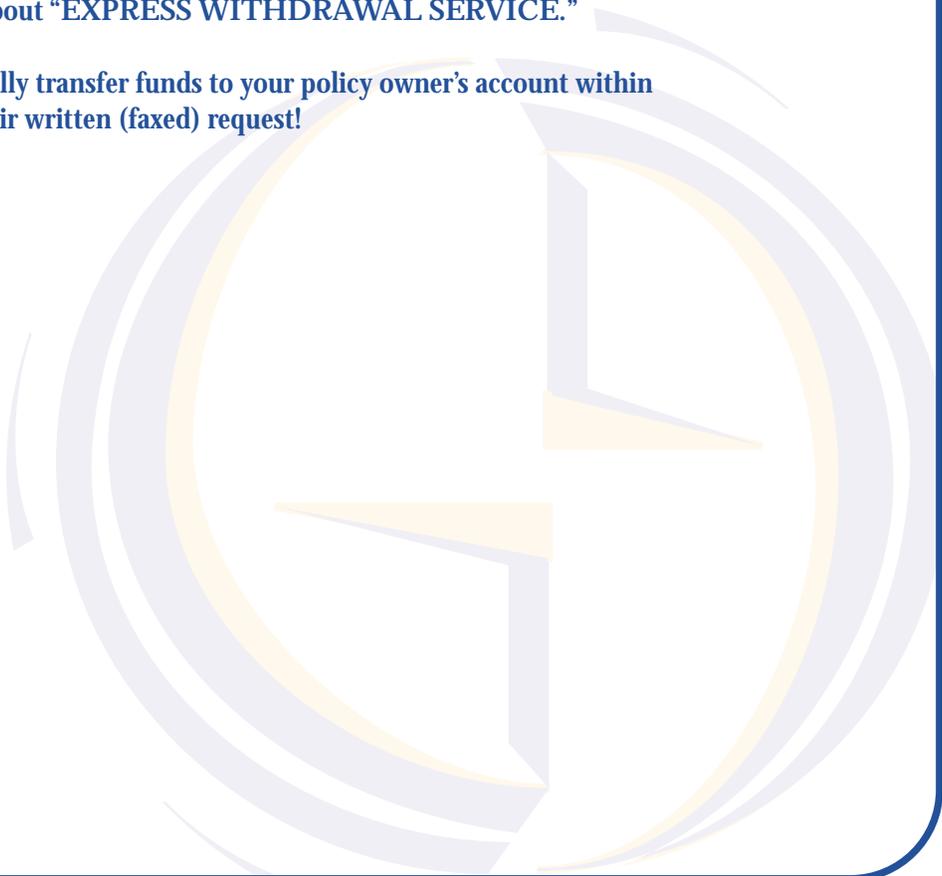
In most cases, CD owners have a very small window of opportunity—usually one week per year—to roll over their CD. If they don't use that 7-day window to access their money, the CD will likely be renewed for another full year.

If a client renewed a one-year CD for 10 years, that client would have only 70 days to access their money without penalty. That's only 70 days of penalty-free liquidity out of over 3,650 days—less than 2% of the entire 10 years.

GILICO annuities provide liquidity! All of GILICO's annuities' surrender charges ultimately diminish to zero. In addition, all GILICO annuities offer your clients the opportunity to access their interest earnings at any time without surrender charges!

Call GILICO to learn about "EXPRESS WITHDRAWAL SERVICE."

GILICO will electronically transfer funds to your policy owner's account within 48 hours of receipt of their written (faxed) request!



8. Is Your Client Tired of Paying Taxes on Social Security Benefits?

Your clients may be paying tax on up to 85% of their Social Security benefit! Here's how it works: If your clients file their tax return as **married filing jointly** and their **combined income** is between:

- \$0-\$32,000: none of their Social Security benefits are taxed
- \$32,000-44,000: up to 50% of their Social Security benefits are taxed
- \$44,000+: up to 85% of their Social Security benefits are taxed
(If your tax filing status is Single, Head of Household or Qualifying Widow(er), you will start paying taxes on your Social Security income when your combined income exceeds \$25,000.) See IRS Pub 554.

What is combined income?

50% of your Social Security Benefit Payments
 + all your other income, including tax-exempt interest
 = **combined income**

Although tax exempt income such as muni-bonds, counts toward combined income, tax-deferred interest such as annuity accumulation does not! If your client has opted to receive unneeded interest income, they are unnecessarily increasing their combined income. Check to see if your client can get below the taxable level by moving that CD to a GILICO annuity!

Example:		Combined Income Formula	
Pension Income:	24,000	Pension Income:	24,000
[†] Dividend Income:	4,000	Annuity Taxable Income:	15,000
[†] Muni Bond Income:	3,000	<u>1/2 Social Security Benefits:</u>	5,500
[†] Bank CD Interest Income:	8,000	Combined Income:	44,500
Social Security Income:	11,000		

[†]Optional Income

Since the prospects are exceeding the limit of \$44,000 for married couples, they are **paying tax on 85% of their Social Security Benefits!** **Assuming they aren't living off their investments, they would be much better off putting that money into a GILICO annuity.**

Annuity Example:		Combined Income Formula	
Pension Income:	24,000	Pension Income:	24,000
Annuity Income:	0	Annuity Taxable Income:	0
Social Security:	11,000	<u>1/2 Social Security Benefits:</u>	5,500
		Combined Income:	29,500

With the "GILICO Annuity Alternative" your client may not have to pay any tax on their Social Security Benefits!

9. Do You Want Your Heirs to Get More of Their Fair Share?

Help them avoid probate and cover taxes with a GILICO annuity!

Another important benefit of an annuity becomes apparent should the annuitant or owner pass away. At death, the value of a GILICO annuity (with properly designated beneficiary other than the annuitant's estate) is passed on to heirs **without the expense, delay and frustrations of probate**. Proceeds from a non-IRA bank CD, on the other hand, can be subject to:

Loss of Money

- _ probate administration fees up to 10%

Time & Frustration

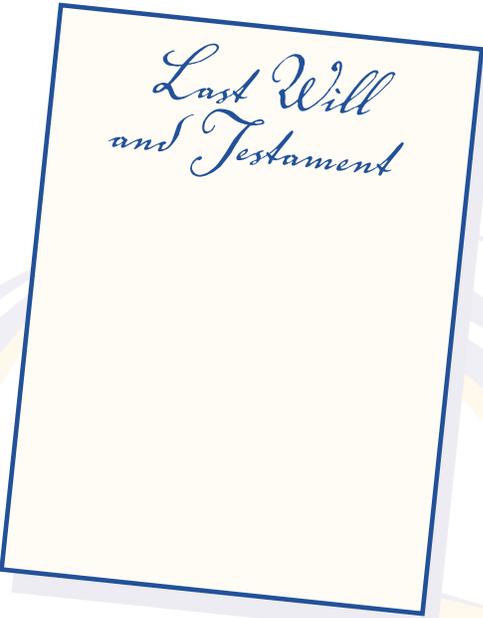
- _ delays up to two years while the courts settle the estate, and

No Privacy

- _ potential public inspection because a decedent's assets are public record.

What is probate?

Probate derives from the Latin word probare, which means to prove. It is a legal process that validates your will and authorizes the person you've named in your will as the executor to carry out your wishes. Everything transferred by your will is subject to probate.



*Last Will
and Testament*

Owner's Death Beneficiary on GILICO Policies

If the owner is other than the annuitant and the owner dies first, the death proceeds will be payable to the "owner's estate" unless a beneficiary is designated for the owner.

Be sure that your client names a specific person as beneficiary!

10. Sell Effective Annual Yields on Bonus Annuities!

Bonus Annuities can be a sensible option to overcome dissatisfaction with a current investment, recoup CD penalties, recover transfer costs or surrender charges.

- Client would like to sell some underperforming stocks (mutual funds or CDs).

Can a Bonus Annuity offset the losses or penalties for early withdrawal?

- One of my fixed annuities pays me steady interest, but the renewal rate is low. Is a Bonus Annuity a workable alternative?

The answer is a qualified “yes.” Bonus Annuities aren’t the answer for everyone, but they do offer solutions to a wide variety of client concerns. A perfect way to give your clients a better yield is to use GILICO’s Bonus Annuities!

Here’s an example:

\$100,000	amount of client’s initial nest egg
– \$5,000	loss of principal due to market drop, penalty, capital gains tax, etc.
\$95,000	balance remaining for Bonus Annuity
+ \$6,650	7% Bonus Interest, credited to client’s annuity in first year
+ \$4,275	first year interest at 4.5% Base Rate
\$105,925	Accumulation Value of client’s Bonus Annuity at end of first year.*

First year effective annual yield of 11.5% on the GILICO Bonus Annuity.

**GILICO’s Flex 7, Flex 10 and Flex 12
are among the Best Bonus Annuities in the Market!
Call Sales at 800-535-8110 for more information.**

**New Bonus Annuity will have surrender charges for 7, 10 or 12 years.*

Effective Annual Yield

Nominal Rate

“Nominal” means interest is paid more than once per measurement period. GILICO’s daily nominal rate is quoted as an effective annual rate for interest withdrawals.

Effective Annual Yield

Interest rate earned after compounding daily nominal rate for a specified period. GILICO credits/compounds interest daily and offers monthly, quarterly, semi-annual and annual interest withdrawals.

\$1,000 Premium – 5.00% Effective Annual Yield (EAY)				
Interest Crediting Period	Nominal Rate For Period		Annualized Percentage Rate	Interest Withdrawal Factor Per Period
1 Day	0.01337%	x 365 =	4.88%	\$0.13 / Day
1 Month (1/12)	0.4074%	x 12 =	4.89%	\$4.02 / Month
Quarterly	1.227%	x 4 =	4.91%	\$12.27 / Quarterly
Semi-Annually	2.47%	x 2 =	4.94%	\$24.70 / Semi-Annually
Annually	5.00%	x 1 =	5.00%	\$50.00 / Annually

NOTE: “Nominal” Rate for Period is NOT 5.00% divided by the period!

Interest Withdrawal Factors By Number of Days in Month				
	\$1,000 Factor 5.00% EAY			\$50,000 Premium
28 Days	3.74982	x	50 =	\$187.49
30 Days	4.01820	x	50 =	\$200.91
31 Days	4.15242	x	50 =	\$207.62

See GILICOLink.com “Lagniappe” Section
“How Monthly Systematic Interest Withdrawals Are Calculated”

11. The Split Annuity Concept - Income Plus Growth

Split Annuities

Through the use of two* separate annuity policies, GILICO can provide you with monthly income which is 36% more than the after-tax monthly income from a CD.

PLUS

The deferred annuity grows to the total value of the premium paid for both annuities!

Tax Advantages

One of the biggest advantages of the Split Annuity Concept is the tax advantages it offers over a taxable financial vehicle. This example compares the monthly interest payments from a certificate of deposit to monthly payments from an immediate annuity combined with the tax-deferred accumulation of a GILICO deferred annuity. It assumes a \$100,000 original total premium, a 33% tax rate, a 5% interest rate, and a 10-year period of time.

	Certificate of Deposit	Split Annuity Concept	
		Immediate Annuity	Deferred Annuity
Total Premium	\$100,000	\$38,609	\$61,391
Monthly Income for 1st 10 Years	417	407	0
Monthly Taxable Income	417	85	0
Monthly Non-Taxable Income	0	322	0
Tax on Monthly Income at 33%	138	28	0
Spendable Monthly Income	279	379	0
Value After 10 Years	\$100,000	0	\$100,000

At the end of ten years, the certificate of deposit and the deferred annuity both have a value of \$100,000, yet the immediate annuity generates 36% more spendable income per month.

Actual rates may vary. Some GILICO annuity policies may not be available in all states.

Growth of \$61,391 on the deferred annuity is subject to income tax upon withdrawal. The deferred annuity rate is subject to change, but will never be less than 3%. The rate on the immediate annuity is **guaranteed for the ten-year payout period.*

Call GILICO Sales at 800-535-8110 for a Split Annuity Quote

*The tax law of 1989 (OBRA) began to tax "Multiple Contracts" of annuities issued by the same company to the same policy owner in any calendar year as "One Contract" for tax purposes. The Conference Report on OBRA 1989 states that "the Aggregation Rule does not apply to Immediate Annuities." Tax Facts 2002, Questions #4.

12. Benefits of a Split Annuity

Earn 40% More Spendable Income Each Month for the next 5 years!

GILICO offers a combination of products which can provide you guaranteed income for a specified term while still maintaining your original investment. Together these products form a Split Annuity which offers a guaranteed payment with 40% more after tax income.

With a Split Annuity, you split your money into two of GILICO's annuities. The first portion of your money goes toward the Immediate Annuity, which can give you a Guaranteed Income for a specified period of time. GILICO offers 4, 5, 7, 10 and 12 year periods. The income that you receive from the Immediate Annuity includes a portion of your initial premium, as well as the taxable interest you have earned. The remainder of your money can be put into the GILICO deferred annuity. The money placed in the deferred annuity earns interest that allows it to accumulate to the total amount with which you originally started. Therefore, when your Immediate Annuity has been completely paid out, your deferred annuity is equal to your initial premium.

How would the Split Annuity give you more income?

Assume you put \$100,000 into a 5-year non-tax deferred vehicle at 5% and you pay taxes at a combined federal and state amount of 33%. Your total earnings would be \$25,000, but that is not actually what you are able to spend. After you pay taxes on the \$25,000, your net income after taxes is only \$16,750. If you use the split annuity concept with your \$100,000, you receive \$24,444 over the 5 years, but not all of it is taxable income to you. A large portion of that is repayment of your initial investment. The ratio between your investment and interest being paid to you is called an Exclusion Ratio. Based on an Exclusion Ratio of 89%, your total taxable amount would only be \$2,797. At the same 33% tax rate, you would only have to pay \$923 in taxes. That would leave you with a total of \$23,521 in spendable income compared to the \$16,750 that you received from your non-tax deferred vehicle. This is 40% more to you.

Example 1: Non-Tax Deferred Vehicle vs. GILICO Immediate Annuity			
Non-Tax Deferred Vehicle		GILICO	
Taxable Interest earned over 5 yrs	\$25,000	Payout over 5 yrs	\$24,444
33% Tax	-8,250	Exclusion Ratio of 89%	-21,647
		Taxable Interest	=2,797
		33% Tax	=923
Net Income	\$16,750	Net Income	\$23,521

Example 2: Split Annuity			
GILICO Immediate Annuity (5 Year Payout)		Ultra Choice Tax-Deferred Annuity (5 Years)	
Premium	\$21,647	Premium	\$78,353
Annual Income	4,889	Accumulated at 5%	
Total Income 5 Years	=24,444	Accumulation Value in 5 Years	\$100,000
Exclusion Ratio	89%		
*This calculation assumes a 5% interest rate for 5 years. Rates are subject to change			

You start with \$100,000 and end up with \$100,000, and you have received a total of \$24,444 during the 5 year period, GUARANTEED!

“WHAT HAPPENS TO MY MONEY IF I DIE?”

- When Owner & Annuitant are the same person, the money goes directly to the BENEFICIARY
- Options if HUSBAND or WIFE is Sole Beneficiary:
 1. Change Name of Owner - Annuity Continues - No Tax Due
(Spousal Continuation)
 2. Cash Annuity In - May have a Company Penalty - Taxes are Due
 3. Periodic Pay Out - No Company Penalty - Tax Due as Received
- Options if Any OTHER PERSON or ENTITY (Estate, Trust, etc.) is beneficiary:
 1. Cash in - May have a Company Penalty - Taxes are Due
 2. Periodic Pay Out - No Company Penalty - Tax Due as Received
 - a. Payout Period May Not Exceed Life Expectancy of Individual Beneficiary
 - b. The Decision Must Be Made Within 60 Days After Death of Annuitant or Owner
 - c. Payments Must Begin Within 1 Year of Death

IMPORTANT INFORMATION FOR ANNUITY DEATH BENEFITS

- Annuities Avoid PROBATE Costs and Delays.
- Annuity Value is Includable for ESTATE and INHERITANCE Taxes.
- Interest Income is Received as “Income in RESPECT of DECEDENT.”
- DEDUCTION is Allowed Against Income for Estate and Inheritance Taxes.
- The ONLY way to get an asset out of an estate is to GIVE IT AWAY!
- The Decision is one of “Control & Pay Tax” or “NO Control & NO Tax.”

ANNUITY SALES PRESENTATIONS

- The following two annuity sales presentations have proven to be most effective for highly successful sales people.
- The first presentation is “benefits oriented” and can be used in conjunction with the sales brochure.
- The second presentation is a “five question, find the money, explain the advantages and ask for the business.”
- Both of these presentations are short and extremely simple! Your presentation must be based upon your personality. Use your personality to explain, close and overcome objections.

Remember, the Annuity is a product that really helps your clients!



ANNUITY PRESENTATION #1

The new Benefit-Oriented annuity presentation, also known as the “Read John Doe the Brochure” presentation.

- “Mr. Doe, your first benefit is that your money will grow faster. There are no up-front sales charges, no annual fees, and you will receive interest at the current annual effective rate of ____%.
- Your second benefit is that you will pay less income taxes. You are currently reporting 100% of the interest you earn on your savings account, money market funds, and certificates of deposit, regardless of whether you leave the interest in your account or take the interest out. Because of that, you are paying up to 33% of the interest you earn in income taxes each year. With the annuity, if you don’t withdraw the interest, you do not report the interest. Therefore, you will not have to pay 33% of the interest in taxes. **With the annuity, you only pay taxes when you withdraw the interest.**
- Mr. Doe, your third benefit is that you will have more money. (See the accumulation comparison between an annuity and a taxable alternative on page 16.) I have compared where your dollars are now to where they should be. As you can see, you will have \$_____ more after 10 years and \$_____ more after 20 years. This will occur because interest accumulates three ways inside of your annuity. Interest compounds on top of principal, interest compounds on top of interest, and, best of all, **interest compounds on top of the dollars that you normally send to the IRS in taxes.**
- Your fourth benefit is that you will have three ways to withdraw your money. The first way is your “liquid free out” privilege where you can take **all** of your interest earnings out at any time. Your second way is called your surrender privilege. **This should only be used in an emergency when you need all your money at once.** If you surrender during the first 4 (5, 7, 10 or 12) years, there are withdrawal charges. Your third way of withdrawing money is called your monthly income or payout option privilege. **When you want monthly income, you ask GILICO for it.**
- Your fifth benefit is that you will enjoy the tax advantages that the government has extended to annuities. You will say that the annuity picks up where your IRA leaves off because just like your IRA, interest accumulates without current taxes. Taxes are only paid when interest is withdrawn. Just like your IRA, there is a 10% excise tax penalty if dollars are withdrawn prior to age 59½. Unlike the IRA, the contribution into your annuity will not be tax deductible, but there will be no maximum on what you can put into your annuity.
- Your sixth benefit is that you will feel safe and secure because your principal and interest are backed by the general assets of one of the best and most respected insurance companies in America, Guaranty Income Life Insurance Company.

Mr. Doe, when would you like to stop paying taxes?”

ANNUITY SALES PRESENTATION #2

Keep Doing What You Are Doing Now!

Just Add These Questions To Your Presentations.

Ask every client and prospect these five questions!

1. Do you have any money in savings?

YES — Go on!

NO — Would you like to have?

2. Do you need the interest to live on?

YES — Go on!

NO — Go on!

3. Do you enjoy paying taxes on the interest you earn?

YES — Quit! (You don't have a prospect!)

NO — Go on! (You probably have a sale!)

4. What rate of interest are you earning? _____%

5. If we could pay you more interest than you are earning now, defer income tax on your interest until you take it out, and keep your money guaranteed safe, would you have any objection to moving your money!

YES — Why? (CD may not mature for 6 months)

NO — Go on! (You just made a sale)

Give client the GILICO brochure and explain how the annuity works.
Complete the application and get a check or transfer form.

If this sales presentation is too complicated, then just hand the GILICO annuity brochure to the client and ask, "Have you seen a Tax-Deferred CD?"

If you can't remember that question, then just hand the client the brochure; the client will know what questions to ask!

If you can't remember to hand the client a brochure, then you will lose about \$40,000 in commissions this year!

ANNUITY SALES TIPS

1. From a Marketing Standpoint

- A. People buy annuities
- B. Insurance must be sold

2. Know How Annuities Work

- A. Investment advantages
- B. Tax advantages
- C. Highly liquid
- D. Flexibility of annuities
- E. Policy features

3. Understand the Client

A. The Client wants:

- 1) High interest
- 2) Tax deferred growth
- 3) Guaranteed safety
- 4) Right to withdraw interest

B. The Client does **not** want:

- 1) To annuitize
- 2) To lose any more money in the stock market
- 3) To be concerned about tax consequences to children
- 4) To be told he will be in a lower tax bracket

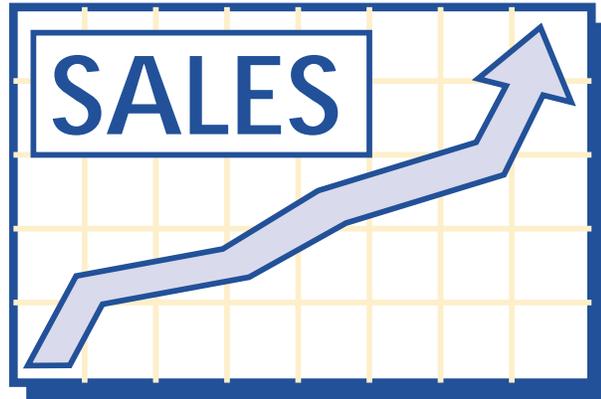
4. Some Don'ts

- A. Don't waste time on structured settlements
- B. Don't confuse the client with complex proposals (banks, brokerage firms & mutual funds – don't!)
- C. Don't be defensive about particular companies or products
- D. Don't give up – timing is everything!

- 1) A “no” today doesn't mean “no” tomorrow
- 2) CDs mature
- 3) Pension plans terminate – people change jobs – people retire
- 4) People die – policyholders and their relatives
- 5) People sell rent houses – homes – businesses
- 6) People have birthdays – children – spouses – grandchildren
- 7) Annuity fire sales (Rate drops – policies discontinued)

5. Some Dos

- A. Give everyone the opportunity to buy an annuity!
- B. Call your clients and prospects
- C. Mail them letters and follow up!



SALES POWER PHRASES

1. "You can truly appreciate the tax-deferred annuity only after you compare it to what you now own."
2. "With a fixed annuity, there is no stock market risk."
3. "With your current taxable accounts, you are paying taxes whether you leave the interest in or take the interest out."
4. "No sales charges, like where your money is now."
5. "No fees, like where your money is now."
6. "You have access to your money prior to maturity."
7. "Unlike your IRA, contributions are not tax deductible and unlike your IRA, there is no ceiling on how much you can put into the annuity."
8. "Like your IRA, you pay no taxes as interest accumulates."
9. "Like your IRA, you pay taxes only when dollars are withdrawn."
10. "You can decide when you want to pay taxes with an annuity."

CLOSING QUESTIONS

1. "I'm going to print your name and address on this annuity application which acknowledges that you want to reduce income taxes. You do want to reduce taxes, don't you?"
2. "Would you like to pay taxes now or later?"
3. "Which will you enjoy most: The competitive interest rate, the easy ways you can withdraw your money, or that you only pay taxes when interest is withdrawn?"
4. "If I am hearing you correctly, you like the annuity because of safety and liquidity. Are both important to you?"
5. "You do agree that the more money you'll have later, the more spendable income you will have later?"
6. "Would you rather have your money double every 12 years or every 18 years?"
7. "Would you rather have \$600 earning interest for you or \$400 earning interest for you?"
8. "Do you want to own the annuity or do you want your spouse to own it?"
9. "Are you glad the government is giving you a safe way to reduce taxes?"
10. "Do your parents want to give an annuity to your children?"

PRE-APPROACH LETTERS

Letter #1

Dear Mr./Mrs. Smith:

You can now earn competitive interest rates and also enjoy:

- No sales charges
- No market risk
- Liquidity
- Tax advantages

Yes, you will be able to enjoy tax advantages since the interest earnings are not reported to the IRS. You only pay taxes when you withdraw the interest.

The above features are all possible with a fixed annuity. Although the money is not federally insured, your money will be backed by the general assets of one of the best and most respected insurance companies in America.

If you would like to decide when to pay income taxes, you want a fixed annuity. I look forward to calling you soon.

Sincerely,

(your name here)

P.S. Don't miss this opportunity to enjoy safety with tax advantages.

PRE-APPROACH LETTERS

Letter #2

Dear Mr./Mrs. Smith:

Wouldn't it be nice if the government gave you one way to reduce taxes without market risk?

They do. It's called a single premium deferred annuity. Annuities are available from one of the best and most respected insurance companies in America.

You'll now be able to enjoy these benefits:

- No sales charges
- Safety without market risk
- Liquidity

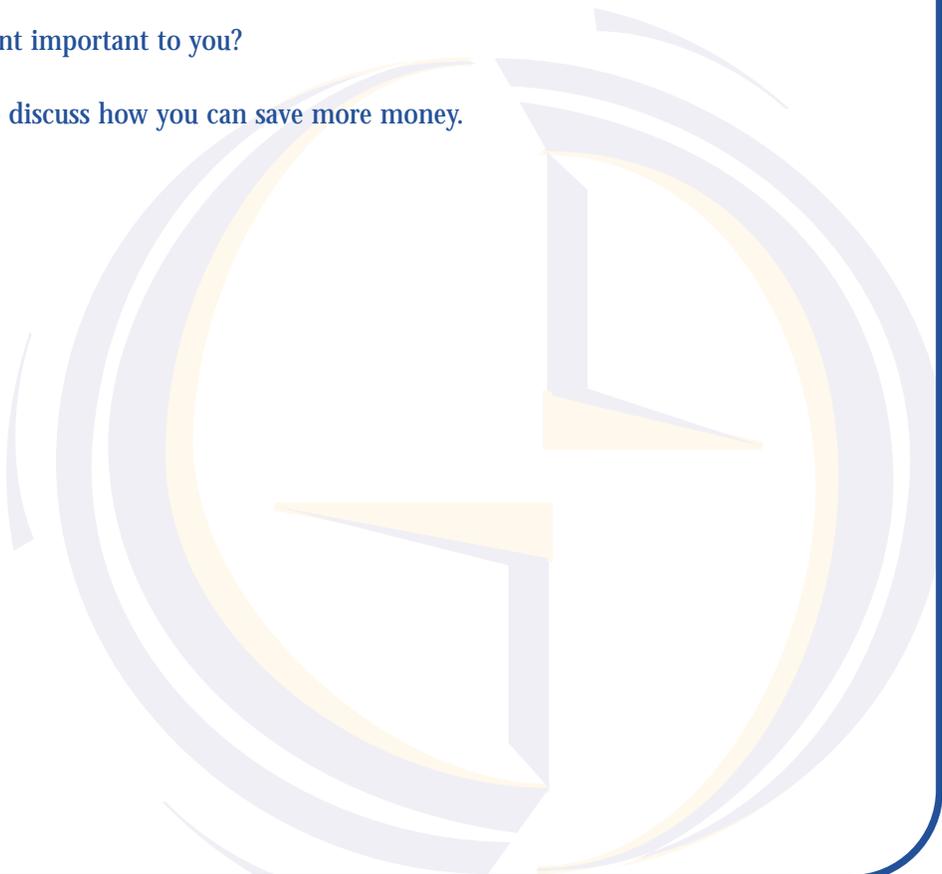
Interest also accumulates free of current income taxes. That's right, no more 1099s each year...no more unnecessary taxes each year. You only receive a 1099 and pay income taxes when you decide to withdraw the interest earnings.

Is a comfortable retirement important to you?

I'll be calling you soon to discuss how you can save more money.

Sincerely,

(your name here)



AFTER-THE-SALE TIPS

Be sure to explain the **MATURITY DATE** and **MINIMUM GUARANTEED RATE** that is required to be on the specifications page for each GILICO annuity. Reviewing these points will reaffirm your sale and help your client appreciate your service!

Mr./Mrs. Smith, here's what happens next:

1. After we complete the forms, we will send you a copy of your application and your check.
2. I want you to know that I do appreciate your business. You will be receiving a letter from me within the next few days that will include some very important information about your annuity.
3. You'll receive your policy in about one to two weeks.
4. When you receive your policy, please review it to verify that the information is correct.
5. Included with your policy will be a form letter from the (state) Department of Insurance stating how your money is guaranteed safe up to \$100,000 of principal and interest by the (state) Guaranty Association.
6. Your annuity will have an expected pay out date (**maturity date**) beginning on the policy anniversary date at your age 95 (or 10 years from the policy date, whichever is later). When you put your money in, you committed to leaving it for four (5, 7, 10, 12) years, however you have the right to leave it in and not pay taxes on your earnings up to age 95. **You may take your money out at any time or defer taxes beyond age 95.** If you have not cashed in your annuity, rolled it to another company through a tax-free exchange, or annuitized it by age 95, GILICO will write you a letter and say, "Now, what do you want to do?"
7. All annuities issued in (state) must show and can only show the **minimum guaranteed values** after deducting any early surrender penalties. So, if you look for an accumulation table based upon current interest rates, it will not be in the policy.
8. The policy is about 14 pages long and **you should read it carefully.** Enclosed is a sales brochure and illustration on the annuity. Please put it with your policy when you receive it.
9. Do you have any questions?
10. Thank you again for your business!

Thank You!

SAMPLE THANK YOU LETTER

June 18, 2002

Mrs. Mary Smith
1912 Joy Road
Good Town, TX 70000

Dear Mary,

I want to thank you for putting your money in the Flex 10 annuity with Guaranty Income Life Insurance Company. This will be one of the smartest investment decisions you will ever make.

Your application and check in the amount of \$25,000 were received in my office on 6/18/02 and were forwarded to the insurance company the same day. Your annuity should begin to earn interest on 6/19/02 at the rate of 6.0%.

Your annuity will be delivered to you in about two weeks. When you receive your annuity, please review it carefully to make certain all your personal information is correct. I'll be happy to correct any errors or explain any terms of the annuity that aren't perfectly clear to you.

By the terms of your policy, you will have 30 days to review your annuity. If you should decide for some reason you don't want your annuity, you must return it to me within that period of time. 100% of your money will be refunded to you, without interest earnings. I believe you'll find your annuity to be exactly as I have described it to you and that you'll be happy with GILICO's service, the tax-deferred growth, and the "peace of mind" that comes with having your money in a guaranteed safe annuity.

You'll also receive an annual statement from GILICO showing the value of your annuity, as well as the interest rate you will be earning for the next year. You may also call the client service department at 1-800-535-8110 any time you wish to know the current value of your annuity.

Thank you again for the confidence you've shown in me by placing your business through the Wise Agency. I appreciate it very much!

Sincerely,

(hand written signature)

Sally Wise

SW/dc

HOW ANNUITIES STACK UP VS. THE COMPETITION

	ANNUITIES						
Feature	Fixed	Variable	IRAs	CDs	Muni Bonds	Gov't Bonds	EE Bonds
Tax-Deferral	Yes	Yes	Yes	No	N/A	No	Yes
Tax-Free	No	No	No	No	Yes	No	No
Tax-Deductible	No	No	Yes	No	No	No	No
Market Risk	No	Yes	Yes	No	Yes	Yes	No
Safety of Principal	Safe	Varies	Varies	Safe	Varies	Safe	Safe
Surrender Charge(s) on Early Withdrawal	Based on Contract	Based on Contract	Possible back-end sales Charge	Penalties on interest	None	None	Moderate
Tax Penalties on Early Withdrawal	Possibly harsh	Possibly harsh	Possibly harsh	None	None	None	None

**GILICO Annuities can help your client accumulate
more money for their future!**

GLOSSARY

Accumulation period – The time prior to an annuity's payout period when money builds up in the annuity contract.

Annuitant – The person whose life expectancy is used to determine the payout of an annuity.

Annuitize – Converting the value of an annuity contract into a stream of income payouts.

Annuity – A retirement product that allows you to save for your future on an income tax-deferred basis and then allows you to choose a payout option that best meets your need for income when you retire—lump sum, income for life, or income for a certain period of time.

Days Rate Held on Rollovers – If you rollover an existing annuity to a new annuity with a different insurance company, the new company will normally hold the rate for a period of time. If the money is not received from the old company within that period, the new annuity will receive the rate in effect on the date the money is received.

Deferred Annuity – A contract in which annuity payouts begin at a future date.

Effective Annual Yield – Most companies compound and credit interest daily. The rate shown is the effective annual yield after compounding the daily nominal rate. Some companies pay a first year bonus on their interest to encourage new business. The Effective Annual Yield (EAY) includes the bonus.

- **Rate Bonus** – Some annuities pay a bonus on the base rate. For example, if the base rate is 6.00% and there is a 1.00% first year bonus, the EAY will be 7.00%.
- **Premium Bonus** – Some annuities pay an upfront premium bonus. For example, if the base rate is 6.00% with a 1.00% premium bonus, 7.06% will be shown as the Effective Annual Yield.

Equity-Indexed Annuity – A variation of the fixed annuity. With this type of annuity, your account accumulates at a minimum fixed rate of return. Your account also may earn additional interest based on the performance of an equity index. Generally, the indices used are widely reported common stock indices, the most prevalent being the Standard & Poor's 500 Composite Stock Price Index.

Fixed Annuity – An annuity contract in which the premiums you pay are credited with a fixed rate of return by the life insurance company, and the company guarantees a fixed payout every month.

Flexible-Premium Deferred Annuity – An annuity contract that permits varying the amount and frequency of premium payments from year to year for payouts that will occur in the future.

Immediate Annuity – A contract in which annuity payouts begin immediately or within one year.

Initial Rate Period – The period of time, usually listed in years, that the company agrees to pay the initial rate.

Load – Any sales fees or charges you pay in purchasing an annuity contract.

Minimum Rate Guarantee After Initial Period – This minimum rate guarantee serves two purposes:

- It provides a minimum interest rate a company may credit to an annuity after the initial rate period. It is extremely rare for a company to ever pay the minimum interest rate.
- More importantly, it is the rate that insurance company actuaries use to calculate reserve requirements in order to meet state insurance laws.

Payout Period – The period during which you receive the income from your annuity contract.

Principal – The amount you pay into your annuity contract as distinguished from the earnings that are credited to it. May also be referred to as purchase payments or contributions.

Surrender Penalty – Penalty applied to any amount exceeding the Free Annual Withdrawal Amount or to multiple withdrawals within the same contract year if they are not allowed by the terms included in the contract. In some cases, if the entire annuity is surrendered, the penalty will be applied to the full value of the annuity. Some annuities include a Market Value Adjustment (“MVA”) if it is surrendered.

- If the contract rate is **higher** than current rates on new money, a **positive** MVA adjustment may be made in the cash value. Therefore, if rates go down after the purchase date, the penalty will be less than shown.
- If the contract rate is **lower** than current rates on new money, a **negative** adjustment is made in the cash value. Therefore, if rates go up after the purchase date, the surrender penalty will be higher than shown.

Penalty Waived with Payout Over – Most companies waive the surrender penalty if the cash value is paid out over a period of time or annuitized, usually five years or longer.

Penalty Waived @ Death Of – Some annuities waive all surrender penalties in the event of death of the annuitant or some waive penalties at death of the owner. Some waive penalties at the death of owner or annuitant. Some annuities do not waive penalties at death of the owner or annuitant, unless a payout of five years or longer is elected.

Medical Waiver Bail-Out – In certain circumstances, such as total disability or nursing home confinement, part or all of the surrender penalty may be waived on some annuities.

Sales and Maintenance Fees – There are no front-end sales charges with most annuities. If \$10,000 is deposited into an annuity, the full \$10,000 will be earning interest.

Variable Annuity – A contract in which the premiums you pay are invested in bond and stock funds. Your selection of funds depends on the level of risk you want to assume. The account value reflects the performance of the funds you select. Over the long-term, variable annuities invested in equities generally reflect the growth and performance of the economy and can serve as a hedge against inflation.

Annuity Basic Training Guide and Sales Ideas



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