A GUIDE TO INVESTING IN ANNUITIES

OPPENHEIMER

Oppenheimer Life Agency, Ltd.

Oppenheimer Life Agency, Ltd., a wholly owned subsidiary of Oppenheimer & Co. Inc., has been providing annuity and insurance products and services to individuals and institutional clients since 1977. Oppenheimer offers an open architecture platform that features over 25 A rated insurance companies which provide variable, fixed and immediate annuities. These products are able to address the risks that clients planning for retirement face including longevity risk, market risk and inflation risk.

What is an Annuity?

An annuity is a contract between an investor and an insurance company. Annuities can help investors accumulate assets for retirement on a tax deferred basis. Annuities can also provide lifetime income and death benefits.

Who Are the Parties to an Annuity Contract?

Annuities have three parties: the contract owner, the annuitant, and the beneficiary.

The contract owner purchases the annuity, and can make additional contributions and withdrawals.

The annuitant is the person upon which the annuity payments are based.

The beneficiary is the person who receives any payments due to the death of the owner or annuitant.

What Benefits Do Annuities Offer in Planning for Retirement?

- Annuities offer investors the ability to diversify their overall portfolio according to their risk tolerance through the use of living benefits, death benefits and tax deferral.
- Annuities are the only investment that can provide a guaranteed* lifetime stream of income during retirement**. This can provide a comfort level which can ease concerns about outliving current retirement savings. This income can also increase over time.
- Annuities provide various death benefit options for clients concerned with wealth transfer.
- Annuities do not go through the probate process.
- Non-Qualified annuities are the only investment vehicle to offer tax deferred growth which can help clients defer taxes until they are retired and in a lower tax bracket.

What Types of Annuities Are Offered?

FIXED ANNUITY

A fixed annuity is a contract between an investor and an insurance company, where the contract owner receives a fixed rate of interest based on the amount invested and the maturity date. The longer the maturity date is, the higher the interest rate usually is. Interest credited to a fixed annuity is not taxed until it is withdrawn. The tax rule on non-qualified withdrawals is that interest and earnings are taxed first as ordinary income. In addition there is a 10% Federal tax penalty on interest and earnings withdrawn before age 59 ½.

IMMEDIATE ANNUITY

An immediate annuity is a contract between an investor and an insurance company where the contract owner begins receiving payments immediately or within one year after the contract is issued. Immediate annuities are generally purchased with a lump sum investment which provides a monthly income for life. There are different payout options to choose from depending on the client's retirement needs. Non-qualified money invested in an immediate annuity is returned in equal tax free installments over the payment period. The balance of the amount received is treated as earnings and taxed as ordinary income.

* Any payment guarantees are based on the claims paying ability of the insurance company.

** Source: 2010 Annuity Fact Book

MOST COMMON PAYOUT OPTIONS ON IMMEDIATE ANNUITIES:

- Life Only – This payout option provides the highest level of income and is guaranteed to last as long as the annuitant lives. When the annuitant dies, the payments stop.
- Life with period certain – Payments are guaranteed for the life of the annuitant and for a fixed period of time. If the annuitant dies before the period has expired the remaining payments are made to the beneficiary.
- Life with cash refund – Payments are guaranteed for the life of the annuitant. If the annuitant dies before the initial premium is paid, a lump sum payment is made to the beneficiary of the premiums minus the annuity payments already paid.
- Life with installment refund – Payments are guaranteed for the life of the annuitant. If the annuitant dies before the initial premium is paid, the payments will continue to the beneficiary until the amount received is equal to the premiums paid.
- Joint and survivor – Payments are guaranteed for as long as either of the two annuitants are alive.
- Period certain only – Payments are guaranteed for a specified period of time. If the annuitant dies before the end of the period, the payments continue to the beneficiary for the remainder of the period.

VARIABLE ANNUITY

A variable annuity is a long-term contract between an investor and an insurance company. The first phase of the contract is the "accumulation" phase, where the investor makes either one lump sum payment or a series of payments to the insurer. Payments made into the contract are typically allocated into the available investment options. The rate of return on the investment options depends on their performance.

Variable annuities allow investors to receive periodic payments, which is known as the payout phase. These payments can be made over a specific period of time or over the investor's lifetime, which can offer protection from outliving their retirement savings.

Variable annuities offer unique living benefit riders which provide principal guarantees or growth even in a down market. The actual contract value is not affected by these guarantees; there is a separate "benefit" value on which the guarantees are based.

Variable annuities also provide a death benefit in the event the owner or annuitant dies before the insurer begins the periodic payments. The beneficiary would then receive a death benefit payout.

Variable annuities may also be tax deferred on non-qualified money. The annuitant does not pay taxes on any income earned until withdrawals begin, which are taxed at ordinary income tax rates. In addition, there is a 10% Federal tax penalty on earnings withdrawn before age 59 ½.

Living Benefits (Available at an Additional Cost)

GMAB (Guaranteed Minimum Accumulation Benefit) – This benefit rider guarantees the owner's contract value will be at least the value of their initial investment after a specified number of years, regardless of how the market performs.

GMIB (Guaranteed Minimum Income Benefit) – This benefit guarantees the owner will receive a lifetime income regardless of market performance. This is done by annuitizing the contract which guarantees payments based off the amount invested plus a stated interest rate of between four and five percent. The annuity must be annuitized to receive this benefit, and there is normally a seven to ten year holding period before it can be exercised. Prior to annuitizing the contract, withdrawals can typically be taken of the stated interest rate.

GMWB (Guaranteed Minimum Withdrawal Benefit) – This benefit guarantees that the owner can withdraw a fixed percentage (usually 4-7%) of the amount invested each year until the entire amount is recovered, regardless of how the market performs. The total withdrawals the client receives will be no less than the original amount invested, but depending on the market's performance it can be greater.

GLWB (Guaranteed Lifetime Withdrawal Benefit) – This benefit guarantees the owner will receive a lifetime income regardless of market performance. The owner can withdraw a fixed percentage (usually 4-7%) of the amount invested for as long as they live. The percentage typically varies depending on the age of the client when they begin taking withdrawals and can increase with carrier credits or market performance. There is also an option for spouses, known as spousal continuation. This benefit guarantees lifetime withdrawals for both lives.

Standard Death Benefit

Most variable annuities offer a standard death benefit, which guarantees that if the annuity owner dies and the market value is less than the original investment, the beneficiary will receive the original investment minus any withdrawals. Insurance companies also offer enhanced death benefits at an additional cost which can increase the death benefit over time.

Enhanced Death Benefits

CONTRACT ANNIVERSARY OR STEP UP

This type of enhanced death benefit is the greater of the original investment, or because of market performance, a higher contract value on a specified anniversary date.

INITIAL PURCHASE PAYMENT WITH INTEREST

This type of enhanced death benefit is the greater of the contract value at death or a higher contract value based on a fixed percentage increase (usually 5%).

Variable Annuity Share Class/Sales Charges

Variable annuities are available in different share classes each offering different contingent deferred sales charge (CDSC) schedules and expenses. Most variable annuities are not subject to front end sales charges.

- B Share – Generally the surrender period is between six and eight years, with surrender charges of typically 6%-8.5% depending on the carrier. The surrender charge will usually decrease each contract year until it hits zero at the end of the surrender period.
- C Share – These annuity contracts have no surrender charges, which allows for increased flexibility. These annuity contracts will have higher Mortality and Expense Fees (M&E).
- L Share – Generally the surrender period is three to four years with surrender charges of typically 6%-8% depending on the carrier. This gives the client flexibility, but the annuity will have higher M&E fees.
- Bonus Product – The bonus product gives the client a credit to their account, usually a percentage of the amount invested in the contract. Bonus Product annuity contracts have higher fees and expenses, and typically have longer surrender periods. In many cases if the annuity is held for a long period of time the expenses outweigh the bonus.

Variable Annuity Expenses/Fees

- Mortality and Expense Fees (M&E) and Administrative Expenses – These charges give the contract holder certain guarantees such as, the ability to choose a payout option, a death benefit and a promise that annual insurance charges will not increase. Some variable annuities also charge an annual contract fee under a certain amount.
- Additional Cost of Riders – The cost of any living benefits or enhanced death benefits selected by the contract holder.
- Fund Management Fees – The cost of the investment options selected.

Frequently Asked Questions About Annuities

WHAT ARE THE BENEFITS OF A FIXED ANNUITY?

- They offer a guaranteed fixed rate of return.
- They offer a fixed maturity date.
- They can provide a lifetime income.
- Non-qualified annuities provide tax deferred growth.

WHAT ARE THE BENEFITS OF A VARIABLE ANNUITY?

- They provide a wide variety of investment choices depending on the client's risk tolerance.
- They offer the ability to invest in the equity markets with lifetime income guarantees.
- They offer guaranteed death benefits and avoid probate.
- Non-qualified annuities provide tax deferred growth.
- Contracts can be customized to each client's needs.

WHAT YOU NEED TO KNOW BEFORE BUYING AN ANNUITY

There are many different fixed and variable annuities to choose from, and they should be considered long term investments. Before the purchase of an annuity, the following questions should be considered:

- How old is the investor?
- Is income needed, and if so, when should it start?
- How much should be invested?
- What guarantees does the annuity offer?
- How much are the fees on the annuity?
- How much risk is acceptable?
- What are the annuity riders?

Glossary of Terms

Accumulation Phase
The time period prior to annuitization when the contract owner can add money and accumulate tax deferred assets.

Annuitant
The person, generally the contract owner to who the annuity is payable, and whose life determines income payments in the contract.

Annuitization
A payout option which converts the value of the annuity into a series of payments over a given time period.

Application
A written request to an insurance company by an individual to obtain a contract with that company.

Beneficiary
The person who receives payments due on a contract in the event of the death of the owner or annuitant.

Contract Owner
The purchaser of an annuity contract and holder of all rights pertaining to the contract.

Non-Qualified Annuity
An annuity in which purchase payments are made with after tax dollars. Earnings accumulate on a tax deferred basis until withdrawn.

Payout Period
The period during which the money accumulated is paid out to the contract owner as income payments.

Qualified Annuity
An annuity purchased with IRA, 403b or other qualified investments. Since qualified money is already tax deferred, an annuity should only be purchased if the client wants living benefits, death benefits or principal guarantees.

Surrender Period
The time period the client must wait until they can withdraw funds from an annuity contract without receiving a surrender charge.

1035 Exchange
A 1035 exchange is a tax-free exchange from one annuity contract to another.

Please contact us with questions:

Oppenheimer & Co. Inc.
125 Broad Street
New York, NY 10004
(212) 668-8000
(800) 221-5588