SUN LIFE FINANCIAL'S GUIDE TO UNDERSTANDING ANNUITIES

How can an annuity help with retirement PLANNING?

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Sun Life Financial®

You've done a good job planning for retirement and have taken advantage of a 401(k) or IRA. You know what Social Security will offer you. You probably also have assets and savings to help provide income for the future. But, with the rising cost of living and the fact that people are living longer, you wonder:

Will my savings last my lifetime?
Will there be anything left for my beneficiaries?

An annuity can help you answer **YES** to these questions.

An annuity can help ensure that:

- your principal is protected,*
- you won't outlive your savings,
- you have a steady stream of income, and
- you will have something to leave for your loved ones.*

** These features either may be provisions of the contract or may be offered through benefit options that are available at an additional cost and are subject to limitations.*

What is an annuity?

Annuities are long-term financial vehicles that allow you to accumulate money tax deferred for retirement. Annuities also allow you to create a steady stream of income to live on in retirement.

An annuity is basically a contract between you and an insurance company whereby the insurance company makes a series of income payments to you in exchange for premiums you have paid. While the purpose of life insurance is primarily to protect your beneficiaries, an annuity is designed to help you accumulate money for your future income needs and to protect you by providing you with an income stream that you cannot outlive.

There are two main types of annuities—*Fixed* and *Variable*. Some annuities also offer a combination of fixed/variable components. The types of annuities differ in the amount of investment risk you will be exposed to and in growth potential—generally, the greater the return potential, the greater the investment risk. There are additional types of annuities based on how you'd like to fund or make payments into the annuity as well as how you receive payments.

Types of annuities—
general overview

Traditional fixed annuity

- Provides a fixed rate of return at a rate determined by the insurance company. This rate is guaranteed for a certain period of time.
- Represents a conservative retirement asset, along with CDs. Unlike a typical CD, however, an annuity can provide a guaranteed income for life. Another important distinction is that an annuity is not insured by the Federal Deposit Insurance Corporation (FDIC); its guarantee is directly related to the financial health of the insurance company that issues it.
- Offers the security of knowing that your payment is growing at a predictable rate.

A fixed annuity is attractive when you are interested in safety and preserving money, rather than taking the market risk associated with variable annuities.

Fixed index annuity[1]

- Combines the principal or premium guarantee of a traditional fixed annuity with interest earnings linked to the performance of a stock market index.[2]
- Guarantees that you will get back at least your original premium, if held to the end of the surrender charge period, less any withdrawals.
- Some fixed index annuities provide guaranteed income for life by means of withdrawals instead of annuitizing, giving you more flexibility.

A fixed index annuity provides downside protection with the upside potential of interest earnings that are linked to a portion of the index's performance.[2]

Variable annuity

- Usually offers a range of investment options that can include stocks, bonds, and money market instruments. These options are called subaccounts.
- Typically, you can allocate your premiums among one or more investment subaccounts, which will fluctuate in value. The value of your annuity is directly tied to the performance of these subaccounts. It is possible that you could lose up to the entire principal amount invested in a variable annuity at redemption.
- You can choose different investment styles—conservative through aggressive—to match your risk tolerance and investment goals.
- Some variable annuities offer guarantees, and although those guarantees don't apply to the performance or safety of amounts held in the variable subaccounts, they protect your principal from market risk and can provide guaranteed income for life.

A variable annuity entails more risk in exchange for greater growth potential. Some variable annuities also offer principal guarantees and can provide guaranteed income for life.

1. *These annuities are not actually invested in the companies that comprise a market index. The interest you earn is linked to positive changes in the index's performance. The index may not include dividend earnings, so neither the index nor a fixed index annuity is comparable to a direct investment in the equity markets. Indices are unmanaged, and individuals cannot invest directly in an index. For Pennsylvania and New Jersey residents: some materials you receive may refer to this type of annuity as a* fixed index annuity *or an* equity indexed annuity*. These terms are interchangeable.*
2. *Your share of the index increase can be based on a participation rate, an index growth breakpoint, or a cap. A cap is the percentage that determines the amount to which your interest earnings are limited.*

Types of annuities—
by income and payments

Annuities are also categorized based on when you take income, *immediate* or *deferred*, and how you make payments, *single* premium or *flexible* premium.

WHEN YOU TAKE INCOME

Immediate annuity

- Purchased with a single payment. You cannot add additional money to your annuity later on.
- It starts providing you with income payments right away. You determine the payout plan—monthly, quarterly, semi-annually, or annually.
- You pay taxes on the earnings portion of each payment you receive.

Deferred annuity

- You can put money in with a single payment or flexible payments.
- The payment of income you receive is deferred while your money has the opportunity to grow without being taxed (tax-deferred).

HOW YOU MAKE PAYMENTS

When purchasing an annuity, you can choose a payment method—whether to fund it with a single payment or multiple payments.

Single premium annuity

- Purchased with a single lump-sum payment. You cannot add additional money later on.

Flexible premium annuity

- Purchased with multiple purchase payments, allowing you to add to your annuity later.

HOW MUCH YOU CAN PUT IN

- You can basically put as much money as you like into an annuity (with a few restrictions). All earnings from annuities are taxed as ordinary income when you withdraw the money.
- An annuity can also be used to fund an IRA, SEP, 401(k), or 403(b). If you use an annuity to do this, there would be contribution limits that apply (based on IRS requirements). Also, U.S. federal tax laws generally require that you begin taking minimum distributions when you reach age 70½.

There is no additional tax-deferral benefit for contracts purchased in an IRA, since these plans are already afforded tax-deferred status. Thus, an annuity should be purchased in an IRA only if you value some of the other features of the annuity and are willing to incur any additional costs associated with the annuity to receive such benefits.

Receiving income from your annuity

When you are ready to start withdrawing income from your deferred annuity, you can:

- Take a lump sum payment
- Take a stream of periodic payments (this is called annuitizing). With annuitization, you stop making any additional payments. Payouts start and can continue for as long as you live, or for a fixed period. Some payout options will continue payment to a beneficiary after your death. Common payout options include:
  - — income for life
  - — income for a specific period
  - — joint and survivor life
- Or you can take partial withdrawals of the contract value. Annuities that provide guaranteed income for life enable you to take guaranteed lifetime withdrawals without annuitizing your contract. Withdrawals will be subject to income taxes, and if made before age 59½, a federal income tax penalty as well. The contract also may impose withdrawal charges.

Planning for your beneficiaries

Most annuities have a feature that provides protection for your beneficiaries, and with all annuities you can avoid probate.

Upon your death, your designated beneficiaries will receive the greater of two values:

- the contract account value
- or the amount you contributed to the annuity (adjusted for any prior withdrawals)

With a variable annuity, you may also be able to elect extra death benefits for an additional cost.

Ratings and financial strength

Since the guarantee provided by an annuity is only as strong as the insurance company that issues it, financial strength and ratings are very important. You'll want to make sure that the company is financially secure. Rating agencies such as A.M. Best, Standard & Poor's, and Moody's all rate the financial strength of insurance companies.*

Fees and charges

Like all financial products, annuities have associated fees or charges. These can include administrative fees, management fees, mortality and expense risk charges, sales charges, and withdrawal charges. Optional living benefits and death benefits may also be available for an additional cost.

**Ratings apply to fixed accounts, death benefits, and annuity income payment guarantees and not to the performance or safety of the variable account of a variable annuity.*

The benefits of owning an annuity

Today's retirement is so different from what prior generations experienced. Our potential to live longer has increased significantly and that means our money must also last a lifetime.

An annuity is a unique tax-deferred financial vehicle in its ability to provide guaranteed lifetime income and a legacy. It may be a good way for you to plan for a long and enjoyable retirement.

Let your financial professional help you

Your financial professional can help you structure a retirement planning strategy that best suits your objectives—not only now but throughout your changing retirement. Contact your financial professional today.

About Sun Life Financial

Sun Life Financial is a leading international financial services organization providing a diverse range of wealth accumulation and protection products and services to individuals and corporate customers. Chartered in 1865, Sun Life Financial and its partners today have operations in key markets worldwide. As of March 31, 2009, the Sun Life Financial group of companies had assets under management of US $297.5 billion. Sun Life Financial Inc. trades on the New York (NYSE), Toronto (TSX), and Philippine (PSE) stock exchanges under ticker symbol SLF.

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Annuities are long-term financial vehicles designed for retirement purposes, and variable annuities are subject to market fluctuation, investment risk, and possible loss of principal. Past performance does not guarantee future results.

Variable accumulation unit values of a variable annuity fluctuate according to underlying economic and market conditions.

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All withdrawals of taxable amounts, including earnings, are taxable as ordinary income and, if taken prior to age 59½, may be subject to a 10% federal tax penalty. Early withdrawals will reduce the death benefit and cash surrender value.

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