HERMANN SONS LIFE

Buyer's Guide to Fixed-Rate Deferred Annuities

This booklet is intended to help guide you when shopping for annuity products. It explains the importance of the following:

- What is an annuity?
- What are the different types of annuities?
- How do I decide what is best for me?
- What other important information should I consider?

WHAT IS AN ANNUITY?

An annuity is an investment contract sold by a life insurance company. It accumulates value and provides income for contract holders in their later years.

You fund an annuity (in a single deposit or multiple deposits) and the insurer promises to pay out money from the annuity to you in a series of payments. Only an annuity can pay an income that can be guaranteed to last as long as you live. The annuitant can choose what type of payment schedule works best for them.

An annuity may be qualified (Traditional IRA, ROTH IRA, etc.) or non-qualified.

An annuity is not a savings account. It is a retirement account. If you buy an annuity, it should be for long-term financial planning.

WHAT ARE THE DIFFERENT TYPES OF ANNUITIES?

It's important to understand the differences among various annuities so you can choose the kind that best fits your needs. Hermann Sons Life offers only fixed-rate annuities.

Annuities differ in several ways:
- How many premiums you pay
- How the money in the annuity earns interest
- When the company makes income payments to you

How many premiums you pay: Single premium or multiple premium annuities

You pay the insurance company only one payment for a *single premium* annuity. You make a series of payments for a *multiple premium* annuity; for one type of multiple premium annuity, a *flexible premium* annuity, you pay whenever you want, within set limits.

How the money in an annuity earns interest: Fixed, variable and indexed annuities

Fixed

During the *accumulation phase* of a *fixed deferred* annuity, your money earns interest at rates set by the insurance company or in a way spelled out in the annuity contract. The company guarantees the contract will earn no less than a minimum rate of interest. Once you begin to receive payments in the annuitization phase, the amount of each payment is set and will not change. Hermann Sons Life sells only fixed annuities.

Variable
During the *accumulation phase* of a *variable deferred* annuity, the insurance company puts your premiums into separate accounts. You choose the accounts, depending on how much risk you want to take. You may choose accounts with no guaranteed returns that are invested in bonds, money market funds or stocks or other equities. You may also have the option to put part of your premiums into a fixed account, with a minimum guaranteed interest rate. During the *distribution phase* of a *variable annuity*, the amount of each income payment to you may be fixed (set at the beginning) or variable (changing with the value of the separate accounts).

Indexed
During the *accumulation phase* of an *indexed deferred* annuity, the return on your money depends on a market index. The index is a number that goes up and down as the market the index represents moves up and down. The company credits earnings to your annuity based on changes in the market index you select and guarantees the value of your annuity will not decrease as long as you do not withdraw the money. You also may have the option to put part of your premiums into a fixed account with a minimum guaranteed interest rate. Generally, during the *distribution phase* of an *indexed annuity*, the amount of each income payment to you is fixed.

When the company makes income payments to you: Immediate or deferred annuities
In an *immediate annuity*, income payments start no later than one year after you pay the premium. You usually pay for an immediate annuity with one payment. *Deferred annuities* have an *accumulation phase* and a *distribution phase*. During the *accumulation phase*, the money you put into the annuity, less any charges, earns interest. The earnings grow tax deferred as long as you leave them in the annuity. After the *accumulation phase* ends, the *distribution phase* begins; in the *distribution phase*, the company pays income to you or the beneficiary of your choice.

HOW DO I DECIDE WHICH ANNUITY IS BEST FOR ME?

You (with the help of your agent and your financial advisor) must weigh many factors including contribution period length, annuity format, income, tax deferral benefits, level of risk and anticipated payout schedule to determine what type of annuity is best for you.

WHAT OTHER IMPORTANT INFORMATION SHOULD I CONSIDER?

How are interest rates set?
During the accumulation phase your money earns interest. Several different rates apply to most fixed, deferred annuities. The insurance company sets the interest rates, which can change.

The *minimum guarantee rate* is the lowest interest rate your annuity will earn. This rate is stated in the contract. Interest on your annuity is credited based on the *current interest rat*e. If at any time the minimum guaranteed interest rate is higher than the current interest rate, then the company uses the guaranteed rate. The current interest rate when you first buy your annuity is called the *initial interest rate*. In many annuities the initial interest rate only applies to the first year you own the annuity. Once the initial rate period ends, interest is based on the *renewal interest rate*. The disclosure tells how the company will set the renewal rate and how often it can change. The renewal interest rate may be lower than the initial interest rate. Some companies offer a bonus interest rate as an incentive to buy and retain an annuity, however you could lose this bonus if certain conditions are not met. Multiple interest rates may apply to some flexible premium annuities where different rates apply to each premium you pay.

What charges may be subtracted from my annuity?
Most annuities have charges related to the cost of selling and managing the annuity. A *contract fee* is

a flat dollar amount charged either once or annually. A *transaction fee* is a charge for each premium or other transaction. Companies may also charge a *percentage of premium charge* and in some states a *premium tax*. Hermann Sons Life does not charge a contract fee and only charges a small transaction fee on withdrawals from its 9-year annuity.

All annuities have a *surrender charge* which discourages you from taking money from your annuity or ending (surrendering) the contract before a certain point in time. The number of years a surrender charge is applicable and the amount of each year's surrender charge vary from one annuity to the next and from company to company. The charge is usually a percentage of the premiums paid or of the value of the account when you make the withdrawal. The charge can be more than the interest earned on the annuity in the first few years so it's possible to lose not only the interest, but also some of your principal (the amount of the premiums paid) if you make a partial withdrawal or surrender the annuity. Every fixed annuity offers a way to access part of the balance each year without paying a surrender charge. You can find this specific information in the annuity contract and disclosure.

How can I access my money?
Each annuity offers more than one way to access your money:
1) annuitize the contract to receive income payments over time,
2) take a lump sum payment (*surrender*) your annuity,
3) take withdrawals, and
4) a death benefit is paid to your *beneficiaries* if you die during the accumulation phase.

One of the most important benefits of deferred annuities is your ability to use the value built up during the accumulation phase to receive multiple income payments. After you *annuitize*, you may receive income payments for life. Payments are usually made monthly but you may choose to receive them less often. The size of income payments is based on the *accumulation value* in your annuity and the *benefit rate* when income payments start. The benefit rate usually depends on your age and sex as well as the annuitization option you choose. Options usually include payments that continue as long as you live, as long as you and your spouse live or for a set number of years.

A table of guaranteed benefit rates is included in each annuity contract. Some companies have current benefit rates which are greater than the guaranteed benefit rates. A company can change the current benefit rates *at any time*, but the current rates can never be less than the guaranteed benefit rates. When income payments start, the insurance company uses the benefit rate in effect at that time to figure the amount of your income payment.

Another option available is to take a *lump sum payment* from your annuity and surrender or terminate it. If a lump sum payment is a choice, ask when it would be available and how much the payment would be. If it's an option, think about whether a lump sum payment may be a better choice for you than payments over time. In some annuities, there's no charge if you surrender your contract when the company's current interest rate falls below a certain level. This may be called a *bailout option*.

You can make *withdrawals* from your annuity before income payments begin, but you may pay a fee (often a surrender charge). The contract and the disclosure tell you how much you can take out without paying a charge and when the charges no longer apply. Most annuities let you withdraw a percentage of your balance annually (typically 10 percent) without paying a fee. You may lose interest on the amount withdrawn and you may lose part of your principal. After you have owned an annuity for a certain length of time (typically 7 to 14 years, 5 to 9 years with Hermann Sons Life), the surrender charge period may end and you make withdrawals without paying a surrender charge. Many annuities let you withdraw part of the accumulation value without paying a surrender charge if certain events, such as nursing home confinement or terminal illness, occur.

Annuities have stated maturity dates. When an annuity reaches its maturity date, the contract may automatically expire or renew. You are usually given a short period of time, called a *window*, to decide if you want to renew or surrender the annuity. If you surrender during the window, you will not have to pay surrender charges. If you renew, the surrender or withdrawal charges may start over.

Finally, if you die during the accumulation phase, your *beneficiaries* will receive some or all of the money in your annuity. In some annuities, there is a charge that reduces what your beneficiaries receive. Check your contract and disclosure.

Will I pay income tax on my annuity?

Below is a general discussion about taxes with regards to annuities. You should consult a professional tax advisor about your individual tax situation.

Under current federal law, annuities receive special tax treatment. Income tax on annuities is deferred, which means you are not taxed on the interest your money earns while it stays in the annuity. The interest is not tax free, however. You will pay taxes when you withdraw money. You may also have to pay a 10 percent tax penalty if you withdraw money before age 59-1/2. Most state tax laws regarding annuities follow the federal law. You can also use annuities to fund traditional and ROTH IRAs. If you buy an annuity to fund an IRA, you will receive a disclosure statement describing the tax treatment.

Do not surrender one annuity to buy another without a thorough study of the new annuity and the one you have now.

If you are replacing annuities, the new annuity may have new expenses you must pay directly or indirectly. Also, you may pay surrender charges on the old annuity. If you are selling another asset, are there penalties associated with the sale? Will you have to pay taxes on the sale?

30-day free look

Hermann Sons Life grants a 30-day free look beginning when the certificate is delivered. During this time, a certificate may be rejected by the purchaser for any reason for a full refund of deposits. Once the 30-day free look period expires, this option is unavailable. Read your contract carefully. Ask your agent or call the Hermann Sons Life Home Office about anything that is unclear to you.

This guide is not intended to offer legal, financial or tax advice. You may want to consult independent advisors.

This guide refers to a disclosure you will receive with your annuity contract. The disclosure summarizes the terms of your contract and defines the terms used in the contract. It will explain how your annuity increases in value and what charges are taken from your contract. Your agent should discuss the disclosure with you so you understand it.