

# An Overview of Variable Annuities

## Why Consider a Variable Annuity?

A variable annuity is a long-term investment designed for retirement purposes or other long-range goals and provides the ability to accumulate assets on a tax-deferred basis. People looking to supplement other sources of retirement income, including Social Security and pension plans, may want to consider a variable annuity. Although variable annuities are similar in many respects to mutual funds, they offer several additional features not generally found in mutual funds, including:

- Tax-free transfers among a variety of professionally managed investment options.
- Tax-deferred earnings.
- Death-benefit protection options.
- Living-benefit protection options.
- Lifetime-income options.

Variable annuities are not suitable for meeting short-term goals because substantial taxes and insurance company charges may apply if you withdraw your money early. This brochure was designed to provide you with a better understanding of variable annuities and the benefits they can provide in helping you plan for a secure retirement.

**Note: Variable annuities involve investment risk and may lose value. Therefore, you should consider your ability to sustain investment losses during periods of market downturns. Before buying any variable annuity, request a prospectus from a Citigroup Global Markets Inc. advisor and read it carefully. The prospectus contains important information about the annuity contract, including fees and charges, investment objectives, risks, death benefits, living benefits and annuity-income options which should be considered carefully before investing. You should compare the benefits and costs of the variable annuity to other variable annuities and to other types of investments.**

## What Is a Variable Annuity?

A variable annuity is a contract between you and an insurance company, under which the insurer agrees to make periodic payments to you at some future date. You can purchase a variable-annuity contract by making either a single purchase payment or a series of purchase payments.

An annuity contract has two phases—the savings (or “accumulation”) phase and the payout (or “retirement income”) phase. During the savings phase, you make purchase payments into the contract and earnings accumulate on a tax-deferred basis. The payout phase occurs when you begin receiving regular payments from the insurance company by electing an annuity-income option.

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INCLUDING POSSIBLE LOSS OF PRINCIPAL

## **“Free Look” Period**

Variable annuity contracts typically have a “free look” period of ten or more days from receipt, during which you can terminate the contract without paying any surrender charges and get back your purchase payments (which may be adjusted to reflect charges and the performance of your investment). You can continue to ask questions during this period to make sure you understand your variable annuity before the “free look” period ends.

## **Benefits and Features of a Variable Annuity**

### ***Investment options***

During the savings phase, a variable annuity offers a wide range of fixed- and variable-investment options with different objectives and strategies. The value of your variable annuity will vary depending on the performance of the investment options you choose.

The variable-investment options are professionally managed portfolios (“subaccounts”) that typically invest in stocks, bonds, money-market instruments or some combination of the three.

Although the subaccounts within variable annuities are similar in many respects to mutual funds, fees and expenses may differ. You bear all the investment risk for amounts allocated to the variable-investment options.

The fixed-investment options offer a fixed rate of return that is guaranteed by the insurance company for a period of one or more years. If you withdraw or transfer from a fixed account during the guarantee period, a market-value adjustment may apply. A market-value adjustment will result in an amount added to or subtracted from the contract value based on the changes in interest rates since the beginning of the guarantee period. In general, if interest rates have decreased the adjustment will be a positive amount and if rates have increased the adjustment will be negative.

### ***Tax-Free Transfers***

You may transfer your money from one subaccount to another, or to a fixed account, within a variable annuity without paying taxes on any earnings you have made. If market conditions change, for example, you may re-allocate money among the investment options without worrying about taxes. Transfers are subject to any limitations imposed by the insurance company in the prospectus and by Citigroup Global Markets Inc..

### ***Tax-Deferred Earnings***

Earnings from an annuity grow on a tax-deferred basis. This means that income taxes that would have been paid on interest, dividends or capital gains are deferred until you make a withdrawal from the contract. Therefore, investments may grow faster in an annuity than in a taxable investment vehicle with a similar rate of return, because money that would have been used to pay taxes on earnings remains invested and continues to grow and compound.

It is important to note, however, that when you withdraw your money from a variable annuity, or receive payments during the payout phase, **you will be taxed on the earnings at ordinary income-tax rates rather than the lower tax rates applicable to capital gains.** The benefits of tax deferral may outweigh the costs of a variable annuity only if you hold it as a long-term investment to meet retirement and other long-range goals.

Additionally, when the owner (or annuitant, as specified in the prospectus) of the annuity dies, the beneficiary is taxed on all appreciation in the account when the death benefit is received, whereas investments held in a taxable account receive a stepped-up cost basis (i.e., the value of the account at the owner's death).

## Death Benefit

Most contracts include a standard death benefit where your beneficiary is guaranteed to receive a specified amount—typically, the greater of the current contract value or the amount of your purchase payments, less withdrawals.

Some contracts also offer “enhanced” death benefits for an additional charge. This type of death benefit is designed to periodically “lock in” your investment performance and/or guarantee a minimum rate of return on the value of your account.

Another optional death benefit that may be available for an additional charge is the earnings-enhanced death benefit. This feature entitles the beneficiary to a death benefit increased by an amount (typically 25% to 40% of the earnings in the contract) that can be used to help offset taxes that may be due on the death benefit.

The cost for these optional death benefits typically ranges from 0.20% to 0.65% annually.

### Note:

- Death-benefit guarantees, like all payment obligations of the issuing insurance company, are backed only by the financial strength of the issuing insurance company.
- The death benefits described above terminate once you elect an income option and enter the payout phase of the contract.
- Depending on the contract, death benefits may be payable upon the death of the owner, the annuitant or both.
- Withdrawals during the savings phase will reduce your death benefit.
- Most optional death benefits must be elected when the contract is issued and cannot be canceled.
- Earnings distributed as death benefits are taxed as ordinary income when received by the beneficiary.

## Living-Benefit Options

Annuities have been long characterized by their ability to provide retirement income that cannot be outlived during the payout phase. New annuity products have “living benefits” that provide principal and/or income guarantees to help protect your investment from declining markets during the savings phase—insurance for your purchase payments.

There are three basic types of living benefits, each with a distinct objective. The chart below provides a summary and some additional considerations. The actual guarantees and corresponding fees will vary by contract. These benefits are optional and are available for an additional cost. As with any optional benefit, it is important to weigh the costs against the benefit when adding such riders to your contract. Read the prospectus carefully with regard to the benefits you elect.

The cost for these optional living benefits typically ranges from 0.40% to 0.85% annually.

<b>Living-Benefit Option</b>	<b>Benefit Description</b>	<b>Additional Consideration</b>
Guaranteed Minimum Accumulation Benefit (GMAB)	Generally, this benefit guarantees the return of your purchase payments or a higher stepped-up value at the end of a waiting period, typically ten years from issue or last step-up, regardless of your investment performance. If your contract value is below the guaranteed amount at the end of the waiting period, the issuer will increase your contract value to equal the guaranteed amount (adjusted by any withdrawals).	At the end of the waiting period, the benefit may be renewed to protect your purchase payments for another waiting period, depending on the terms of the contract. If the benefit is not renewed, your purchase payments will become subject to market risk and may lose value. Additionally, some contracts require that all of your assets be allocated in specified investment options during the waiting period.
Guaranteed Minimum Income Benefit (GMIB)	Generally, this benefit guarantees a lifetime income stream when you annuitize the GMIB amount (after a seven-to-ten-year waiting period), regardless of your investment performance. The GMIB amount may be based on your premium payments (adjusted by any withdrawals) compounded annually at a rate of 4% to 6% (often referred to as the roll-up value), or it may equal the greater of the contract's highest anniversary value or the roll-up value. The GMIB amount must be annuitized. It is not available as a lump-sum payment.	The income stream is often limited to payments for life with a minimum number of payments guaranteed.  The GMIB income stream is determined by applying the GMIB payout rates to the GMIB amount, although you may receive a higher income stream by annuitizing under the regular provisions of your contract. In this case, the GMIB provides no additional benefit.
Guaranteed Minimum Withdrawal Benefit (GMWB)	Generally, this benefit guarantees a return of your purchase payments or a higher stepped-up benefit base via annual withdrawals typically equal to 5% –7% of your benefit base even if the contract value declines to zero due to withdrawals and/or poor market performance. It may also guarantee these annual withdrawals for your life, or for the life of you and your spouse, if you begin taking these withdrawals after a specified age, typically age 59½.	During the withdrawal period, withdrawals in excess of the benefit withdrawal limit (5% or 7%) may negatively affect the guarantee.  Additionally, some contracts require that all of your assets be allocated in specified investment options.  Generally, there is no waiting period to begin withdrawals. Withdrawals not taken generally do not accumulate or carry over to the next year.

**Note:** All living-benefit guarantees are backed only by the claims-paying ability of the issuing insurance company.

## Lifetime Income

Variable annuities offer several income options for receiving payments from your annuity, including the option to receive payments for the rest of your life (or your life and the life of your spouse, or any other person you designate). This feature, known as annuitization, offers protection against the possibility that you will outlive your assets. Generally, you cannot change the income option once annuity payments begin.

# Other Features and Benefits

## ***Withdrawals***

Annuity contracts generally offer the right to withdraw up to 10% of the contract value annually without incurring a surrender charge (discussed below). However, withdrawals of earnings are subject to applicable income tax and, if taken prior to age 59½, a 10% IRS penalty tax may also apply. You are generally not required to begin withdrawals at age 70½ (unless your annuity is held in a qualified plan), so your money can keep growing tax deferred until you need it. Annuity distributions are generally not required until age 90, although this rule varies by contract.

Withdrawals reduce your contract value, death benefits and living benefits. Depending on the annuity contract, a withdrawal will reduce the death and living benefits on a dollar-for-dollar or pro-rata basis to equal the contract value after the withdrawal. A pro-rata reduction means that the withdrawal will reduce the benefit by the proportion that the withdrawal reduces the contract value. If at the time of the withdrawal, the contract value is less than the benefit amount, a pro-rata reduction will reduce the benefit by an amount greater than the withdrawal. For example, if the contract value is \$200,000 and the death benefit is \$300,000, a withdrawal of 50% of the contract value or \$100,000 will also reduce the death benefit by 50%, or \$150,000 (the proportional decrease in the contract value), not merely by the amount of the withdrawal. Please read the prospectus carefully.

## ***Bypass Probate***

By simply naming a beneficiary, the assets of your annuity are transferred directly to your beneficiaries, bypassing probate.

## ***Dollar-Cost Averaging***

Dollar-cost averaging is a feature that allows you to systematically invest equal amounts into the same investment options at regular intervals over a set period of time. Many variable annuities offer you the option of automatic dollar-cost averaging by using a money-market or fixed account option to hold money and then invest it into the available investment options of your choice. Since dollar-cost-averaging programs require an initial investment in the fixed account and then the periodic transfer of all funds into subaccounts that are subject to market risk, the annual effective yield on the fixed account is paid on a declining balance.

## ***Automatic Rebalancing***

The allocation within your variable annuity may change over time due to changing market conditions. Most variable annuities offer programs that automatically rebalance your portfolio back to your original desired allocation. You select the frequency for rebalancing your portfolio when you set up the program.

**Note:** Dollar-cost averaging and automatic rebalancing do not assure a profit or protect against a loss. Before beginning a dollar-cost averaging program, you should consider your ability to continue purchases through periods of fluctuating price levels.

# Other Tax Considerations

The tax rules that apply to variable annuities can be complicated. Before investing, you should consult a tax advisor about the tax consequences of investing in a variable annuity.

## ***Annuities in Tax-Advantaged/Retirement Accounts***

Although tax-deferred growth is a key advantage of a variable annuity, if you are investing in a variable annuity through a tax-advantaged retirement plan (such as a 401(k) plan, 403(b), IRA, SEP or Keogh), **you will get no additional tax advantage from the variable annuity** because the retirement account already provides tax-deferred growth. You should only consider buying a variable annuity in a tax-advantaged retirement plan if it makes sense because of the annuity's other unique features, such as guaranteed lifetime income payments, guaranteed living benefits and death-benefit protection.

## ***Unlimited Contributions***

A nonqualified annuity (an annuity purchased outside a tax-advantaged retirement plan with after-tax dollars) offers distinct advantages over other tax-favored retirement plans such as a 401(k), 403(b), IRA, SEP or Keogh, because there is no IRS-imposed limit to the amount that can be contributed for tax-deferred growth. While it is advisable to first make the maximum allowable contributions to your qualified plan, it may be appropriate to invest any additional assets earmarked for retirement into a nonqualified annuity.

## ***No Annual Tax Reporting***

There are no required annual IRS forms to be filed for nonqualified annuities. There is no IRS reporting requirement until you actually make a withdrawal from the annuity. Qualified plans that invest in annuities will have the December 31 value reported to the IRS in order to calculate Required Minimum Values for distribution purposes.

## ***IRC 1035 Exchange***

Section 1035 of the Internal Revenue Code allows for the direct exchange of an annuity or life-insurance contract for another annuity without tax consequences. A 1035 exchange may be appropriate if your contract is older and does not provide features offered in newer products such as more flexible or enhanced death benefits, living benefits or a wider choice of investment options.

**Note:** While this type of exchange is a tax-free event, other charges, such as a surrender charge, may be incurred, or a new surrender charge period may be imposed. Discuss the exchange with a Citigroup Global Markets Inc. advisor and speak to your tax advisor to make sure the exchange is tax free and to understand what charges may be incurred to determine whether the benefits of the new annuity outweigh the costs of surrendering the old one.

## ***Spousal Continuation***

Some variable annuities offer your spouse the opportunity to continue the contract in the event of your death. The spousal-continuation feature allows your spouse to continue the contract at the greater of the contract value or the death-benefit amount. This has the advantage of locking in a higher death benefit, and at the same time delaying a taxable event for the new beneficiary.

# Charges and Fees

There are charges and fees associated with annuities that are not found in other investment products. These charges cover the cost of contract administration, portfolio management and the insurance benefits (death and living benefits, and lifetime income options).

The most common fees are:

## Contingent Deferred Sales Charge (“Surrender Charge”)

Most variable annuities do not have an initial sales charge. This means that 100% of your funds are available for immediate investment in the available investment options. However, insurance companies usually assess a contingent deferred sales charge, known as a surrender charge, to an annuity owner who liquidates a contract (or makes a partial withdrawal in excess of a specified amount) during the surrender-charge period.

The surrender charge is generally a percentage of the amount withdrawn and declines gradually during the “surrender period.” A typical surrender schedule has an initial surrender charge ranging from 5% to 8% and decreases each year the contract is in force, until the surrender-charge reaches zero. Generally, the longer the surrender charge schedule, the lower the contract fees. Most contracts will begin a new surrender-charge period for each subsequent purchase payment.

The table below summarizes typical surrender charges by contract type. Please read the prospectus carefully with regard to the applicable surrender charges and surrender schedules for your annuity contract.

Type of Annuity	Fees or Charges
“B Share” Annuities	Impose a declining surrender schedule averaging six to eight years.
Premium-enhanced or “Bonus” Annuities	<ul style="list-style-type: none"><li>• Include a premium enhancement or purchase payment credit, typically ranging from 2% to 6%, which will be considered earnings upon withdrawal.</li><li>• Usually have higher fees and/or longer surrender periods than other B-share annuities.</li></ul>
“L Share” Annuities	Impose a shorter surrender-charge schedule (three or four years), but typically have higher charges than similar B-share annuities.
“C Share” Annuities	Offer full liquidity at any time without the front-end or back-end surrender charges but typically have higher fees.

## ***Annual Contract Charges for Insurance and Maintenance***

You will pay several fees and charges when you invest in a variable annuity. Among these are mortality and expense risk charges and administrative and distribution fees. These asset-based charges are assessed daily and typically range from 1.15% to 1.85% annually.

These and other common fees are described below:

### **Mortality and Expense Risk Charge (M&E)**

The M&E charge compensates the insurance company for insurance risks it assumes under the annuity contract. M&E charges are deducted from the value of the subaccounts. The fees for the optional death and living benefits described above are charged separately and are not included in this M&E charge.

### **Administrative and Distribution Fees**

These fees cover the costs associated with servicing and distributing the annuity, including the cost of transferring funds between subaccounts, tracking purchase payments, issuing confirmations and statements and customer service. Administrative and distribution fees are also deducted from the value of the subaccounts.

### **Contract Maintenance Fee (Annual Fee)**

This is an annual flat fee for record-keeping and administrative purposes, approximately \$30 or \$35, deducted on the contract anniversary. This fee is typically waived for contract values over \$50,000.

### **Underlying Subaccount Expenses**

Fees and expenses are also charged on the subaccounts. These include management fees, which are paid to the investment advisor, who is responsible for making investment decisions affecting your subaccounts. This is similar to the investment manager's fee in a mutual fund. Expenses include the cost of buying and selling securities as well as administering trades. These asset-based expenses will vary by subaccount and typically range from 0.70% to 1.20% annually.

Charges and fees may vary depending upon the share type of annuity as well as other factors and are all disclosed in the annuity contract prospectus and in the subaccount prospectus fee tables. Be sure you understand all the charges and fees before you invest.

**These charges and fees will reduce the value of your account and the return on your investment.**



# How Citigroup Global Markets Inc. and your Advisor Are Compensated

If made available to you, we offer a selection of over 100 actively managed variable, fixed, immediate and offshore annuities from 16 approved insurance-company families or providers. We review and evaluate each provider whose products we offer based upon various factors, including but not limited to:

- Quality and competitiveness of products offered;
- Financial strength of the provider;
- Systems compatibility and ability to provide technological support for the sale and servicing of contracts;
- Ability and commitment to support our advisors and clients through training, education and sales literature; and
- Level of interest and demand among our clients and advisors.

Evaluating providers in this manner allows us to focus our marketing and sales-support resources on the providers of greatest interest, and those that offer the most competitive and suitable products for our clients and their advisors. Our advisors are not permitted to recommend investments in products from providers that we have not reviewed, evaluated and approved.

## **Revenue Sharing**

For each variable-annuity product we offer, we seek to collect from providers a support fee, or what has come to be called a revenue-sharing payment. These revenue-sharing payments are in addition to the mortality and expense risk charges, administrative fees, contract maintenance (or "annual") fees, applicable contingent-deferred sales charges and underlying subaccount expenses disclosed in the contract prospectus and in subaccount prospectus fee tables. Revenue-sharing payments are paid out of the provider's revenues or profits and not from a client's contract value or the assets of a subaccount. However, the provider's revenues or profits may in part be derived from the product fees and expenses described in the prospectus. No portion of these revenue-sharing payments to CGMI is made by means of brokerage commissions generated by the provider, the subaccount investment companies or their affiliates.

**It is also important to note that Citigroup Global Markets Inc. advisors receive absolutely no additional compensation as a result of these revenue-sharing payments.**

In 2009, we are charging approved providers a revenue-sharing fee of up to 0.05% per year (\$5 per \$10,000) on client assets, calculated quarterly, based upon the aggregate value of variable-annuity assets (including assets invested in fixed-rate accounts within variable annuities) invested in contracts for which we are designated as the broker/dealer or agent of record, to the extent such contracts have been in force for more than one year. This rate is subject to volume discounting (that is, as the number of assets increases, the basis-point charge for those assets will decrease). We separately receive revenue-sharing fees charged at different rates from mutual fund families whose funds we offer directly, which may include fund families whose products are offered within approved providers' subaccounts, but those separate fees do not

take into account any assets held within variable-annuity subaccounts. You can obtain a listing of these providers online or by contacting your advisor.

Representatives of approved providers—whether they remit revenue-sharing payments or not—are, subject to the discretion of our Managers, provided access to our branch offices and advisors for educational, marketing and other promotional efforts. Although all approved providers are provided with such access, some providers devote more staff and resources to these activities and therefore may have enhanced opportunities to promote their products to our advisors. This fact may, in turn, lead our advisors to focus on those products when recommending variable-annuity investments to our clients instead of on products from those providers that do not commit similar resources to educational, marketing and other promotional efforts.

### ***Commissions***

If variable annuities are made available to you, each time a variable annuity is purchased through a Citigroup Global Markets Inc. advisor, the provider pays us compensation, in the form of a commission, based upon the product and share class selected and the amount of the client investment. CGMI does not pay any portion of the commission to Citigroup Global Markets Inc. advisors. Compensation may also include annuity-contract-servicing payments (sometimes called trails), which are payable as long as the contract is in force. Upfront and trail-commission payments are paid out of the provider's assets, but derived from the product fees and expenses described in the prospectus.

### ***Expense Reimbursements***

We may be reimbursed by approved providers, their parent or affiliated companies, or other service providers for the expenses we incur for various sales meetings, seminars and conferences held in the normal course of business. These reimbursements may be viewed as a form of revenue sharing but are not included in the data provided above. Although providers independently decide what they will spend on these activities, we are aware that some providers allocate their promotional budgets based upon prior sales and asset levels and that they work with our branch offices or advisors to plan promotional and educational activities on the basis of such budgets. We do not contribute in any way to providers' determinations of how to allocate their promotional budgets or to their spending decisions in this regard.

### ***Compensation Citi Receives from Providers***

CGMI and other Citi affiliates receive from certain approved providers or their parent or affiliated companies compensation in the form of commissions and other fees for providing traditional brokerage services, including related research and advisory support, and for purchases and sales of securities for their own portfolios or the portfolios of subaccount investment companies. CGMI and other Citi affiliates also receive other compensation from certain approved providers or their parent or affiliated companies for financial services performed for the benefit of such companies. We prohibit linking the determination of the amount of such brokerage commissions and service fees charged to an approved provider or its parent or affiliated company to the aggregate values of our overall variable product sales or client holdings of these products or to offset the revenue-sharing or expense reimbursements described above. Moreover, such brokerage commissions and other service fees are not paid to or shared with our variable-products business units.

For additional information on a particular provider's payment and compensation practices, please refer to the provider's product prospectus and statement of additional information.

# Before You Decide to Buy a Variable Annuity, Consider the Following Questions:

## ***Investment Goals***

- Will you use the variable annuity primarily to save for retirement or a similar long-term goal?
- Are you investing in the variable annuity through a retirement plan or IRA (which would mean that you are not receiving any additional tax-deferral benefit from the variable annuity)?
- Do you intend to remain in the variable annuity long enough to avoid paying any surrender charges if you have to withdraw money?
- Are you willing to take the risk that your account value may decrease if the underlying investment options perform poorly?
- Have you consulted with a tax advisor and considered all the tax consequences of purchasing an annuity, including the effect of annuity payments on your tax status in retirement?

## ***Costs and Benefits***

- Do you understand the features of the variable annuity?
- Do you understand all of the fees and expenses that the variable-annuity provider charges?
- Do you understand the various ways in which Citigroup Global Markets Inc. and your advisor are compensated in connection with your variable-annuity purchase?
- If a variable annuity offers a bonus credit, will the bonus outweigh higher fees and charges that the product may charge?
- Are there features of the variable annuity that you could purchase more cheaply separately?
- If you are exchanging one annuity for another one, do the benefits of the exchange provide a substantial financial benefit that outweighs the costs, such as any surrender charges to be paid on the old annuity and the impact on your liquidity resulting from any new surrender charge schedule for the new annuity?

## ***For More Information***

Before purchasing a variable annuity, you owe it to yourself to learn as much as possible about how they work, the benefits they provide and the charges you will pay. For more information, contact a Citigroup Global Markets Inc. advisor or visit the following Web sites:

- Securities and Exchange Commission at SEC.gov
- Financial Industry Regulatory Authority ("FINRA") at [finra.org](http://www.finra.org)
- The FINRA Investor Alert, "Variable Annuities: Beyond the Hard Sell" (5/27/03), at <http://www.finra.org/Investors/ProtectYourself/InvestorAlerts/AnnuitiesAndInsurance/p005976>
- The FINRA Investor Alert, "Should You Exchange Your Variable Annuity?" (3/2/06), at <http://www.finra.org/Investors/ProtectYourself/InvestorAlerts/AnnuitiesAndInsurance/p006045>

*Variable annuities are subject to risk, including the possible loss of principal. Variable annuities are sold by prospectus only. You should consider the investment objectives, risks, charges and expenses of the annuity carefully before investing. Please consult your advisor for a copy of the product prospectus for this and other information. Please read the prospectus carefully before investing.*

*Variable annuities are offered in conjunction with Citigroup Life Agency LLC ("CLA"), which is an affiliate of CGMI and Citigroup Inc. In California, CLA does business as Citigroup Life Insurance Agency, LLC (license number 0G56746).*

*Investments in annuities are not FDIC-insured or bank-guaranteed and may lose value.*

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*Portions of this brochure have been excerpted or paraphrased from the online publication, "Variable Annuities: What You Should Know," which can be found at the U.S. Securities and Exchange Commission Web site, <http://www.sec.gov/investor/pubs/varannity.htm>. We encourage you to read this publication.*

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