PUTTING YOUR VARIABLE ANNUITY TO WORK FOR YOU

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VARIABLE ANNUITIES

INTRODUCTION

This brochure generally describes variable annuities, how they work, and their costs. This brochure does not replace the prospectus for any variable annuity. Before investing in a variable annuity, you should read the product prospectus. A prospectus provides important information about the variable annuity's contract, features, and investment options. A review of the prospectus will help you understand how a variable annuity differs from other types of investments.

Any investment should fit your personal and financial situation, investment objectives, risk tolerance, and financial ability to pay. Feel free to discuss any questions you may have with your Valmark Registered Representative or Investment Advisor Representative.

A. WHAT IS A VARIABLE ANNUITY?

1. *Basic Definition* – A variable annuity is an investment contract between you and an insurance company, which offers many benefits, including: (a) tax-deferred treatment of investment earnings; (b) a variety of payout choices; (c) a death benefit; and (d) the option to add on various features such as: (i) a guaranteed minimum income benefit; (ii) a guaranteed minimum accumulation benefit; (iii) dollar cost averaging; and (iv) lifetime guaranteed withdrawal benefit. These optional features are described in the following sections of the brochure.

2. *Variable Annuity Sub-Accounts* – During a variable annuity's "accumulation phase", purchase payments are made into a variable annuity account. Payments are allocated among a variety of investment sub-accounts offered by the variable annuity. Variable annuities offer various underlying investment opportunities. They allow investments in money market, bond, equity, real estate, international and other asset classes and strategies. The value of the underlying investments contained in these sub-accounts will fluctuate due to market changes. Absent any variable annuity rider to the contrary, there is no guarantee against a loss of investment value.

3. *Long-Term Investment Commitment* – A variable annuity usually is considered a long-term investment for several reasons. First, an annuity contract may impose a surrender charge if withdrawals are taken within a given period over a percentage specified by the contract. Second, when money is withdrawn from a variable annuity, the IRS requires all earnings to be withdrawn before the amount of money originally invested in the annuity may be withdrawn. These tax deferred earnings are subject to ordinary income taxes at this point. However, for investors willing to hold a variable annuity for a period of years, the costs of a variable annuity may be outweighed by the benefits of tax-deferral.

B. VARIABLE ANNUITIES, IRAS & QUALIFIED PLANS

There are special considerations involved with purchases of variable annuities within an Individual Retirement Account ("IRA") or other qualified retirement plan, such as your employer sponsored retirement plan. (For the purposes of this brochure, an IRA is an Individual Retirement Account and not an Individual Retirement Annuity.)

IRAs and qualified plans, like variable annuities, offer tax deferred treatment of earnings. You should know that you do not need to use a variable annuity within an IRA or qualified plan in order to get the benefit of tax-deferral. However, you may wish to invest in variable annuities within an IRA or qualified plan in order to obtain the other benefits of variable annuities, such as a death benefit or a guarantee of principal or income. These benefits carry some costs, as discussed further in Section E.

Contributions to IRAs and qualified plans reduce your current taxable income, a benefit not available with variable annuities. However, IRAs and qualified plans limit the amount of money that may be invested in a single year. There are no such limits with variable annuity investments.

You should carefully consider the surrender charge period of any variable annuity you may purchase inside an IRA or qualified plan. Traditional IRAs and qualified plans generally require you to begin withdrawals no later than April 1 following your 70½ birthday. Your insurer may impose surrender charges if you make your mandatory withdrawals before your surrender charge period has ended.

YOUR VALMARK REGISTERED REPRESENTATIVE OR INVESTMENT ADVISOR REPRESENTATIVE CAN HELP YOU UNDERSTAND THE SPECIAL CONSIDERATIONS AND COSTS ASSOCIATED WITH INVESTING IN VARIABLE ANNUITIES WITHIN YOUR IRA OR QUALIFIED PLAN.

C. HOW DO VARIABLE ANNUITIES WORK?

A variable annuity has two phases: an accumulation phase and a payout phase. During the accumulation phase, you make purchase payments that are considered your investment contributions. Contributions are allocated among a variety of investment choices or sub-accounts. Here are a few things you should know about the accumulation phase:

1. THE ACCUMULATION PHASE

The account value of your variable annuity will be based on the accumulated value of your net contributions plus/minus any changes in your selected investment sub-accounts and minus expenses. Variable sub-accounts do not have guaranteed rates of return, and will vary in their value due to market changes and other factors. **There is a risk that these investments may lose money.**

Some variable annuities offer the option to invest a portion of your net contributions in a fixed account that pays a fixed interest rate. This fixed rate may be reset periodically. Other variable annuities designed for accumulation may use index strategies that provide crediting up to a certain predetermined cap and also provide a specific level of downside risk. These annuities may or may not offer a standard death benefit and generally do not charge implicit fees.

If money is withdrawn during the accumulation phase, your account's earnings ability will decrease and there may be surrender charges and some tax consequences. Also, withdrawals may reduce the potential positive impact of certain features such as living benefit or death benefit riders.

Periodically, in response to changing conditions, the allocation of sub-accounts within a variable annuity should be adjusted. Money can be transferred between sub-accounts without paying tax on any investment gains. However, variable annuity investments are not designed for market timers, and you may be charged for such transfers if there are too many transfers within a set time period such as one year.

Dollar Cost Averaging Program Variable annuities that offer a dollar cost averaging benefit allow net contributions to be initially invested in a fixed account with a fixed interest rate or a money market account with a varying interest rate. The fixed rate, however, compounds on a declining fixed account balance because, over a period of time, generally six months to a year, equal amounts are withdrawn and invested in variable investment options. As a result, the actual return on dollars invested in the fixed account is lower than the advertised annual effective yield.

C. HOW DO VARIABLE ANNUITIES WORK? *(CONTINUED)*

2. THE PAYOUT PHASE

During the payout phase, you receive income payments based on the accumulated account value of your variable annuity. Variable annuities allow you to select a variety of payout choices. Generally, you must select your payout choice before your payout phase begins. You may choose to receive payments as a lump sum, a series of payments, or make withdrawals at your discretion.

You may choose to receive specific withdrawals such as a required minimum distribution or another specified amount. Additionally, you may wish to receive fixed payments or payments that vary depending on the performance of the sub-accounts. You may choose to have your payments paid for a specified period. Payments may also be elected for an indefinite period (such as someone's lifetime). The length of your payout phase will affect your payout amount.

You generally can also "annuitize" your account value. This means that the insurance company will convert your account value into a stream of payments that you will receive over a period of time or your lifetime. This stream of income can be fixed or variable depending upon the type of product.

To receive a guaranteed minimum income benefit or a guaranteed principal benefit, you may need to annuitize your contract (i.e., convert your account balance into a stream of income payments) or set up a systematic withdrawal plan. The guarantees, subject to the claims-paying ability of the insurer, may be reduced if you remove money from the sub-accounts before a certain period of years, generally ranging from 5 to 10 years.

Payments and/or advisory fees from a variable annuity account before the age of 59 ½ may be subject to an IRS 10% early withdrawal penalty. Also, when your payment contains any investment gains from your variable annuity account, the IRS taxes such gains at your ordinary income tax rate, which is generally higher than the capital gains rates that may be available with stock, bond, and mutual fund investments.

D. OPTIONAL RIDERS OF VARIABLE ANNUITIES

A variable annuity generally offers optional riders that add to the basic benefits of the variable annuity contract. Variable annuity contracts with selected rider options may have additional costs associated with them such as a longer surrender charge period, and/or other contingencies such as limitations on investment choices.

Variable annuities, as do all investments that are subject to market fluctuations, have some investment risk. This means that the annuity payments received during the payout phase may be less than you desire. A number of optional riders are available to help manage this risk.

The financial strength of an insurance company is an important consideration when you wish to add riders to your variable annuity contract. An insurer's financial strength affects how well the company may pay any guaranteed benefits, especially when they are greater than your account value. Your Valmark Registered Representative or Investment Advisor Representative can help you assess the financial strength of any insurance company that offers a variable annuity.

1. GUARANTEED WITHDRAWAL BENEFIT (GWB)

A guaranteed withdrawal benefit offers you the ability to take a withdrawal from your annuity for a guaranteed period of time – in some instances for the remainder of your life.

A **GWB** rider guarantees a minimum of your full return of your initial investment through annual withdraws of the **Income Base (IB).** Your IB is generally equal to your initial investment. Each annuity contract specifies a certain percentage of your IB that may be withdrawn annually – generally from 5% to 7%*. If during any contract year you withdraw an amount greater than this percentage, you may experience a decrease in the amount of total benefit that you will be able to receive.

** Dependent upon the specific provisions of your variable annuity contract.*

Some versions of this rider have features allowing your IB to increase in value up until the time you begin to take withdrawals. This is important because an increase in your benefit base can result in a higher guaranteed withdrawal once you decide to begin taking withdrawals from your annuity. Once withdrawals begin, most guaranteed withdrawal benefit riders will offer you periodic opportunities to increase your withdrawal amount as a result of gains in contract value commonly referred to as a market reset.

D. OPTIONAL RIDERS OF VARIABLE ANNUITIES (CONTINUED)

2. LIFETIME GUARANTEED WITHDRAWAL BENEFIT (LGWB)

A lifetime guaranteed withdrawal benefit offers you guaranteed lifetime income regardless of your account value or market performance. A **LGWB** rider allows you to withdraw a percentage of your **Income Base (IB**) each year for as long as you live, regardless of market performance, even if the account value is insufficient to cover these lifetime withdrawals.

Your allowable annual withdrawal percentage is determined by your age at the first withdrawal. This percentage generally ranges from 4%-7%. Many LGWB riders offer the opportunity for the amount of the withdrawal percentage to increase and the payment to be recalculated if the contract anniversary value increases in later years.

Please refer to your contract for specific language regarding increasing withdrawals.

Most LGWB riders offer guaranteed annual growth of the IB for a period of time. However, guaranteed growth does not occur in the year a withdrawal is taken. In some contracts, a withdrawal can cause the permanent loss of future guaranteed growth. In addition to guaranteed growth, most LGWB riders also allow the IB to increase based upon market performance. Some products increase the IB to the highest account value each day, month, quarter or year, if greater than the previous IB amount. It is important to note, withdrawals in excess of your annual allowable percentage can reduce your IB and therefore reduce future guaranteed withdrawals.

3. GUARANTEED MINIMUM ACCUMULATION BENEFIT

A **Guaranteed Minimum Accumulation Benefit (GMAB)** allows you to participate in the market while guaranteeing you will receive no less than a full return of your initial investment after a certain period of time, generally 10 years. However, if you withdraw money during the waiting period, your minimum guaranteed benefit will be reduced. Some variable annuity contracts will also give you the ability to lock-in investment gains each year. A lock-in will generally start a new waiting period. It is important to note, most variable annuity contracts offering a GMAB rider limit investment choices.

D. OPTIONAL RIDERS OF VARIABLE ANNUITIES (CONTINUED)

4. GUARANTEED MINIMUM INCOME BENEFIT (GMIB)

A **GMIB** rider provides a guaranteed minimum annual growth rate that can be accessed annually (in full or in part) by the policy owner in the form of a cash withdrawal. The guaranteed growth amount not accessed in the form of a cash withdrawal remains in the contract and grows in a separate account, most commonly referred to as an **Income Base (IB).** The IB is not actual cash value accessible to the client, but rather a shadow account used to provide future fixed lifetime income payments.

The IB will increase annually by the guaranteed growth rate, less any cash withdrawals. However, if the account value, based on market performance of the underlying sub-accounts is greater than the guaranteed annual growth rate, the IB will "reset" to this higher amount. The annual growth rate going forward will then be applied to the newly reset IB amount.

While a GMIB rider permits a policy owner to access the guaranteed growth amount through cash withdrawals, or allow it to accumulate in order to grow the IB, it also allows them to receive lifetime income by annuitizing the IB. It is important to note most contracts require a waiting period of 10 years from the later of policy issue or a market reset before annuitizing the IB.

One of the main benefits of a GMIB rider is it allows you to take lifetime income from an amount guaranteed never to be less than your original premium (assuming no withdrawals in excess of the guaranteed amount have occurred), regardless of actual account value or market performance.

D. OPTIONAL RIDERS OF VARIABLE ANNUITIES (CONTINUED)

5. ENHANCED DEATH BENEFIT (EDB)

Most variable annuities include a standard death benefit payable to the beneficiary of the contract, generally triggered by the death of the policy owner. A standard death benefit is typically equal to the greater of your initial investment adjusted for withdrawals or the current account value at death. Some insurance companies offer **Enhanced Death Benefit (EDB)** riders that can be added to your variable annuity for an additional cost. There are generally four types of EDB riders:

1. **Highest Anniversary Value Death Benefit** Increases the value of the death benefit based on the performance of the underlying sub-accounts. The death benefit locks in the investment gains of the contract by equaling the account value at various anniversaries (annual, quarterly, monthly, etc.) depending on the particular product.
2. **Guaranteed Annual Growth Death Benefit** Increases the death benefit each year based on a stated annual guaranteed growth rate.
3. **Combination Death Benefit** Increases the death benefit by an amount equal to the greater of the account value at various anniversaries (annual, quarterly, monthly, etc.) or a stated annual guaranteed growth rate. The beneficiary will receive the higher of these two values.
4. **Estate Enhancement Death Benefit** Increases the death benefit by an amount equal to a stated percentage of the current contract value or a stated percentage of the growth in current contract value over the initial deposit in order to assist in the payment of estate taxes.

The proceeds of variable annuities, unlike some other investments, do not receive a “step-up” in cost basis at the death of the policy owner. Therefore, all gain received above the cost basis in the contract is taxed as ordinary income. You should consult your professional tax advisor for more information on how a variable annuity may affect your tax situation.

E. COSTS OF VARIABLE ANNUITIES

With all investments, there are associated expenses that reduce your investments' return. A variable annuity is no different. The costs of a variable annuity, explained in the prospectus, pay for benefits that traditionally have not been offered by other investments such as mutual funds.

1. **Surrender Charges and/or Premium Taxes:** Most variable annuities have a "surrender charge" that applies if withdrawals occur before a specified period (usually within 3–10 years of purchase depending on the variable annuity involved), although some annuities are available without a surrender charge.

   The surrender charge is a percentage of the amount withdrawn, and declines gradually over a period of several years, known as the "surrender period". A surrender charge may not apply if your withdrawals during any year are less than 10% or 15% of your purchase payments – depending upon the annual amount of free withdrawals that your annuity contract allows.

   Variable annuities that do not have surrender charges may have higher annual mortality and expense charges (as explained in the next section). Additionally, some states tax annuity premium payments at varying levels and, in some instances, federal deferred acquisition taxes are also subtracted from the amounts deposited in the contract.

2. **Annual Mortality and Expense (M&E) Charge:** This charge is levied against your account's accumulated value every year. The insurance company takes this charge to cover the insurance risk it assumes under the variable annuity contract's death benefit provisions. In addition, the insurance company uses this charge to recover costs associated with developing, distributing, and administering the annuity.

   M&E charges may vary between insurance carriers and annuity share class. Annuity share classes are commonly available in three forms. The first is a standard contract or class "B share" with a surrender charge schedule of 5–7 years and M&E charges of approximately 0.75%–1.40%. The second is called a class "C share" with no surrender charge schedule and an M&E charge of around 1.35%. Annuities with class B and C shares are sold by a broker-dealer's registered representative. The third class is an "Advisory" share class which typically doesn't have a surrender charge schedule. M&E charges can vary as either a percentage of the account value or a monthly dollar amount, deducted from the account value of the annuity. Advisory share annuities are offered through investment advisor representatives of investment advisory firms. The costs and benefits of these varied share class offerings should be taken into consideration along with the liquidity needs and other preferences of the contract owner.

3. **Administrative Fees:** The insurer may charge administrative fees to cover record-keeping and other expenses related to the administration of the variable annuity contract. These are usually a percentage of the account value and are discussed further in a variable annuity prospectus.

4. **Underlying Investment Expenses:** All investment accounts have expenses to offset the costs associated with their administration and management. The same applies to variable annuity sub-accounts. The sub-accounts in which your variable annuity is invested will have internal investment expenses up to a stated maximum. In addition, there are usually charges for transfers of funds between sub-account choices, once a certain number of such transfers are exceeded in a given time period, usually one year.
5. **Charges for Any Elected Riders:** When a special feature is added to your variable annuity such as an enhanced death benefit (EDB) provision or a living benefit rider (GMIB, GWB, LGWB, etc.), your variable annuity generally will incur additional expenses for these features.

F. TAX-FREE 1035 EXCHANGES

Section 1035 of the U.S. tax code allows you in most cases to exchange an existing annuity contract for a new annuity contract without paying any immediate income tax on your annuity account's investment gains. A 1035 exchange may be useful in purchasing another annuity that is more appropriate and beneficial for your needs and circumstances.

Before exchanging your annuity, you should carefully consider the costs, charges and benefits associated with both the surrender of the existing contract and the acquisition of the new contract.

With a 1035 exchange, if you are still within the surrender charge period on the old annuity contract, you will incur surrender charges. A new surrender charge period generally begins when you exchange into the new annuity.

A 1035 exchange also may not be appropriate if it results in losing a death benefit that you accumulated in the original annuity, incurring a longer surrender period, higher surrender charges, and/or other higher contract expenses within the new annuity. For these reasons, you should carefully and thoroughly review both your old and new annuity with your Registered Representative or Investment Advisor Representative before making a 1035 exchange. In some instances, you may be better off keeping your current annuity than purchasing a new annuity.

G. STRUCTURED ANNUITIES

Structured annuities may also be referred to as “buffered” annuities or “hybrid” annuities. These types of annuities offer protection against some downside risk at the cost of limiting upside potential. These annuities when invested in indexed “segments” are subject to general account risk, linking account value performance to index options that generally do not include dividend returns.

Key Terms:

1. BUFFER – The maximum negative index performance that the insurance carrier will absorb before applying a negative credit to the investor’s account value. Can also be known as a “shield”.
2. FLOOR – The maximum negative index performance that the investor will absorb.
3. CAP – The maximum positive index performance that will be used to determine the credit to the investor’s account value.
4. CREDIT – The amount applied to the investor’s account value each term (generally annually on the contract anniversary) based on index performance using the above strategies.
5. SEGMENT – Represents a combination of a buffer or floor strategy and a period of time for which performance is measured.

Some structured annuities have annual mortality and expense (M&E) charges and are sold via prospectus.

H. KEY DISCLOSURES

Variable annuities offer many unique benefits to investors. However, these benefits may come with additional costs and tradeoffs compared to other investments. It is important to review the contract and prospectus before purchasing a variable annuity. A Valmark Registered Representative or Investment Advisor Representative can help you determine whether a variable annuity purchase is appropriate and suitable for you. It is important to note, Registered Representatives will be compensated through a commission that is paid by the insurance and investment companies whose products are sold. In addition, these companies may provide some form of contingent and/or indirect compensation such as overrides or other benefits that may be tied to factors including production levels or persistency ratios. Advisory annuities provide compensation to Investment Advisor Representatives (IARs) in accordance with the Valmark Advisers, Inc. (VAI) IAR Fee described in the client’s VAI Advisory Account Agreement. This agreement also includes a Program Fee which is payable to Valmark Advisers, Inc. Both IAR Fee and Program Fee are typically deducted from a non-annuity advisory account. Valmark Advisers, Inc. an affiliate of Valmark Securities, Inc., serves as the Advisor to the TOPS™ ETF Portfolios available within several variable annuities. As highlighted in the respective prospectuses, Valmark Advisers, Inc. is compensated as a percentage of assets within each fund for services rendered as Advisor to the Portfolios.