

Loyalty Rewards[®]

Training Manual

Flexible Premium Annuity with Equity Index Options

Fidelity and Guaranty Life Insurance Company

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NOT TO BE USED FOR SOLICITATION OR ADVERTISING TO THE PUBLIC.**

Welcome to the Fidelity & Guaranty Life **Loyalty Rewards** flexible premium deferred equity-indexed annuity!

We've prepared this training manual to acquaint you with the Loyalty Rewards equity indexed annuity and to present why your clients might wish to consider one. It gives you the background information you need to fully understand our Loyalty Rewards Annuity and to educate your customers on the tremendous benefits our product will provide.

This training manual consists of two parts:

- ? **Part 1: A Detailed Look at Loyalty Rewards from Fidelity & Guaranty Life.**
- ? **Part 2: Frequently Asked Questions about Loyalty Rewards**
- ? **Buyers Guide for Fixed Deferred Annuities** – for your convenience, we have attached a copy of the “Buyer’s Guide to Fixed Deferred Annuities” that will accompany your client’s policy when they purchase Loyalty Rewards.

If you have any questions about Loyalty Rewards or how it can be used to meet your client’s retirement planning needs, call your F&G Life Master General Agent.

Part 1

A Detailed Look at the Loyalty Rewards® Annuity From Fidelity and Guaranty Life Insurance Company



Our Loyalty Rewards Annuity goes one step beyond many equity indexed annuities to appeal to a broad range of conservative retirement planners. How? First, by providing your clients with the opportunity to participate in the potential growth of the Dow Jones Industrial Average^{SM*} or S&P 500^{**} Index, while at the same time obtaining the security of minimum guaranteed rates. Loyalty Rewards offers your clients the chance to mix and match five different interest-crediting options, all within the same contract.

Second, Fidelity & Guaranty Life will pay the client additional interest of 12 percent on all premium payments made in the first year of the annuity. This additional interest is credited to the account value at a rate of 1 percent per year over 12 years for a total of 12 percent of the first year premium. (See the "Additional Interest" section on page 9.)

No Initial Sales Charges or Fees

Your client's entire initial premium is available to earn interest from the date the annuity is issued. **There are no initial sales charges or fees.**

Issue Ages

The maximum issue age for the annuitant and owner is 85. Joint owners are permitted with the oldest joint owner as the basis of issue. If the annuity is used for qualified accounts (such as IRAs or qualified plans), distributions will be required when the owner reaches age 70-1/2 to satisfy IRS-mandated required minimum distributions.

Annuity Issue Dates

Annuities are issued on the 1st, 8th, 15th, and 22nd of each month. Applications will be held and premium checks will be deposited in a non-interest bearing account until the next available issue date. Annuities issued on each date include all applications received no later than 5:00 p.m. (eastern time) two business days prior to the issue date.

Applications received on the last business day of the prior month and on the 1st through the 6th will be issued on the 8th. Applications received on the 7th through the 13th will be issued on the 15th. Applications received on the 14th through the 20th will be issued on the 22nd. Applications received on the 21st and through the end of the month, excluding the last business day of the month, will be issued on the 1st of the following month.

However, if the applicable issue date falls on a weekend or F&G Life designated holiday, then we will accept premiums up to 5:00 p.m. (eastern time) on the F&G Life business day two days prior to the weekend or holiday. For example, if the issue date is a Sunday, we will accept premiums through the previous Thursday for that issue date. Premiums received after this time will be deemed received on the next F&G Life business day (i.e. will be deemed received *after* the weekend/holiday issue date).

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The index value that will be used when the issue date falls on a weekend/holiday, will be the index value from the first day the stock market is open, *after* the weekend or holiday.

For exchanges and transfers, we will defer issuing the annuity until we have received all expected monies shown on the applicable exchange or transfer form. Once all expected monies which are shown on the form are received, we will issue the annuity on the next available issue date (subject to the special rules for weekends and F&G Life designated holidays, as described above). All exchange and transfer monies received will be deposited in a non-interest-bearing account until the applicable issue date. Please note that failure of the transferring institution to respond promptly to an exchange or transfer request could result in extended periods during which proceeds from multiple exchange/transfer policies remain in the non-interest bearing account pending receipt of all applicable funds.

Minimum Premium

The minimum initial premium is \$5,000. (The minimum for subsequent premiums is \$2,000. If your client chooses to reallocate the account value between Options on a contract anniversary, at least \$2,000 must be reallocated.

Additional Premium

The minimum for subsequent premiums is \$2,000. Any additional premium will be placed initially into Option E. On the annuity anniversary, the client may reallocate any portion of the account value between any of the five options.

Interest Crediting Option Selection

An owner can select more than one Option; however, the amount going into any particular Option must be at least \$2,000.

Loyalty Rewards's Five Interest-Crediting Options

These options are:

- ? **Options A and C** – Credit interest annually based on formulas that take into account averaged monthly index values of the current S&P 500 (Option A) index or Dow Jones Industrial Average (Option C) index. After applying the F&G Life averaging formula, the averaged index value on the current anniversary is compared to the index value on the prior anniversary. If this results in a positive index change and is not more than the cap, it is applied as interest. However, if this results in a positive index change in excess of the cap, the cap is applied as interest.

- ? **Options B and D** – Credit interest annually based on formulas that take into account point-to-point values of the S&P 500 (Option B) or Dow Jones Industrial Average (Option D). The index value on the current anniversary is compared to the index value on the prior anniversary. If this results in a positive

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index change and is not more than the cap, it is applied as interest. However, if this results in a positive index change in excess of the cap, the cap is applied as interest.

- ? **Option E** -- Credits interest daily and is applied to the account value from the date of issue at a rate which is never less than the guaranteed minimum effective annual interest rate of 3%.

Options A, B, C, or D (Equity Index)

CREDITING OPTIONS

If your client chooses to apply all or a portion of the premium to one of these options, interest credits are credited annually and are based on formulas linked to annual changes that take into account monthly averaged or point-to-point values in the Dow Jones Industrial Average or the Standard & Poor's 500 indices, respectively, with each option subject to a cap rate. The initial cap rate for each option is guaranteed for the first year and is stated on page 2 of the client's annuity contract. The cap rate for each option cannot be less than 5% and is declared in advance and fixed for each year.

The key advantages of the Loyalty Rewards annuity are best appreciated through several important features of the equity index formula.

Annual Reset is a feature that ensures that the interest credited to your client's Loyalty Rewards Annuity value is locked-in on each annuity anniversary. Even if the S&P 500 or the Dow Jones Industrial Average indices decrease in subsequent years, it will not affect the interest already credited to your client's account value. This helps insulate your client from subsequent declines in the index.

EXAMPLES OF HOW INDEX-LINKED INTEREST CREDITING WORKS

Annual Reset with Point-to-Point (Options B & D)

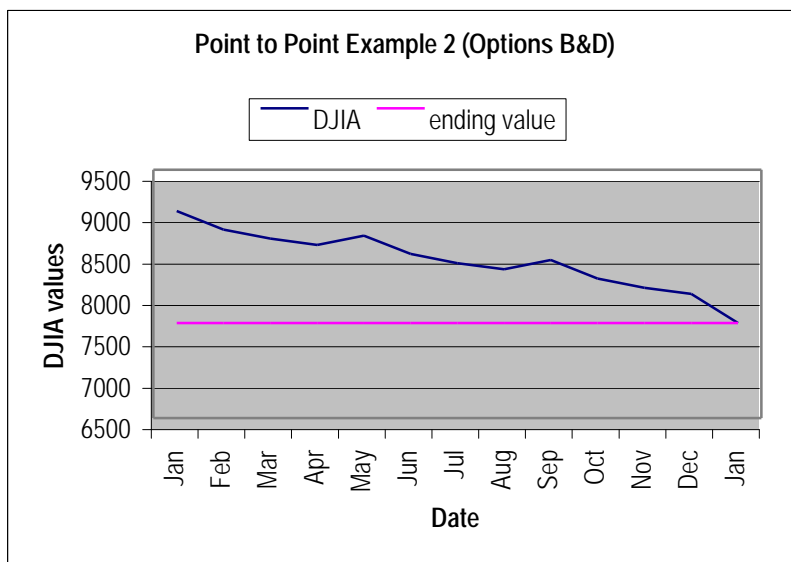
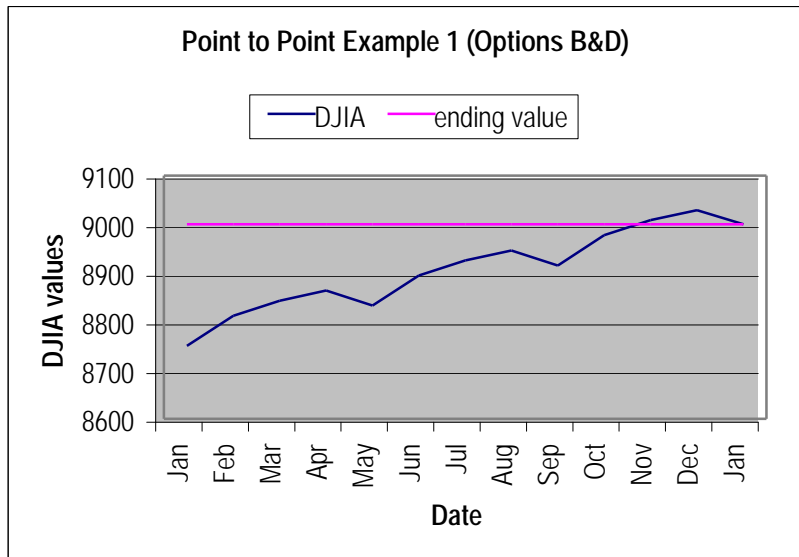
For options B & D, we use the S&P 500 or the DJIA index, respectively and calculate the annual changes. We compare today's index value (on anniversary) to the value at beginning of the year (prior anniversary). The prior anniversary's value is subtracted from the current anniversary's value and then divided by the prior anniversary's value. If this results in a positive index change and is not more than the cap, then we apply it as interest. If it is more than the cap, then we apply the cap as rate effective for that annuity year.

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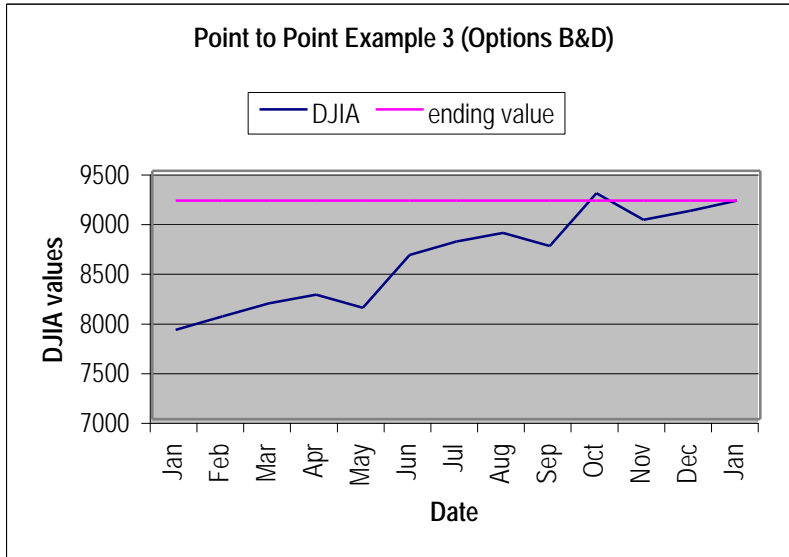
Assume the Dow Jones Industrial Average index beginning point-to-point value is 8750 and the ending point-to-point value for the year is 9000. Loyalty Rewards' index-linked formula results in a 2.8% index change. After comparing it to the 10% cap rate, Loyalty Rewards gets a 2.8% index credit.



Assume the Dow Jones Industrial Average index beginning point-to-point value is 9000 and the ending point-to-point value for the year is 7650. The index is down about 15%. Loyalty Rewards' index-linked formula results in a 0 interest credit for that year.

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Assume the Dow Jones Industrial Average index beginning point-to-point value is 7900 and the ending point-to-point value for the year is 9200. Loyalty Rewards' index-linked formula results in a 16.5% index change. After comparing it to the 10% cap rate, Loyalty Rewards gets a 10% index credit.

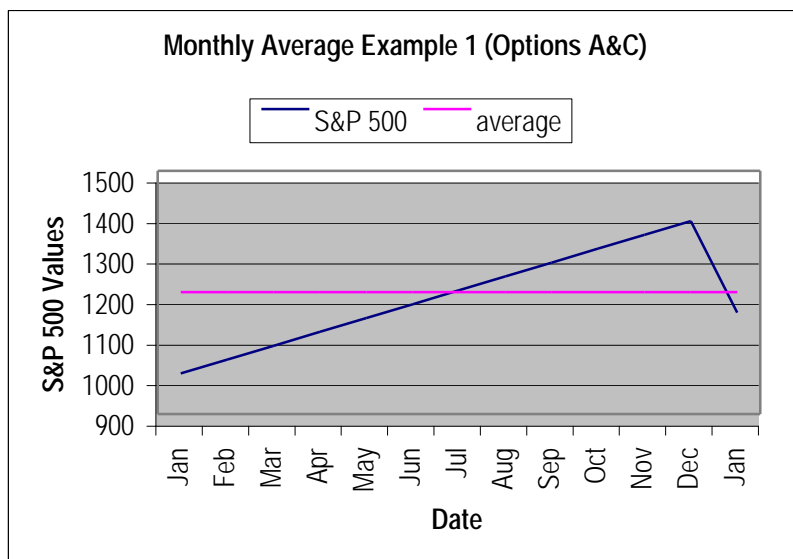
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Annual Reset with Monthly Averaging (Options A & C)

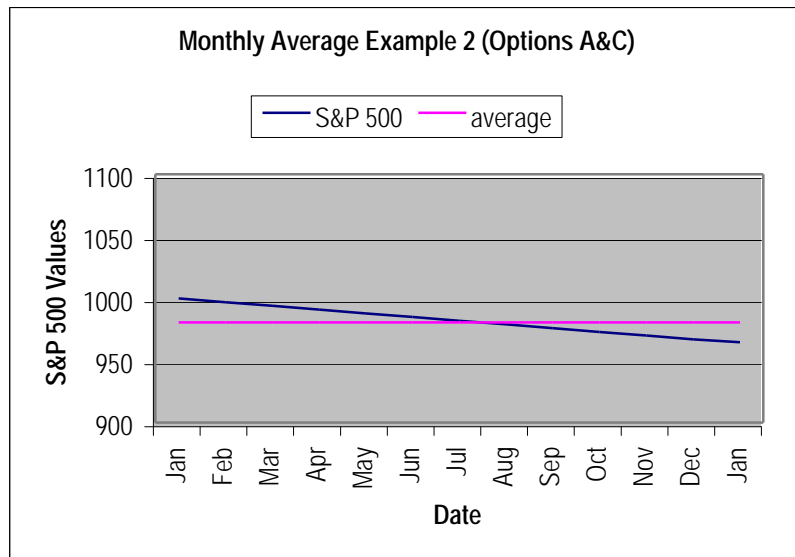
For options A and C, we use the S&P 500 or the DJIA index, respectively and calculate the annual changes on the anniversary. The index values are measured at one-month intervals, from the month after the prior anniversary to the month of the current anniversary inclusive. The index average is the average of the index values for the twelve months during each year. The index change formula (which is calculated on the anniversary) is the index average minus the index value on the prior anniversary; divided by the index value on the prior anniversary. In this way, the average monthly index value for the year is compared to the index value at the start of the year. If this results in a positive index change and is not more than the cap, then we apply it as interest. If it is more than the cap, then we apply the cap rate effective for that policy year. We offer this "averaging" formula because it helps smooth out the index values used to calculate your client's index-linked interest rate, which helps protect the client's interest rate gains from severe declines in the index during the interest crediting period. Of course, this averaging method may also reduce the amount of interest that could be earned if the index rises steadily throughout the year or increases sharply at the end of the year.



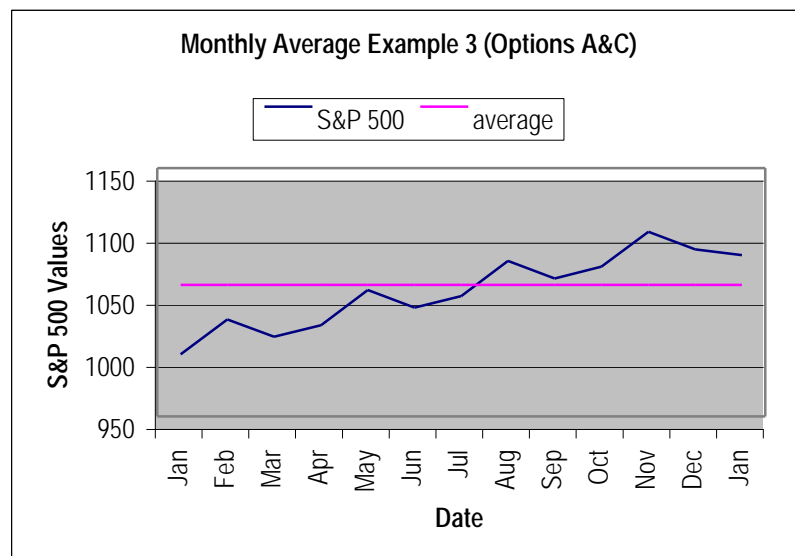
Assume the S&P 500 index initially rises steadily throughout the first eleven months. Then the index falls and ends up the year with a 15% increase. But the monthly average of the index value was up 20% over the entire year. After comparing it to a hypothetical 10% cap, Loyalty Rewards' index-linked formula results in a 10% interest credit for that year.

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Assume the S&P 500 monthly index falls and is down 3.54% for the year. Loyalty Rewards' index-linked formula results in a 0% interest credit for that year. However, your client's Loyalty Rewards annuity is insulated against any decline in value, so when the index dropped for the period, the client's annuity remains intact with no decrease in account value.



Assume the S&P 500 index rises and falls throughout the year, ending the period up 8% with a monthly average increase of 5.6%. After comparing it to a hypothetical 10% maximum index credit rate, Loyalty Rewards' index-linked formula results in a 5.6% interest credit for that year.

Remember that the annual reset crediting method locks in the interest earned on your client's account value each year.

In reviewing the information in the examples shown, note that such information:

- ? Is hypothetical only and is intended solely to illustrate the averaging and point-to-point formula and the impact of the cap rate;

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- ? Is not intended as a guarantee for the future performance of any index; and
- ? Should not be presented as a prediction regarding the future performance of any index or the Loyalty Rewards annuity.

Option E (Fixed Interest) Option

Option E is designed to permit your client to use the traditional interest-crediting methods of an annuity within the same contract as equity indexed credits.

With Option E, your client's annual interest rate is guaranteed for one year. Interest is credited daily and applied to the account value at a rate which is never less than the 3 % guaranteed minimum effective annual interest rate.

After the first year, the renewal rates will be declared annually prior to each annuity year and may be higher or lower than the initial rate, but never lower than the 3% guaranteed minimum effective annual rate.

Reallocation of Account Values

On each annuity anniversary, your client has the opportunity to reallocate money among all account value options, after any applicable index credits, in increments of at least \$2,000 and subject to minimum value constraints for each option. Notifications of reallocation must be received by the Company at least 30 days prior to the annuity anniversary. The reallocation will become effective on the annuity anniversary.

Any additional premium received will be placed initially into Option E. On the annuity anniversary the client may reallocate any portion of the account value between any of the five options.

Account Value Escalator

The Account Value Escalator will pay your client additional interest of 12 percent on all premium payments made in the first year of the annuity. Premiums paid in the first annuity year receive an immediate interest credit of 1% on the date they are applied. After that, the additional interest is credited to the account value at a rate of one percent per year over the next 11 years for a total of 12 percent of the first year premium.

This means that even if the index decreases in a given year, the additional interest ensures that your client will at least get a 1 percent return of additional interest on the first year premium(s) credited to the client's account value. And, this additional interest added to the account value each year is available to earn index-interest credits in the future.

However, withdrawals or partial surrenders in excess of 10% of the account value will cause a portion of the future, not yet credited additional interest to be forfeited. The portion of additional interest forfeited equals the percentage of the account value withdrawn that is subject to surrender charges, divided by the total account value that is subject to surrender charge.

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ADDITIONAL INTEREST – AN EXAMPLE

Let's look at an example. Let's say that your initial premium is \$100,000 and 1 percent of this amount, (\$1,000) is credited to your account value. Later that year, you make another premium payment to your account of an additional \$100,000. This premium is also credited with 1 percent of additional interest (or \$1,000).

On the first 11 annuity anniversaries, the total sum of the premiums paid during year one will receive an additional interest credit of 1 percent.

Year	Premiums	Additional Interest	Accumulation Value	Withdrawal Amount Available Without a Surrender Charge
01/01/1990	\$100,000	\$1,000	\$101,000	\$0
12/31/1990	\$100,000	\$1,000	\$202,000	\$0
01/01/1991		\$2,000	\$204,000	\$20,400
01/01/1992		\$2,000	\$206,000	\$20,600
01/01/1993		\$2,000	\$208,000	\$20,800
01/01/1994		\$2,000	\$210,000	\$21,000
01/01/1995	\$10,000*	\$2,000	\$222,000	\$22,200
01/01/1996		\$2,000	\$224,000	\$22,400
01/01/1997		\$2,000	\$226,000	\$22,600
01/01/1998	\$10,000*	\$2,000	\$238,000	\$23,800
01/01/1999		\$2,000	\$240,000	\$24,000
01/01/2000		\$2,000	\$242,000	\$24,200
01/01/2001		\$2,000	\$244,000	\$24,000

Assumes no withdrawals, surrenders, or index credits. Not indicative of future results. **Not eligible for additional interest as these premiums were not made during the first annuity year.*

Keep in mind, withdrawals may affect future annual additional interest. In our example below, the accumulation value on 04/01/91 is \$204,000. Of the \$204,000, \$20,400 is available for withdrawal without a surrender charge and \$183,600 is subject to a surrender charge. If your client took a withdrawal of \$25,000 on 04/01/91, then \$4,600 of the \$183,600, which is subject to a surrender charge, would be withdrawn. Therefore, future annual additional interest credits will be reduced by 2.51% (\$4,600/\$183,600) from \$2,000 to \$1,950.

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Year	Premiums	Additional Interest	Accumulation Value	Withdrawal Amount Available Without a Surrender Charge
01/01/1990	\$100,000	\$1,000	\$101,000	\$0
12/31/1990	\$100,000	\$1,000	\$202,000	\$0
01/01/1991		\$2,000	\$204,000	\$20,400
04/01/1991	Withdrawal of \$25,000			
01/01/1992		\$1,950	\$180,950	\$18,095
01/01/1993		\$1,950	\$182,900	\$18,290
01/01/1994		\$1,950	\$184,850	\$18,485
01/01/1995	\$10,000*	\$1,950	\$196,800	\$19,680
01/01/1996		\$1,950	\$198,750	\$19,875
01/01/1997		\$1,950	\$200,700	\$20,070
01/01/1998	\$10,000*	\$1,950	\$212,650	\$21,265
01/01/1999		\$1,950	\$214,600	\$21,460
01/01/2000		\$1,950	\$216,550	\$21,655
01/01/2001		\$1,950	\$218,500	\$21,850

Assumes no index credits or surrender charges and no withdrawals other than shown. Not indicative of future results.

**Not eligible for additional interest as these premiums were not made during the first annuity year.*

Loyalty Rewards has the Same Major Features as a Traditional Annuity

THE GUARANTEED SAFETY OF PREMIUM

Your client's annuity value is guaranteed by a qualified legal reserve life insurance company. This type of company, by law, must set aside and maintain adequate reserves to pay out present and future obligations.

Each option's minimum guaranteed surrender value is the minimum amount your client will receive if they surrender all of that option's account value. It is not used in determining any index credits.

At any time before the annuity date, each option's minimum guaranteed surrender value is the sum of the following:

- ? For premiums received in the first year, 80% of the premiums applied to that option's account value; plus
- ? For premiums received after the first year, 88% of the premiums applied to that option's account value; plus

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- ? Interest credited daily at a 3% effective annual interest rate; plus
- ? Minimum guaranteed surrender value reallocated from other options (including option E); less
- ? Any amounts previously surrendered from that option's minimum guaranteed surrender value, accumulated at 3% interest; less
- ? Minimum guaranteed surrender value reallocated to other options (including option E).

This means that on a premium of \$100,000, for example, the guaranteed minimum value of your client's annuity at the end of 12 years would be \$114,060.87. This would be true even if the indices declined consistently.

In addition, Option E guarantees your client an effective annual interest rate that is always at least 3%.

These guaranteed rates of return highlight the safety and security of Loyalty Rewards, making it an important component of any long-term retirement savings plan.

THE BENEFITS TO YOUR CLIENT'S ESTATE AND LOVED ONES

Providing for loved ones after death is an important part of the retirement planning process. The survivor benefit from the Loyalty Rewards Annuity passes directly to your client's beneficiaries, saving them the publicity, delay, and expense associated with probate. If death occurs before scheduled annuity payments begin and if the "Death of Owner" rider is attached, your client's beneficiary(ies) will receive the policy's account value. If the spouse succeeds as the new owner, the annuity contract can be continued without distributing the account value.

If the annuity owner dies, and the subsequent owner requests a full surrender of the annuity prior to the next annuity year, the annuity will be credited with a partial-year index credit prior to the distribution.

A WIDE CHOICE OF INCOME ALTERNATIVES

Loyalty Rewards' account value may be converted into regular monthly annuity payments, which are subject to a surrender charge in the first five years, that begin at any time your client chooses. Or, your client may prefer to select from a wide variety of alternatives that feature payments that last for the rest of your client's life or for the combined life of your client and a loved one:

- ? Income for a fixed period
- ? Life income with a guaranteed period
- ? Life income
- ? Joint & contingent life income

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- ? Joint & survivor life income with a guaranteed period
- ? Joint & survivor life income
- ? Life income with a lump sum refund at death.

All of these methods — except for income for a fixed period — provide a guaranteed income your client cannot outlive.

YOUR CLIENT'S ACCESS TO FUNDS

The Loyalty Rewards Annuity is designed to maximize the long-term accumulation of retirement income. So it's smart to keep your client's dollars working within the annuity until that money is truly needed. However, personal needs often change — and Loyalty Rewards is designed to help support your client when they do.

- ? **Systematic Withdrawals*** - Your client can elect to take regularly scheduled withdrawals monthly, quarterly, semiannually, or annually. These systematic withdrawals give your client the flexibility to take distributions when they're needed, while still retaining the flexibility to stop withdrawals at a later date. Systematic withdrawals are subject to surrender charges if they exceed the allowable free partial withdrawal amounts.
- ? **Unscheduled Withdrawals*** - Unscheduled withdrawals* of at least \$500 can be made up to four times per year. After the first year, and during each year thereafter, partial withdrawals of up to 10% of the account value as of the previous annuity anniversary may be made without a surrender charge during each annuity year.
- ? **Special Withdrawals* (available by rider)**
 - ? Nursing Home Care — If the owner is confined to a licensed nursing home for more than 60 days and the confinement begins after the first year, the Company will waive the surrender charges for withdrawals made during the nursing home confinement beginning after 60 days has elapsed.
 - ? Terminal Illness — The surrender charge will be waived if, after the first year, the annuity owner is diagnosed by a licensed physician to have an illness or condition resulting in a life expectancy of less than one year.
 - ? Unemployment — If an owner under age 65 becomes unemployed after the annuity is issued, and remains out of work for at least 30 days, the Company will waive the surrender charge on the annuity throughout the period of unemployment while the owner is under age 65.

Note: These provisions are available in most states; certain restrictions apply. See annuity rider forms for full details.

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**Withdrawals are subject to income tax and a 10% federal penalty if withdrawn prior to age 59 ½. Surrender charges may apply. Your client should consult a tax advisor before making any withdrawals.*

? Surrenders

Withdrawal/Surrender Charges — Surrender charges apply to a full surrender or to partial surrenders (withdrawals) for amounts above the free withdrawal provision, if attached by rider, for 12 years. Surrender charges apply at death and in calculating annuity payments. These charges are applied as a percent of the account value surrendered and are outlined in the chart below.

Annuity Year	Surrender Charge Percentage
1	15%
2	15%
3	15%
4	15%
5	15%
6	14%
7	12%
8	10%
9	8%
10	6%
11	4%
12	2%
13+	0%

Exceptions — Surrender charges will be waived under these circumstances:

- ? After the first year, for partial withdrawals of up to 10% of the account value as of the previous anniversary. This amount is not cumulative from year to year.
- ? At the death of an annuity owner, unless the spouse of the first owner to die succeeds or continues to ownership of the annuity.
- ? For the election of any annuity option, beginning in the sixth year.
- ? When the Nursing Home Care, Terminal Illness, or Unemployment special withdrawal conditions apply (see the Special Withdrawals section preceding).

• Death Benefits

Should your client die before electing to receive income payments, and the "Death of Owner" rider is attached the full account value of the annuity will be paid to the beneficiary(ies) named in the annuity. Any gain in the annuity would then be subject to income tax.

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Similarly, if your client dies after electing to receive income payments, but before all guaranteed income payments are received, any death benefit will be paid to the named beneficiary(ies) depending on the income alternative chosen.

If the annuity owner dies, and the subsequent owner requests a full surrender of the annuity prior to the next annuity year, the annuity will be credited with a partial-year index credit prior to the distribution.

All surrender charges are waived after the death of a annuity owner unless the spouse of the first owner to die continues or succeeds to ownership of the annuity and then subsequently surrenders within the surrender charge period.

Product Questions

1. WHICH INTEREST-CREDITING OPTIONS ARE BEST FOR YOUR CLIENT?

That's entirely your client's decision, based on personal circumstances and comfort levels. Remember: a key advantage of the Loyalty Rewards annuity is that it lets clients choose among several interest-crediting options within the same annuity contract. You should allow clients to make this choice and avoid projections or predictions about the future performance of any of the indices.

Options A, B, C, and D offer the potential of index-linked interest, with the amount of interest actually credited depending on a formula linked to monthly average or point-to-point changes in the S&P 500 Index or the Dow Jones Industrial Average.

- ? **S&P 500 Index** - Based on 500 stocks chosen for market size, liquidity, and industry group representation, the Standard and Poor's 500 (S&P 500) is widely regarded as the standard for measuring large-cap U.S. stock market performance. As an index, more than \$1 trillion is indexed to the S&P 500. To learn more about the S&P 500 and see a list of the companies included in the index, please refer to <http://www.spglobal.com>.
- ? **Dow Jones Industrial Average Index** - The Dow Jones Industrial Average represents 30 "blue chip" stocks which are all major factors in their industries. These companies' stocks are widely held by individuals and institutional investors. In addition, these 30 stocks represent about one fifth of the eight trillion-plus market value of all U.S. stocks and about one fourth of the value of stocks listed on the New York Stock Exchange. As the oldest continuing U.S. market index, the DJIA is the best-known market indicator in the world, partly because it is old enough that many generations of investors have become accustomed to quoting it, and partly because the U.S. stock market is the world's largest. Refer to <http://www.djindexes.com>.
- ? **Fixed Interest** - If your client is more comfortable with a more predictable traditional interest rate model, **Option E** offers the stability of knowing exactly what the interest crediting rate will be for the first annuity year. After that, your client will receive a renewal interest rate of at least 3% that's declared in advance for each subsequent annuity year.

2. IF THE S&P AND THE DOW JONES INDUSTRIAL AVERAGE INDICES ARE EACH UP 20%, WILL THE CLIENT REALIZE A 20% CREDIT IN LOYALTY REWARDS?

No. Other elements of the annuity play a factor in how interest is credited. The gain or fall in an index is only one factor. In Loyalty Rewards' Options A, B, C, and D, for example, once the percentage change of the index is determined, you need to adjust that rate to the cap rate. Please be sure to review the "Examples of How Indexed-Lined Interest Crediting Works" examples in Part 1 of this Training Manual.

3. HOW DOES F&G LIFE INVEST FOR LOYALTY REWARDS?

Fixed annuities with an equity index option involve sophisticated investment practices. The main difference between investing for traditional annuities versus equity indexed annuities is a technique known as “hedging.” Most of the premium is used to purchase investments (primarily bonds) for the contractually guaranteed portion of the annuity. In Loyalty Rewards, for example, the balance of the premium, less the insurance company’s operational costs and profits, is applied toward the purchase of hedges on the S&P 500 and the Dow Jones Industrial Average.

Turning our attention to the index portion, it is important to understand that the cost of the hedge depends primarily on the volatility of the underlying price index. *The Company is not purchasing actual stocks on the index, nor is it purchasing the index, but the Company is replicating the exposure of the annuity. (i.e. When the company’s obligation to the client increases, the hedges in place are intended to return an increased amount mirroring the amount due the client.)*

Another important point to remember with Loyalty Rewards is that dividends are not included in the S&P 500 or the Dow Jones Industrial Average Indices. Over the last 10 years, dividends accounted for approximately 3% of the total return of the stocks measured by the Index. However, what your clients see listed each day in the newspapers as the “S&P 500” or the “Dow Jones Industrial Average” also does NOT include dividends.

The fine balance between the features of the product and the cost of providing those features is more apparent in an index annuity than in any other type of annuity.

Current interest rates also must be taken into consideration. Higher interest rates allow the carrier to invest more in hedges, as less is needed to purchase and secure the guaranteed portion of the annuity.

4. HOW MUCH OF THE SINGLE PREMIUM IS USED TO PURCHASE INDEX OPTIONS?

In the current market, a small percentage of the single premium, approximately 5%, is used to purchase hedges on the indices to support the potential for interest crediting resulting from changes in those indices. The percentage of the single premium allocated to hedge purchases may vary with economic conditions.

5. CAN A CLIENT LOSE MONEY IN A LOYALTY REWARDS ANNUITY?

Yes. If the contract is surrendered before the 12-year surrender charge period, he or she would pay surrender charges as listed in the previous section. However, upon a full surrender of the contract and assuming no earlier withdrawals, the minimum your client would receive is the following:

- ? For premiums received during the first year, 80% of premiums accrued daily at an annual effective rate of 3%, less net surrenders and adjusted for any account value reallocations.
- ? For premiums received after the first year, 88% of premiums accrued daily at an annual effective rate of 3%, less net surrenders and adjusted for any account value reallocations.

Unlike some other EIAs, Loyalty Rewards does not contain a vesting qualification. Since many EIA designs defer interest vesting until the end of each policy year, or the end of the contract term, a surrender of the contract prior to the vesting date would result in the client receiving no interest on the account value from the date interest was last vested. **With the Loyalty Rewards annuity, interest is locked-in on each annuity anniversary.**

6. WHAT ARE THE MINIMUM GUARANTEED INTEREST RATES FOR THE LOYALTY REWARDS ANNUITY?

- ? **Indexed Account Value** – The rate will vary based on the equity-indexed formula, but can never be less than 0%.
- ? **Fixed Account Value** – 3%
- ? **Minimum Guaranteed Surrender Value** – 80% of the premium received in the first year and 88% of premiums received in subsequent years, accrued daily at an annual effective rate of 3%, and is adjusted for any withdrawals or account value reallocations.

7. DOES THE LOYALTY REWARDS ANNUITY USE A PARTICIPATION RATE?

No. The Loyalty Rewards Annuity uses a cap. Both types of designs perform the same function in that they help the insurance company decrease the cost of hedges needed to support the index-linked interest crediting formulas. However, the “cap” design is simpler to understand than participation rate designs. To determine the applicable crediting rate, the client only needs to compare the index increase or average index increase with the cap to determine their index credit rate. On the other hand, with a participation rate design, the client has to perform a somewhat more complicated percentage calculation.

8. DOES THE LOYALTY REWARDS ANNUITY DEDUCT A SPREAD?

No. The Loyalty Rewards annuity does not deduct a spread from the increases in the index or index average (as some other EIAs do), and gives the client the advantage of 100% participation in the annual change in the index or index average up to the level of the cap.

9. WHAT ARE THE CAP RATES?

The cap rates for Options A, B, C, and D are the maximum percentage that can be applied to the account value attributed to a given premium. The maximum index credit rate is determined and fixed in advance each year, and may never be less than the minimum rate shown in the contract.

10. WHAT HAPPENS IF THE CLIENT ANNUITIZES AND THE ACCOUNT VALUES FOR OPTIONS A, B, C, D, AND E ARE LESS THAN THE MINIMUM GUARANTEED SURRENDER VALUES FOR OPTIONS A, B, C, D, AND E?

If the annuitization takes place after the beginning of the sixth policy year, the client would receive the greater of the account value or the minimum guaranteed surrender value. If it takes place before the beginning of the sixth policy year, the client would receive the surrender value or the minimum guaranteed surrender value, whichever is greater.

11. WHAT HAPPENS IF THE CLIENT SURRENDERS THEIR ANNUITY AND THE ACCOUNT VALUES FOR OPTIONS A, B, C, D, AND E ARE LESS THAN THE MINIMUM GUARANTEED SURRENDER VALUES FOR OPTIONS A, B, C, D, AND E?

The client would receive the minimum guaranteed surrender value. The minimum guaranteed surrender value is the sum of the following:

- ? For premiums received in the first year, 80% of the premiums applied to that option's account value; plus
- ? For premiums received after the first year, 88% of the premiums applied to that option's account value; plus
- ? Interest credited daily at a 3% effective annual interest rate; plus
- ? Minimum guaranteed surrender value reallocated from other options (including option E); less
- ? Any amounts previously surrendered from that option's minimum guaranteed surrender value, accumulated at 3% interest; less
- ? Minimum guaranteed surrender value reallocated to other options (including option E).

12. HOW MUCH MONEY WILL SOMEONE HAVE IF THEY LEAVE THEIR MONEY IN LOYALTY REWARDS'S EQUITY INDEX OPTIONS FOR 12 YEARS, AND THE S&P 500 INDEX RETURN IS 0% OR NEGATIVE?

Assuming no withdrawals, the equity index options (Option A, B, C, and D) will have a minimum guaranteed surrender value of 114.06% of the initial premium at the end of 12 years.

13. QUESTIONS ABOUT LOYALTY REWARDS' OPTION E

- ? **What is the benefit to having Option E available?**

Option E allows the client to earn a competitive rate of interest just as with other F&G Life annuities. This, along with the index-linked Options A, B, C, and D, provides a broad set of choices to the consumer.

? **Does the Maximum Index Credit Rate apply to Option E?**

No. The cap only applies to the equity index options (Options A, B, C, and D) allocation of the Loyalty Rewards annuity.

14. ADDITIONAL INTEREST QUESTIONS

? **Does the client receive the 1 percent additional interest on premium payments made after the first contract year?**

No. The additional 1 percent interest is applied to premium payments made in the first contract year only.

? **When is the additional 1 percent interest applied to the account?**

The 1% additional interest is applied to the account on each premium payment date during the first contract year and on the first 11 annuity anniversaries.

? **Does the additional interest earn index-interest credits?**

Yes. Once applied to the account value, which occurs on a yearly basis, the additional interest earns Index Credits for Options A, B, C, and D. It also earns interest on option E.

? **Is the 1% additional interest applied to money that is reallocated to another Account Value Option?**

Yes. The 1% additional interest is applied to the money after it is reallocated. In addition, the 1% additional interest is proportionally credited to each Account Value Option. For example, if Option A represents 18% of the Account Value after reallocation, Option A receives 18% of the 1% additional interest applied for that year.

? **If my client withdraws more than 10% of the account value in a contract year, will my client's additional interest be forfeited?**

Yes, a portion. Withdrawals or partial surrenders in excess of 10% of the account value will cause a portion of the future, not yet credited additional interest, to be forfeited. The portion of additional interest forfeited equals the percentage of account value withdrawn that is subject to surrender charges divided by the total account value that is subject to surrender charge. Each future annual additional interest credit is reduced proportionately.

Administrative Questions

1. WHEN DOES THE INDEX TRACKING BEGIN ON LOYALTY REWARDS ANNUITY CONTRACTS?

- ? For options A, B, C, and D, Index tracking will begin on the issue date, and interest is credited on each annuity anniversary.
- ? For Option E, interest crediting begins when premium is moved into the option. There is no index tracking.

2. WILL F&G LIFE ACCEPT WIRE TRANSFERS OF PREMIUMS?

Wire transfers of premiums are accepted. Please direct wire transfers to the following:

Bank:	US Bank	Bank Account Number:	150891112503
Address:	Lincoln, NE	Bank ABA Number:	104000029

3. ARE EXCHANGES/TRANSFERS PERMITTED FROM AN EXISTING FIDELITY & GUARANTY LIFE DEFERRED ANNUITY TO A LOYALTY REWARDS ANNUITY?

Yes, but surrender charges will NOT be waived on existing annuities.

4. FOR 1035 EXCHANGES OR QUALIFIED TRANSFERS THAT INVOLVE MULTIPLE POLICIES, WHEN IS THE PREMIUM ALLOCATED TO LOYALTY REWARDS?

For exchanges and transfers, we will defer issuing the annuity until we have received all expected monies shown on the applicable exchange or transfer form. Once all expected monies shown on the form are received, we will issue the annuity on the next available issue date (subject to the special rules for weekends and F&G Life designated holidays). All exchange and transfer monies received will be deposited in a non-interest-bearing account until the applicable issue date. Please note that failure of the transferring institution to respond promptly to an exchange or transfer request could result in extended periods during which proceeds from multiple exchange/transfer policies remain in the non-interest bearing account pending receipt of all applicable funds.

5. CAN F&G LIFE HANDLE MULTIPLE 1035 EXCHANGES INTO THE SAME ANNUITY?

Yes, we do handle multiple 1035 exchanges into the same annuity, but the final transfer received will be used to issue the annuity as long as it meets contract minimum premium limitations.

6. IS THERE RATE PROTECTION ON 1035 EXCHANGES?

Yes, we do offer a 60-day rate hold.

7. DOES THE MINIMUM GUARANTEED SURRENDER VALUE APPLY IN THE CONTEXT OF A PARTIAL WITHDRAWAL?

The minimum guaranteed surrender value, required by statute in most states, applies upon a full cash surrender of the annuity or one of the options.

8. WHEN ARE COMMISSIONS PAID? ON SUBMISSION OR ISSUE?

We pay commissions when policies are issued, not on submission.

9. ARE QUARTERLY CONSUMER STATEMENTS PROVIDED? HOW CAN INTERIM VALUES BE CALCULATED?

We provide annual statements on Loyalty Rewards. Because the calculation of potential interest credits for Options A, B, C, and D require a full year of Index values, any mid-year estimation of potential interest would not be possible. The contract's account value during the annuity year is always equal to the account value of Options A, B, C, and D as of the last annuity anniversary, less any withdrawals from those options, combined with the account value of fixed Option E, less any applicable surrender charges and adjusted for any account value reallocations.

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Fixed Deferred Annuities

It is important that you understand the differences among various annuities, so you can choose the kind that best fits your needs. This guide focuses on fixed deferred annuity contracts. There is, however, a brief description of variable annuities. If you're thinking of buying an equity-indexed annuity, an appendix to this guide will give you specific information. This Guide isn't meant to offer legal, financial or tax advice. You may want to consult independent advisors. At the end of this Guide are questions you should ask your agent or the company. Make sure you're satisfied with the answers before you buy.

WHAT IS AN ANNUITY?

An annuity is a contract in which an insurance company makes a series of income payments at regular intervals in return for a premium or premiums you have paid. Annuities are most often bought for future retirement income. Only an annuity can pay an income that can be guaranteed to last as long as you live.

An annuity is neither a life insurance nor a health insurance policy. It's not a savings account or a savings certificate. You shouldn't buy an annuity to reach short-term financial goals.

Your value in an annuity contract is the premiums you've paid, less any applicable charges, plus interest credited. The insurance company uses the value to figure the amount of most of the benefits that you can choose to receive from an annuity contract. This guide explains how interest is credited as well as some typical charges and benefit of annuity contracts.

A deferred annuity has two parts of periods. During the accumulation period, the money you put into the annuity, less any applicable charges, earns interest. The earnings grow tax-deferred as long as you leave them in the annuity. During the second period, called the payout period, the company pays income to you or to someone you choose.

WHAT ARE THE DIFFERENT KINDS OF ANNUITIES?

This guide explains major differences in different kinds of annuities to help you understand how each might meet your needs. But look at the specific terms of an individual contract you're considering and the disclosure document you receive. If your annuity is being used to fund or provide benefits under a pension plan, the benefits you get will depend on the terms of the plan. Contact your pension plan administrator for information.

? **Single Premium or Multiple Premium**

You pay the insurance company only one payment for a single premium annuity. You make a series of payments for a multiple premium annuity. There are two kinds of multiple premium annuities. One kind is a flexible premium contract. Within set limits, you pay as much premium as you want, whenever you want. In the other kind, a scheduled premium annuity, the contract spells out your payments and how often you'll make them.

? Immediate or Deferred

With 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.

The income payments from a deferred annuity often start many years later. Deferred annuities have an accumulation period, which is the time between when you start paying premiums and when income payments start.

? Fixed or Variable

Fixed - During the accumulation period of a fixed deferred annuity, your money (less any applicable charges) earns interest at rates set by the insurance company or in a way spelled out in the annuity contract. The company guarantees that it will pay no less than a minimum rate of interest. During the payout period, the amount of each income payment to you is generally set when the payments start and will not change.

Variable - During the accumulation period of a variable annuity, the insurance company puts your premiums (less any applicable charges) into a separate account. You decide how the company will invest those premiums, depending on how much risk you want to take. You may put your premium into a stock, bond or other account, with no guarantees, or into a fixed account, with a minimum guaranteed interest. During the payout period 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 investments in the separate account).

HOW ARE THE INTEREST RATES SET FOR MY FIXED DEFERRED ANNUITY?

During the accumulation period, your money (less any applicable charges) earns interest at rates that change from time to time. Usually, what these rates will be is entirely up to the insurance company.

? Current Interest Rate

The current rate is the rate the company decides to credit to your contract at a particular time. The company will guarantee it will not change for some time period.

The initial rate is an interest rate the insurance company may credit for a set period of time after you first buy your annuity. The initial rate in some contracts may be higher than it will be later. This is often called a bonus rate.

The renewal rate is the rate credited by the company after the end of the set time period. The contract tells how the company will set the renewal rate, which may be tied to an external reference or index.

? **Minimum Guaranteed Rate**

The minimum guaranteed interest rate is the lowest rate your annuity will earn. This rate is stated in the contract.

? **Multiple Interest Rates**

Some annuity contracts apply different interest rates to each premium you pay or to premiums you pay during different time periods.

Other annuity contracts may have two or more accumulated values that fund different benefit options. These accumulated values may use different interest rates. You get only one of the accumulated values depending on which benefit you choose.

? **What Charges May Be Subtracted from My Fixed Deferred Annuity?**

Most annuities have charges related to the cost of selling or servicing it. These charges may be subtracted directly from the contract value. Ask your agent or the company to describe the charges that apply to your annuity. Some examples of charges, fees and taxes are:

? **Surrender or Withdrawal Charges**

If you need access to your money, you may be able to take all or part of the value out of your annuity at any time during the accumulation period. If you take out part of the value, you may pay a withdrawal charge. If you take out all of the value and surrender, or terminate, the annuity, you may pay a surrender charge. In either case, the company may figure the charge as a percentage of the value of the contract; of the premiums you've paid or of the amount you're withdrawing. The company may reduce or even eliminate the surrender charge after you've had the contract for a stated number of years. A company may waive the surrender charge when it pays a death benefit.

Some annuities have stated terms. When the term is up, the contract may automatically expire or renew. You're 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 won't have to pay surrender charges. If you renew, the surrender or withdrawal charges may start over.

In some annuities, there is no charge if you surrender your contract when the company's current interest rate falls below a certain level. This may be called a bail-out option.

In a multiple-premium annuity, the surrender charge may apply to each premium paid for a certain period of time. This may be called a rolling surrender or withdrawal charge.

Some annuity contracts have a market value adjustment feature. If interest rates are different when you surrender your annuity than when you bought it, a market value adjustment may make the cash surrender value higher or lower. Since you and the insurance company share this risk, an annuity with a MVA feature may credit a higher rate than an annuity without that feature.

Be sure to read the Tax Treatment section and ask your tax advisor for information about possible tax penalties on withdrawals.

? **Free Withdrawal**

Your annuity may have a limited free withdrawal feature. That lets you make one or more withdrawals without a charge. The size of the free withdrawal is often limited to a set percentage of your contract value. If you make a larger withdrawal, you may pay withdrawal charges. You may lose any interest above the minimum guaranteed rate on the amount withdrawn. Some annuities waive withdrawal charges in certain situations, such as death, confinement in a nursing home or terminal illness.

? **Contract Fee**

A contract fee is a flat dollar amount charged either once or annually.

? **Transaction Fee**

A transaction fee is a charge per premium payment or other transaction.

? **Percentage of Premium Charge**

A percentage of premium charge is a charge deducted from each premium paid. The percentage may be lower after the contract has been in force for a certain number of years or after total premiums paid have reached a certain amount.

? **Premium Tax**

Some states charge a tax on annuities. The insurance company pays this tax to the state. The company may subtract the amount of the tax when you pay your premium, when you withdraw your contract value, when you start to receive income payments or when it pays a death benefit to your beneficiary.

WHAT ARE SOME FIXED DEFERRED ANNUITY CONTRACT BENEFITS?

? **Annuity Income Payments**

One of the most important benefits of deferred annuities is your ability to use the value built up during the accumulation period to give you a lump sum payment or to make income payments during the payout period. Income payments are usually made monthly but you may choose to receive them less often. The size of income payments is based on the accumulated value in your annuity and the annuity's benefit rate in effect when income payments start. The benefit rate usually depends on your age and sex, and the annuity payment option you choose. For example, you might choose payments that continue as long as you live, as long as your spouse lives or for a set number of years.

There is a table of guaranteed benefit rates in each annuity contract. Most companies have current benefit rates as well. The company can change the current rates at any time, but the current rates can never be less than the guaranteed benefit rates. When income payments start, the insurance company generally uses the benefit rate in effect at the time to figure the amount of your income payment.

Companies may offer various income payment options. You (the owner) or another person that you name may choose the option. The options are described here as if the payments are made to you.

? Life Only - The company pays income for your lifetime. It doesn't make any payments to anyone after you die. This payment option usually pays the highest income possible. You might choose it if you have no dependents, if you have taken care of them through other means or if the dependents have enough income of their own.

? Life Annuity with Period Certain - The company pays income for as long as you live and guarantees to make payments for a set number of years even if you die. This period certain is usually 10 or 20 years. If you live longer than the period certain, you'll continue to receive payments until you die. If you die during the period certain, your beneficiary gets regular payments for the rest of that period. If you die after the period certain, your beneficiary doesn't receive any payments from your annuity. Because the "period certain" is an added benefit, each income payment will be smaller than in a life-only option.

? Joint and Survivor - The company pays income as long as either you or your beneficiary lives. You may choose to decrease the amount of the payments after the first death. You may also be able to choose to have payments continue for a set length of time. Because the survivor feature is an added benefit, each income payment is smaller than in a life-only option.

? **Death Benefit**

In some annuity contracts, the company may pay a death benefit to your beneficiary if you die before the income payments start. The most common death benefit is the contract value or the premiums paid, whichever is more.

CAN MY ANNUITY'S VALUE BE DIFFERENT DEPENDING ON MY CHOICE OF BENEFIT?

While all deferred annuities offer a choice of benefits, some use different accumulated values to pay different benefits. For example, an annuity may use one value if annuity payments are for retirement benefits and a different value if the annuity is surrendered. As another example, an annuity may use one value for long-term care benefits and a different value if the annuity is surrendered. You can't receive more than one benefit at the same time.

WHAT ABOUT THE TAX TREATMENT OF ANNUITIES?

Below is a general discussion about taxes and annuities. You should consult a professional tax advisor to discuss your individual's tax situation.

Under current federal law, annuities receive special tax treatment. Income tax on annuities is deferred, which means you aren't taxed on the interest your money earns while it stays in the annuity. Tax-deferred accumulation isn't the same as tax-free accumulation. An advantage of tax deferral is that the tax bracket you're in when you receive annuity income payments may be lower than the one you're in during the accumulation period. You'll also be earning interest on the amount you would have paid in taxes during the accumulation period. Most states' tax laws on annuities follow the federal law.

Part of the payments you receive from an annuity will be considered as a return of the premium you've paid. You won't have to pay taxes on that part. Another part of the payments is considered interest you've earned. You must pay taxes on the part that is considered interest when you withdraw the money. You may also have to pay a 10% tax penalty if you withdraw the accumulation before age 59 ½. The Internal Revenue Code also has rules about distributions after the death of a contract holder.

Annuities used to fund certain employee pension benefit plans (those under Internal Revenue Code Sections 401(a), 401(k), 403(b), 457 or 414) defer taxes on plan contributions as well as on interest or investment income. Within the limits set by the law, you can use pretax dollars to make payments to the annuity. When you take money out, it will be taxed.

You can also use annuities to fund traditional and Roth IRAs under Internal Revenue Code Section 408. If you buy an annuity to fund an IRA, you'll receive a disclosure statement describing the tax treatment.

WHAT IS A "FREE LOOK" PROVISION?

Many states have laws that give you a set number of days to look at the annuity contract after you buy it. If you decide during that time that you don't want the annuity, you can return the contract and get all your money back. This is often referred to as a free look or right to return period. The free look period should be prominently stated in your contract. Be sure to read your contract carefully during the free look period.

HOW DO I KNOW IF A FIXED DEFERRED ANNUITY IS RIGHT FOR ME?

The questions listed below may help you decide which type of annuity, if any, meets your retirement planning and financial needs. You should think about what your goals are for the money you may put into the annuity. You need to think about how much risk you're willing to take with the money. Ask yourself:

- ? How much retirement income will I need in addition to what I will get from Social Security and my pension?
- ? Will I need that additional income only for myself or for myself and someone else?
- ? How long can I leave my money in the annuity?
- ? When will I need income payments?
- ? Does the annuity let me get money when I need it?

- ? Do I want a fixed annuity with a guaranteed interest rate and little or no risk of losing the principal?
- ? Do I want a variable annuity with the potential for higher earnings that aren't guaranteed and the possibility that I may risk losing principal?
- ? Or, am I somewhere in between and willing to take some risks with an equity-indexed annuity?

WHAT QUESTIONS SHOULD I ASK MY AGENT OR THE COMPANY?

- ? Is this a single premium or multiple premium contract?
- ? Is this an equity-indexed annuity?
- ? What is the initial interest rate and how long is it guaranteed?
- ? Does the initial rate include a bonus rate and how much is the bonus?
- ? What is the guaranteed minimum interest rate?
- ? What renewal rate is the company crediting on annuity contracts of the same type that were issued last year?
- ? Are there withdrawal or surrender charges or penalties if I want to end my contract early and take out all of my money? How much are they?
- ? Can I get a partial withdrawal without paying surrender or other charges or losing interest?
- ? Does my annuity waive withdrawal charges for reasons such as death, confinement in a nursing home or terminal illness?
- ? Is there a market value adjustment (MVA) provision in my annuity?
- ? What other charges, if any, may be deducted from my premium or contract value?
- ? If I pick a shorter or longer payout period or surrender the annuity, will the accumulated value or the way interest is credited change?
- ? Is there a death benefit? How is it set? Can it change?
- ? What income payment options can I choose? Once I choose a payment option, can I change it?

FINAL POINTS TO CONSIDER

Before you decide to buy an annuity, you should review the contract. Terms and conditions of each annuity contract will vary.

Ask yourself if, depending on your needs or age, this annuity is right for you. Taking money out of an annuity may mean you must pay taxes. Also, while it's sometimes possible to transfer the value of an older annuity into a new annuity, the new annuity may have a new schedule or charges that could mean new expenses you must pay directly or indirectly.

You should understand the long-term nature of your purchase. Be sure you plan to keep an annuity long enough so that the charges don't take too much of the money you put in. Be sure you understand the effect of all charges.

If you're buying an annuity to fund an IRA or other tax-deferred retirement program, be sure that you're eligible. Also, ask if there are any restrictions connected with the program.

Remember that the quality of service that you can expect from the company and the agent is a very important factor in your decision.

When you receive your annuity contract, **READ IT CAREFULLY!!** Ask the agent and company for an explanation of anything you don't understand. Do this before any free look period ends.

Compare information for similar contracts from several companies. Comparing products may help you make a better decision.

If you have a specific question or can't get answers you need from the agent or company, contact your state insurance department.

Appendix: Equity-Indexed Annuities

This appendix to the Buyer's Guide for Fixed Deferred Annuities will focus on equity-indexed annuities. Like other types of fixed deferred annuities, equity-indexed annuities provide for annuity income payments, death benefits and tax-deferred accumulation. You should read the Buyer's Guide for general information about those features and about provisions such as withdrawal and surrender charges.

WHAT ARE EQUITY-INDEXED ANNUITIES?

An equity-indexed annuity is a fixed annuity, either immediate or deferred, that earns interest or provides benefits that are linked to an external equity reference or an equity index. The value of the index might be tied to a stock or other equity index. One of the most commonly used indices is Standard & Poor's 500 Composite Stock Price Index (the S&P 500) 1, which is an equity index. The value of any index varies from day to day and is not predictable.

When you buy an equity-indexed annuity you own an insurance contract. You are not buying share of any stock or index.

While immediate equity-indexed annuities may be available, this appendix will focus on deferred equity-indexed annuities.

HOW ARE THEY DIFFERENT FROM OTHER FIXED ANNUITIES?

An equity-indexed annuity is different from other fixed annuities because of the way it credits interest to your annuity's value. Some fixed annuities only credit interest calculated at a rate set in the contract. Other fixed annuities also credit interest at rates set from time to time by the insurance company. Equity-indexed annuities credit interest using a formula based on changes in the index to which the annuity is linked. The formula decides how the additional interest, if any, is calculated and credited. How much additional interest you get and when you get it depends on the features of your particular annuity.

Your equity-indexed annuity, like other fixed annuities, also promises to pay a minimum interest rate. The rate that will be applied will not be less than this minimum guaranteed rate even if the index-linked interest rate is lower. The value of your annuity also will not drop below a guaranteed minimum. For example, many single premium contracts guarantee the minimum value will never be less than 90 percent of the premium paid, plus at least 3% in annual interest (less any partial withdrawals). The guaranteed value is the minimum amount available during a term for withdrawals, as well as for some annuitizations (see "Annuity Income Payments") and death benefits. The insurance company will adjust the value of the annuity at the end of each term to reflect any index increases.

WHAT ARE SOME EQUITY-INDEXED ANNUITY CONTRACT FEATURES?

Two features that have the greatest effect on the amount of additional interest that may be credited to an equity-indexed annuity are the indexing method and the participation rate. It is important to understand the features and how they work together. The following describes some other equity-indexed annuity features that affect the index-linked formula.

INDEXING METHOD

The indexing method means the approach used to measure the amount of change, if any, in the index. Some of the most common indexing methods, which are explained more fully later on, include annual reset (ratcheting), high-water mark and point-to-point.

TERM

The index term is the period over which index-linked interest is calculated; the interest is credited to your annuity at the end of a term. Terms are generally from one to ten years, with six or seven years being most common. Some annuities offer single terms while others offer multiple, consecutive terms. If your annuity has multiple terms, there will usually be a window at the end of each term, typically 30 days, during which you may withdraw your money without penalty. For installment premium annuities, the payment of each premium may begin a new term for that premium.

PARTICIPATION RATE

The participation rate decides how much of the increase in the index will be used to calculate index-linked interest. For example, if the calculated change in the index is 9% and the participation rate is 70%, the index-linked interest rate for your annuity will be 6.3% ($9\% \times 70\% = 6.3\%$). A company may set a different participation rate for newly issued annuities as often as each day. Therefore, the initial participation rate in your annuity will depend on when the company issues it. The company usually guarantees the participation rate for a specific period (from one year to the entire term). When that period is over, the company sets a new participation rate for the next period. Some annuities guarantee that the participation rate will never be set lower than a specified minimum or higher than a specified maximum.

CAP RATE OR CAP

Some annuities may put an upper limit, or cap, on the index-linked interest rate. This is the maximum rate of interest the annuity will earn. In the example given above, if the contract has a 6% cap rate, 6%, and not 6.3%, would be credited. Not all annuities have a cap rate.

FLOOR ON EQUITY INDEX-LINKED INTEREST

The floor is the minimum index-linked interest rate you will earn. The most common floor is 0%. A 0% floor assures that even if the index decreases in value, the index-linked interest that you earn will be zero and not negative. As in the case of a cap, not all annuities have a stated floor on index-linked interest rates. But in all cases, your fixed annuity will have a minimum guaranteed value.

AVERAGING

In some annuities, the average of an index's value is used rather than the actual value of the index on a specified date. The index averaging may occur at the beginning, the end, or throughout the entire term of the annuity.

INTEREST COMPOUNDING

Some annuities pay simple interest during an index term. That means index-linked interest is added to your original premium amount but does not compound during the term. Others pay compound interest during a term, which means that index-linked interest that has already been credited also earns interest in the future. In either case, however, the interest earned in one term is usually compounded in the next.

MARGIN/SPREAD/ADMINISTRATIVE FEE

In some annuities, the index-linked interest rate is computed by subtracting a specific percentage from any calculated change in the index. The percentage, sometimes referred to as the "margin," "spread," or "administrative fee," might be instead or, in addition to, a participation rate. For example, if the calculated change in the index is 10%, your annuity might specify that 2.25% will be subtracted from the rate to determine the interest rate credited. In this example, the rate would be 7.75% ($10\% - 2.25\% = 7.75\%$). In this example, the company subtracts the percentage only if the change in the index produces a positive interest rate.

VESTING

Some annuities credit none of the index-linked interest or only part of it, if you take out all your money before the end of the term. The percentage that is vested, or credited, generally increases as the term comes closer to its end and is always 100% at the end of the term.

HOW DO THE COMMON INDEXING METHODS DIFFER?

- ? **Annual Reset** - Index-linked interest, if any, is determined each year by comparing the index value at the end of the contract year with the index value at the start of the contract year. Interest is added to your annuity each year during the term.
- ? **High-Water Mark** - The index-linked interest, if any, is decided by looking at the index value at various points during the term, usually the annual anniversaries of the date you bought the annuity. The interest is based on the difference between the highest index value and the index value at the start of the term. Interest is added to your annuity at the end of the term.
- ? **Low-Water Mark** - The index-linked interest, if any, is determined by looking at the index value at various points during the term, usually the annual anniversaries of the date you bought the annuity. The interest is based on the difference between the index value at the end of the term and the lowest index value. Interest is added to your annuity at the end of the term.

- ? **Point-to-Point** - The indexed-linked interest, if any, is based on the difference between the index value at the end of the term and the index value at the start of the term. Interest is added to your annuity at the end of the term.

WHAT ARE SOME OF THE FEATURES AND TRADE-OFFS OF DIFFERENT INDEXING METHODS?

	Features	Trade-offs
? Annual Reset	Since the interest earned is "locked in" annually and the index value is "reset" at the end of each year, future decreases in the index will not affect the interest you have already earned. Therefore, your annuity using the annual reset method may credit more interest than annuities using other methods when the index fluctuates up and down often during the term. This design is more likely than others to give you access to index-linked interest before the term ends.	Your annuity's participation rate may change each year and generally will be lower than that of other indexing methods. Also an annual reset design may use a cap or averaging to limit the total amount of interest you might earn each year.
? High-Water Mark	Since interest is calculated using the highest value of the index on a contract anniversary during the term, this design may credit higher interest than some other designs if the index reaches a high point early or in the middle of the term, then drops off at the end of the term.	Interest is not credited until the end of the term. In some annuities, if you surrender your annuity before the end of the term, you may not get index-linked interest for that term. In other annuities, you may receive index-linked interest, based on the highest anniversary value to date and the annuity's vesting schedule. Also, contracts with this design may have a lower participation rate than annuities using other designs or may use a cap to limit the total amount of interest you might earn.
? Low-Water Mark	Since interest is calculated using the lowest value of the index prior to the end of the term, this design may credit higher interest than some other designs if the index reaches a low point early or in the middle of the term and then rises at the end of the term.	Interest is not credited until the end of the term. With some annuities, if you surrender your annuity before the end of the term, you may not get index-linked interest for that term. In other annuities, you may receive index-linked interest based on a comparison of the lowest anniversary value to date with the index value at surrender and the annuity's vesting schedule. Also, contracts with this design may have a lower participation rate than annuities using other designs or may use a cap to limit the total amount of interest you might earn.
? Point-to-Point	Since interest cannot be calculated before the end of the term, use of this design may permit a higher participation rate than annuities using other designs.	Since interest is not credited until the end of the term, typically six or seven years, you may not be able to get the index-linked interest until the end of the term.

Generally, equity-indexed annuities offer preset combinations of features. You may have to make trade-offs to get features you want in an annuity. This means the annuity you chose might also have features you do not want.

WHAT IS THE IMPACT OF SOME OTHER EQUITY-INDEXED ANNUITY PRODUCT FEATURES?

- ? **CAP on Interest Earned** – While a cap limits the amount of interest you might earn each year, annuities with this feature may have other product features you want, such as annual interest crediting or the ability to take partial withdrawals. Also, annuities that have a cap may have a higher participation rate.
- ? **Averaging** - Averaging at the beginning of a term protects you from buying your annuity at a high point, which would reduce the amount of interest you might earn. Averaging at the end of the term protects you against severe declines in the index and losing index-linked interest as a result. On the other hand, averaging may reduce the amount of index-linked interest you earn when the index rises either near the start or at the end of the term.
- ? **Participation Rate** - The participation rate may vary greatly from one annuity to another and from time to time within a particular annuity. Therefore, it is important for you to know how your annuity's participation rate works with the indexing method. Other features, such as simple interest, averaging, or a point-to-point indexing method, may offset a high participation rate. On the other hand, an insurance company may offset a lower participation rate by also offering a feature such as an annual reset indexing method.
- ? **Interest Compounding** - It is important for you to know whether your annuity pays compound or simple interest during a term. While you may earn less from an annuity that pays simple interest, it may have other features you want, such as a higher participation rate.

WHAT WILL IT COST ME TO TAKE MY MONEY OUT BEFORE THE END OF THE TERM?

In addition to the information discussed in this Buyer's Guide about surrender and withdrawal charges and free withdrawals, there are additional considerations for equity-indexed annuities. Some annuities credit none of the index-linked interest or only part of it if you take out money before the end of the term. The percentage that is vested, or credited, generally increases as the term comes closer to its end and is always 100% at the end of the term.

ARE DIVIDENDS INCLUDED IN THE INDEX?

Depending on the index used, stock dividends may or may not be included in the index's value. For example, the S&P 500 is a stock price index and only considers the prices of stocks. It does not recognize any dividends paid on those stocks.

HOW DO I KNOW IF AN EQUITY-INDEXED ANNUITY IS RIGHT FOR ME?

The questions listed below may help you decide which type of annuity, if any, meets your retirement planning and financial needs. You should consider what your goals are for the money you may put into the annuity. You need to think about how much risk you're willing to take with the money. Ask yourself:

- ? Am I interested in a variable annuity with the potential for higher earnings that are not guaranteed and willing to risk losing the principal?
- ? Is a guaranteed interest rate more important to me, with little or no risk of losing the principal?
- ? Or, am I somewhere in between these two extremes and willing to take some risks?

HOW DO I KNOW WHICH EQUITY-INDEXED ANNUITY IS BEST FOR ME?

As with any other insurance product, you must carefully consider your own personal situation and how you feel about the choices available. No single annuity design may have all the features you want. It is important to understand the features and trade-offs available so you can choose the annuity that is right for you. Keep in mind that it may be misleading to compare one annuity to another unless you compare all the other features of each annuity. You must decide for yourself what combination of features makes the most sense for you. Also remember that it is not possible to predict the future behavior of an index.

QUESTIONS YOU SHOULD ASK YOUR AGENT OR THE COMPANY

You should ask the following questions about equity-indexed annuities in addition to the questions in the Buyer's Guide to Fixed Deferred Annuities.

- ? How long is term?
- ? What is the guaranteed minimum interest rate?
- ? What is the participation rate? For how long is the participation rate guaranteed?
- ? Is there a minimum participation rate?
- ? Does my contract have an interest rate cap? What is it?
- ? Does my contract have an interest rate floor? What is it?
- ? Is interest rate averaging used? How does it work?
- ? Is interest compounded during a term?
- ? Is there a margin, spread, or administrative fee? Is that in addition to or instead of a participation rate?

- ? What indexing method is used in my contract?
- ? What are the surrender charges or penalties if I want to end my contract early and take out all of my money?
- ? Can I get a partial withdrawal without paying charges or losing interest? Does my contract have vesting? If so, what is the rate of vesting?

FINAL POINTS TO CONSIDER

Remember to read your annuity contract carefully when you receive it. Ask your agent or insurance company to explain anything you don't understand. If you have a specific complaint or can't get answers you need from the agent or company, contact your state insurance department.

Policy Form: FGL FPDEIA-CEO3 (10-2002)