Important Information About Your Annuity Investment

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Member FINRA and SIPC

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Annuity Investing

Annuities are one of the most popular investment products available today, but can be difficult to understand. One reason annuities are attractive is that they help build more value over time. By providing potential growth that is tax deferred, an annuity's investment earnings can accumulate and compound untouched by federal, state, or local income taxes until you begin making withdrawals. However, before you buy an annuity, it is important to understand the risks, charges and expenses associated with the investment in addition to reviewing your financial situation, goals, risk tolerance, time horizon, diversification needs and liquidity requirements. Baird wants to make sure that you have considered other investment options such as mutual funds, life insurance and other types of securities before purchasing an annuity.

Many features of annuities make them attractive to those who seek investments that supplement retirement benefits and to retirees who want greater control over their income and the flexibility to continue to defer taxes on investment earnings. Annuities are designed to be long-term investments that help meet retirement and other long-term goals. Annuities are not suitable for meeting short-term goals because substantial taxes and insurance company charges may apply if you withdraw your money early. Investing in pre-tax investment options such as IRAs and employer sponsored 401(k) plans, also may provide you with tax-deferred growth and other tax advantages. For most investors, it will be advantageous to make the maximum allowable contributions to IRAs and 401(k) plans before investing in an annuity. Also, annuities may be qualified or non-qualified. A qualified annuity is funded with pre-tax dollars. An annuity that is funded with pre-tax dollars means that the contribution may lower your current taxable income, but the entire distribution amount taken from a qualified annuity will be subject to ordinary income taxes. A non-qualified annuity is funded with after-tax dollars. A distribution from a non-qualified annuity will be taxed only on the portion that comes from earnings of the annuity, not on the entire distribution.

Although you will be able to have access to your money in an annuity contract by surrendering your contract or making a withdrawal, a surrender or withdrawal made from a qualified annuity is taxed as ordinary income and if withdrawn before the age of 59 ½ may be subject to a 10% federal penalty tax. A surrender or withdrawal made from a non-qualified annuity before age 59 ½ may be subject to a 10% federal tax penalty on the taxable amount of earnings withdrawn, in addition to any income taxes due on that amount. In addition, the issuing insurance company may have its own set of surrender charges for withdrawals taken during the initial years of the contract. Before investing in an annuity, please read the annuity prospectus, the underlying fund prospectuses, statements of additional information, or other offering material prepared by the insurance company. Some of these documents, in addition to describing the potential charges associated with investing in an annuity, will describe the annuity contract features that you can choose as you evaluate the various annuity options with your Baird Financial Advisor.

This document will help you better understand annuity contracts, including their various types, features and associated costs. In this document the description of the taxable features of annuities and of the federal tax penalty relate to non-qualified annuities. A withdrawal or surrender from a qualified annuity is taxed differently, as the entire distribution amount will be subject to ordinary income taxes. This document also describes the compensation that your Baird Financial Advisor and Baird receive as a result of your investment in an annuity.

Please note that, in addition to initial commissions and trail commissions on trades on annuity products it sells, Baird may receive marketing support payments from certain annuity sponsors on the Baird Focus List. See "How Baird and Your Financial Advisor are Compensated for Annuity Sales" below.

Please contact your Baird Financial Advisor if you have questions about investing in an annuity or your annuity investment.

What is an Annuity Contract?

An annuity is a contract between you and an insurance company, under which you make a lump-sum payment or series of payments to fund the annuity. In return, the insurer agrees to make periodic payments to you beginning immediately or at some future date. Depending on the policy of the insurance company, when you reach a specific age you may have to begin making withdrawals. Annuities typically offer tax-deferred growth of earnings and may include a death benefit that will pay your beneficiary a guaranteed minimum amount.

Types of Annuity Contracts

There are two different types of annuities: immediate and deferred. With an immediate annuity, income payments generally start no later than one year after you pay the premium. After you have selected a payment plan, income payments for an immediate annuity will be made regularly (e.g., monthly, quarterly, semi-annually or annually) and continue for the length of time selected, which can be a fixed number of years or an indefinite period. The income payments from a deferred annuity often start many

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years later. Deferred annuities have an accumulation period, which is the time between when you start paying premiums and when income payments start. The deferred annuity has the benefit of accumulating money on a tax-deferred basis.

Annuity contracts, both immediate and deferred, are offered in two ways: fixed and variable. In a fixed annuity, the insurance company guarantees that you will earn a minimum rate of interest during the time that your account is growing. The insurance company also guarantees that the periodic payments will be a guaranteed amount per dollar in your account. These periodic payments may last for a definite period, such as 20 years, or an indefinite period, such as your lifetime or the lifetime of you and your spouse. In a variable annuity, by contrast, you can choose to invest your purchase payments from among a range of different investment options, typically mutual funds. The rate of return on your purchase payments, and the amount of the periodic payments you will eventually receive, will vary depending on the performance of the investment options you have selected.

In addition to fixed and variable annuities, there are equity-indexed annuities. An equity-indexed annuity is a special type of annuity. During the accumulation period – when you make either a lump sum payment or a series of payments – the insurance company credits you with a return that is based on changes in an equity index, such as the S&P 500 Stock Index. The insurance company typically guarantees a minimum return, which varies depending on the insurance company. After the accumulation period, the insurance company will make periodic payments to you under the terms of your contract, unless you choose to receive your contract value in a lump sum.

Throughout this document the word "guarantee" refers to guarantees that are backed by the claims-paying ability of the issuing insurance company. If the insurance company is unable to meet the claims, the payments may not be made. While it is not a common occurrence that a life insurance company is unable to meet its obligations, it happens. There are several private companies that rate an insurance company's financial strength. Please contact your Baird Financial Advisor for more information regarding the financial strength ratings of insurance companies.

Variable annuities are securities regulated by the Securities and Exchange Commission ("SEC"). Fixed annuities are not securities and are not regulated by the SEC. Equity-indexed annuities combine features of traditional insurance products (guaranteed minimum return) and traditional securities (return linked to equity markets). Depending on the mix of features, an equity-indexed annuity may or may not be a security. The typical equity-indexed annuity is not registered with the SEC.

There are three general types of deferred annuities: fixed annuities, equity-index annuities and variable annuities.

Deferred Fixed Annuities

Fixed annuities have a guaranteed fixed interest rate for a specific period of time. The terms of the fixed annuity contract will determine if the insurance company may adjust the rate and the frequency of the adjustment. Also, the length of the guaranteed period and the guaranteed interest rate vary depending on the terms of the contract. When the period expires, you can choose a different length of a contract with the new guaranteed rate or continue with the annuity contract for the same period at the new guaranteed rate. Depending on the annuity contract, there may be other options to choose at the expiration, such as surrendering the annuity without a surrender charge, beginning to receive periodic payments, or making a withdrawal. However, if you surrender your contract or make a withdrawal before the expiration of the guaranteed interest period, this may cause an adjustment to the amount of interest credited to your annuity contract and has the potential of resulting in a negative return for your annuity. Also, a surrender charge may apply if you surrender your contract or make a withdrawal during the surrender charge period.

Because fixed annuities offer a guaranteed rate of interest, they are usually less volatile than other annuity products. However, because of the guaranteed feature of fixed annuities, fixed annuities generally offer no adjustment for inflation and less opportunity for appreciation as compared to other annuities. Please consult your Baird Financial Advisor regarding the features of a fixed annuity and carefully read the prospectus, contract and other material provided by the insurance company before purchasing a fixed annuity.

Equity-Indexed Annuities

Equity-indexed annuities (EIAs) have characteristics of both fixed and variable annuities. Their return varies more than those of fixed annuities, but not as much as those of variable annuities. Therefore, EIAs involve greater risk (but more potential return) than fixed annuities but less risk (and less potential return) than variable annuities.

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EIAs offer a minimum guaranteed interest rate combined with an interest rate linked to a market index. Because of the guaranteed interest rate, EIAs have less market risk than variable annuities. EIAs also have the potential to earn returns better than traditional fixed annuities when the stock market is rising.

The guaranteed minimum return for an EIA is typically 90% of the premium paid at a 3% annual interest rate. However, if you surrender your EIA early, you may have to pay a significant surrender charge and a 10% tax penalty that will reduce or potentially eliminate any return.

EIAs and other tax-deferred annuities do not provide the same advantages as 401(k)s and other before-tax retirement savings plans. 401(k) plans and other before tax-retirement savings plans not only allow you to defer taxes on income and investment gains, but your contributions reduce your current taxable income. Most investors should consider EIAs and other annuity products only after they make the maximum contribution to their 401(k) and other before-tax retirement plans.

How Equity-Indexed Annuities Work

The index-linked gain depends on the particular combination of indexing features that an EIA uses. To fully understand an EIA, make sure you not only understand each feature, but also how the features work together since these features can dramatically impact the return on your investment. The most common indexing features and methods are listed below.

- Participation Rates. A participation rate determines how much of the gain in the index will be credited to the annuity. For example, the insurance company may set the participation rate at 80%, which means the annuity would only be credited with 80% of the gain experienced by the index.
- Spread/Margin/Asset Fee. Some EIAs use a spread, margin or asset fee in addition to, or instead of, a participation rate. This percentage will be subtracted from any gain in the index linked to the annuity. For example, if the index gained 10% and the spread/margin/asset fee is 3.5%, then the gain in the annuity would be only 6.5%.
- Interest Rate Caps. Some EIAs may put a cap or upper limit on your return. This cap rate is generally stated as a percentage. This is the maximum rate of interest the annuity will earn. For example, if the index linked to the annuity gained 10% and the cap rate was 8%, then the gain in the annuity would be 8%.
- Indexing Averaging. Some EIAs average an index's value either daily or monthly rather than use the actual value of the index on a specified date. Averaging may reduce the amount of the index-linked interest you earn.
- Interest Calculation. The way an insurance company calculates interest earned during the term of an EIA can make a big difference in the amount of money you will earn. Some EIAs pay simple interest during the term of the annuity. Because there is no compounding of interest, your return will be lower.
- Exclusion of Dividends. Most EIAs only count equity index gains from market price changes, excluding any gains from dividends. Since you are not earning dividends, you will not earn as much as if you invested directly in the market.

EIAs are long-term investments. Getting out early may mean taking a loss. Many EIAs have surrender charges. The surrender charge can be a percentage of the amount withdrawn or a reduction in the interest rate credited to the EIA. Also, any withdrawals from tax-deferred annuities before you reach the age of 59 ½ are generally subject to a 10% tax penalty in addition to any gain being taxed as ordinary income.

It is possible to lose money in an EIA. Many insurance companies only guarantee that you will receive 90% of the premiums you paid, plus at least 3% interest. Therefore, if you do not receive any index-linked interest, you could lose money on your investment. One way that you could not receive any index-linked interest is if the index linked to your annuity declines. The other way you may not receive any index-linked interest is if you surrender your EIA before maturity. Some insurance companies will not credit you with index-linked interest when you surrender your annuity early.

Some EIAs allow the insurance company to change participation rates, interest rate caps, or spread/asset/margin fees either annually or at the start of the next contract term. If an insurance company subsequently lowers the participation rate or cap or increases the spread/asset/margin fees, this could adversely affect your return. Ask your Baird Financial Advisor or read the material provided by the insurance company, including your contract, to see if the insurance company is allowed to change these features.

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Variable Annuities

Before buying any variable annuity, you should find out about the particular annuity you are considering. Please carefully read the prospectus, which can be obtained from your Baird Financial Advisor or the insurance company. The prospectus contains important information about the annuity contract, including fees and charges, investment options, death benefits, and annuity payout options. You should compare the benefits and costs of the annuity to other variable annuities and to other types of investments, such as mutual funds.

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

A variable annuity offers a range of investment options. The value of your investment as a variable annuity owner will vary depending on the performance of the investment options you choose. The investment options for a variable annuity are typically mutual funds that invest in stocks, bonds, money market instruments, or some combination of the three.

Although variable annuities are typically invested in mutual funds, variable annuities differ from mutual funds in several important ways. First, variable annuities let you receive periodic payments for the rest of your life (or the life of your spouse or any other person you designate). This feature offers protection against the possibility that, after you retire, you will outlive your assets. Second, variable annuities have a death benefit. If you die before the insurer has started making payments to you, your beneficiary is guaranteed to receive a specified amount – typically at least the amount of your purchase payments. Your beneficiary will get a benefit from this feature if, at the time of your death, your account value is less than the guaranteed amount. Third, variable annuities are generally tax-deferred. That means you pay no taxes on the income and investment gains from your annuity until you withdraw your money. You may also transfer your money from one investment option to another within a variable annuity without paying tax at the time of the transfer. When you take your money out of a variable annuity, however, you will be taxed on the earnings at ordinary income tax rates rather than lower capital gains rates. In general, the benefits of tax deferral will outweigh the costs of a variable annuity only if you hold it as a long-term investment to meet retirement and other long-term goals. Taxable distributions from an annuity are generally taxed at the contract owner's ordinary income tax rate and generally do not get the benefit of lower tax rates received by certain capital gains and dividends under current tax laws. Also, the death of a contract owner may result in a taxable distribution that must be made from the contract within a specified period of time.

Other investment vehicles, such as IRAs and employer-sponsored 401(k) plans, also may provide you with tax-deferred growth and other tax advantages. For most investors, it will be advantageous to make the maximum allowable contributions to IRAs and 401(k) plans before investing in a variable annuity. In addition, if you are investing in a variable annuity through a tax-advantaged retirement plan (such as a 401(k) plan or IRA), you will get no additional tax advantage from the variable annuity. Under these circumstances, consider buying a variable annuity only if it makes sense because of the annuity's other features, such as lifetime income payments and death benefit protection. The tax rules that apply to variable annuities can be complicated. Before investing, you may want to consult a tax adviser about the tax consequences to you of investing in a variable annuity.

How Variable Annuities Work

A variable annuity has two phases: an accumulation phase and a payout phase.

During the accumulation phase, you make purchase payments, which you can allocate to a number of investment options. For example, you could designate 40% of your purchase to a bond fund, 40% to a US stock fund, and 20% to an international stock fund. The money you have allocated to each mutual fund investment option will increase or decrease over time, depending on the fund's performance. In addition, variable annuities often allow you to allocate part of your purchase payments to a fixed account. A fixed account, unlike a mutual fund, pays a fixed rate of interest. The insurance company may reset this interest rate periodically, but it will usually provide a guaranteed minimum (e.g., 3% per year). Also, you can typically transfer your money from one investment option to another without paying tax on your investment income and gains, although you may be charged by the insurance company for transfers. However, if you withdraw money from your account during the early years of the accumulation phase, you may have to pay "surrender charges," which are discussed in the Annuity Charges section, and, as described previously, if you withdraw money before the age of 59 ½ you may have to pay a 10% federal tax penalty.

At the beginning of the payout phase, you may receive your purchase payments plus investment income and gains (if any) as a lump-sum payment, or you may choose to receive them as a stream of payments at regular intervals (generally, monthly). If you choose to receive a stream of payments, you may have a number of choices of how long the payments will last. Under most annuity contracts, you can choose to have your annuity payments last for a period that you set (such as 20 years) or for an indefinite period (such as your lifetime or the lifetime of you and your spouse or other beneficiary). During the payout phase, your annuity contract may permit you to choose between receiving payments that are fixed in amount or payments that vary based on the performance of mutual fund investment options. The amount of each periodic payment will depend, in part, on the time period you select for receiving payments. Be aware that some annuities do not allow you to withdraw money from your account once you have started receiving regular annuity payments.

In addition, some annuity contracts are structured as immediate annuities, which means that there is no accumulation phase and you will start receiving annuity payments right after you purchase the annuity.

Variable Annuity Death Benefit and Other Features

A common feature of variable annuities is the death benefit. If you die, a person you select as a beneficiary (such as your spouse or child) will receive the greater of: (i) all the money in your account, or (ii) some guaranteed minimum (such as all purchase payments minus prior withdrawals).

Some variable annuities allow you to choose a “stepped-up” death benefit. Under this feature, your guaranteed minimum death benefit may be based on a greater amount than purchase payments minus withdrawals. For example, the guaranteed minimum might be your account value as of a specified date, which may be greater than purchase payments minus withdrawals if the underlying investment options have performed well. The purpose of a stepped-up death benefit is to “lock in” your investment performance and prevent a later decline in the value of your account from eroding the amount that you expect to leave your heirs. This feature carries a charge, however, which will reduce your account value.

Variable annuities sometimes offer other features, which also have extra charges. One common feature, the guaranteed minimum income benefit, guarantees a particular minimum level of annuity payments, even if you do not have enough money in your account (perhaps because of investment losses) to support that level of payments. Other features may include long-term care insurance, which pays for home health care or nursing home care if you become seriously ill. Please be aware that you will pay for each benefit provided by your variable annuity. Be sure to understand the charges. Carefully consider whether you need the benefit. If you do, consider whether you can buy the benefit more cheaply as part of the variable annuity or separately (e.g., through a long-term care insurance policy).

Variable Annuity Share Structures

Insurance companies offer a variety of contract structures to meet investor needs. These structures include differing surrender charge periods and surrender charges. Insurance companies offer variable annuity contracts with no initial sales charge, but you may pay a surrender charge if you cancel the contract in the early years (typically referred to as B-share annuities); with no surrender charges, but with typically higher mortality and expense charges and administrative charges than B-shares (typically referred to as C-share annuities); and with shorter surrender charge periods, but with typically higher mortality and expense charges than B-shares (typically referred to as L-share annuities).

B-share annuities are offered with no initial sales charges but have a surrender charge when you make a partial or full surrender of the annuity. The surrender charges typically range from 5% to 7% in the first year and then decline by 1% each year of the contract. The surrender period of the contract is usually 6 to 9 years from the date on which the contract is purchased. Typically, after the surrender charge period ends, withdrawals made will not incur a surrender charge. However, withdrawals taken prior to the age of 59 ½ are still subject to a 10% penalty and gains are still taxed as ordinary income.

C-share annuities offer full liquidity to investors without the initial sales charge or back-end surrender charges. Similar to all annuities, withdrawals taken before the age of 59 ½ may be subject to a 10% IRS penalty, and gains on withdrawals are taxed as ordinary income. In addition, C shares typically have substantially higher mortality and expense charges and administrative charges than B shares.

L-share annuities typically have shorter surrender charge periods, but higher expenses than B shares. The surrender charge period usually is between 3 and 4 years and is a declining schedule. Similar to all annuities, withdrawals taken before the age of 59 ½ may be subject to a 10% IRS penalty, and gains on withdrawals are taxed as ordinary income. In addition, L shares typically have substantially higher mortality and expense charges and administrative charges as compared to B shares.

These annuity contract structures, including the surrender time period and the surrender charges, differ significantly. Please read the prospectus or other offering material or ask your Baird Financial Advisor to explain these features and the other risks to ensure that your annuity investment meets your risk tolerance, investment objectives, financial goals and time horizon.

Variable Annuity Bonus Credits

Some insurance companies offer variable annuity contracts with "bonus credit" features. These contracts promise to add a bonus to your contract value based on a specified percentage (typically ranging from 1% to 5%) of purchase payments.

For example, if you purchase a variable annuity contract that offers a bonus credit of 3% on the initial purchase payment and you make a purchase payment of $20,000, the insurance company issuing the contract adds a bonus credit of $600 to your account, raising the total initial amount of the contract to $20,600.

Frequently, insurance companies will charge you for bonus credits in one or more of the following ways: higher surrender charges; longer surrender periods; or higher mortality and expense charges and other charges. Depending upon the amount of the bonus credit and the increased charges, how long you hold your annuity contract, and the return on the underlying investment, the resulting charges may exceed the benefit of the bonus.

Annuity Charges

You will pay several charges when you invest in an annuity. Be sure you understand all the charges before you invest. These charges will reduce the value of your account and the return on your annuity.

If you withdraw money from an annuity within a certain period after a purchase payment (typically within six to eight years, but sometimes as long as ten years), the insurance company usually will assess a "surrender" charge, which is a type of sales charge paid to your Baird Financial Advisor for selling the annuity to you. Generally, the surrender charge is a percentage of the amount withdrawn, and declines gradually over a period of several years, known as the "surrender period." For example, a 7% charge might apply in the first year after a purchase payment, 6% in the second year, 5% in the third year, and so on until the eighth year, when the surrender charge no longer applies. Often, contracts will allow you to withdraw part of your account value each year – 10% or 15% of your account, for example – without paying a surrender charge. Your Baird Financial Advisor can discuss any potential charges including the surrender charges and the applicable associated surrender periods with the annuity you are considering.

Fixed Annuity and Equity-Indexed Annuity Fees and Charges

In addition to the surrender charges discussed above, your fixed or equity-indexed annuity may be charged an annual account maintenance fee or other annual contract fees as described in your annuity contract. Your Baird Financial Advisor also receives a commission for selling a fixed or equity-indexed annuity to you. The commission is paid by the insurance company. The commission payment made by the insurance company is paid from the insurance company's assets, which includes any income the insurance company makes from selling annuity contracts. For additional detail on the fees associated with an annuity, ask your Baird Financial Advisor.

Variable Annuity Fees and Charges

In addition to the surrender charges discussed above, your variable annuity may be charged mortality and expense risk charges; administrative fees; underlying fund expenses; and fees and charges for other features. Like fixed and equity-indexed annuities, your Baird Financial Advisor also receives a commission for selling a variable annuity to you. The commission is paid by the insurance company. The commission payment made by insurance company is paid from the insurance company's assets, which includes any income the insurance company makes from selling annuity contracts. For additional detail on the fees associated with a variable annuity, ask your Baird Financial Advisor.

Another type of charge is a mortality and expense risk charge. This charge is equal to a certain percentage of your account value, typically in the range of 1.25% per year. This charge compensates the insurance company for insurance risks it assumes under the annuity contract. Profit from the mortality and expense risk charge is sometimes used to pay the insurer's costs of selling the variable annuity, such as a commission paid to your Baird Financial Advisor for selling the variable annuity to you.

The insurance company may also deduct charges to cover record-keeping and other administrative expenses. This may be charged as a flat account maintenance fee (perhaps $25 or $30 per year) or as a percentage of your account (typically in the range of 0.15% per year). You will also indirectly pay the fees and expenses imposed by the mutual funds that are the underlying investment options for your variable annuity.

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Also, as described above, some variable annuities offer special features such as a stepped-up death benefit, a guaranteed minimum income benefit, or long-term care insurance, which often carry additional fees and charges.

Tax-Free Exchange of Annuities

Section 1035 of the US tax code allows you to exchange an existing annuity contract for a new contract without paying any tax on the income and investment gains in your current annuity account. These tax-free exchanges, known as 1035 exchanges, can be useful if another annuity has features that you prefer, such as a larger death benefit, different annuity payout options, or a wider selection of investment choices.

However, you may be required to pay surrender charges on the old annuity if you are still in the surrender period. In addition, a new surrender charge period generally begins when you exchange into the new annuity. This means that, for a significant number of years (as many as 10 years), you typically will have to pay a surrender charge (which can be as high as 9% of your purchase payments) if you withdraw funds from the new annuity. Further, the new annuity may have higher annual fees and charges than the old annuity, which will reduce your returns.

Before performing a 1035 exchange you should consider, among other things, the following: the total cost of the exchange; the consequences of a change in the surrender period; the cost, benefit and necessity of any new feature; whether any new feature offered by a 1035 exchange might already be available via your existing contract; and the amount of commissions being paid to your Baird Financial Advisor.

Risks and Other Considerations in Investing in an Annuity

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

Although annuity contracts typically have a “free look” period, you should learn about the specific annuity you are considering before you invest. You should read the prospectus, if the annuity is a variable annuity, and any other available material from the insurance company or from your Baird Financial Advisor. The prospectus or other offering material contains important information regarding the annuity contract including risks, fees and charges, investment options, death benefits, annuity payout options and other information.

Before you decide to buy an annuity, consider the following:

- Annuities are contracts between the purchaser and the insurance company and often have features of securities and insurance products.
- A complete review of your present financial situation should be conducted prior to purchasing an annuity, including your age, annual income, existing assets (including investment and life insurance holdings), liquid net worth and current tax status.
- A review of your investment goals, including assessing your investment experience, financial needs, risk tolerance, time horizon, financial goals, liquidity needs and anticipated future tax status should be conducted prior to purchasing an annuity.
- Investing in pre-tax investment options such as IRAs and an employer sponsored 401(k) plan, also may provide you with tax-deferred growth and other tax advantages. For most investors, it will be advantageous to make the maximum allowable contributions to IRAs and 401(k) plans before investing in an annuity.
- An annuity is primarily to save for retirement or a similar long-term goal.
- An investment in an annuity through a retirement plan or IRA would mean that you are not receiving any additional tax-deferral benefit from the variable annuity.
- A tax adviser should be consulted as there may be tax consequences of purchasing an annuity, including the effect of annuity payments on your tax status in retirement.
- The beneficiaries of an annuity inherit the same terms of the annuity such as surrender periods and tax consequences when the original purchaser of the annuity dies.

- With a variable annuity your account value may decrease if the underlying mutual fund investment options decline in value.
- Make sure you understand the many complex structures and terms of annuities, such as free look, deferred, immediate, variable, fixed, equity-indexed, B-shares, C-shares, L-shares, surrender charges, mortality and expense risk charges, administrative fees, underlying fund expenses, stepped-up death benefit, guaranteed minimum income benefit and bonus credits.
- Annuities have a variety of fees, charges and penalties, including surrender charges, an IRS early withdrawal penalty, mortality and expense charges, administrative fees, underlying fund fees, bonus credit fees, and guaranteed minimum income benefit fees. Read the offering material, prospectus, or ask your Baird Financial Advisor regarding these fees, charges, and penalties.
- If you withdraw your money or surrender your contract prior to the expiration of the surrender period, you may have to pay surrender charges.
- Some annuities offer bonus credits; however, the fees associated with the bonus credit may outweigh any benefit received from the bonus credit.
- Features on an annuity may be obtained by purchasing the feature separately from the annuity.
- Before exchanging one annuity for another one, review the benefits of the exchange compared to the costs, such as any surrender charges you will have to pay if you withdraw your money before the end of the surrender charge period for the new annuity.
- Exchanging or transferring one annuity contract for another may result in the reduction of death benefit protection from a previously locked in "high-water" value to the current dollar amount being invested. Liquidating an annuity contract will result in the loss of death benefit protection.
- Withdrawing earnings before the age of 59 ½ is generally subject to a 10% IRS penalty, and when taxable earnings are paid out they are taxed as ordinary income. This ordinary income may be subject to federal, state and local taxes.
- All applications to purchase or exchange a deferred variable annuity contract are accepted subject to review and approval by a designated registered principal of Baird.

How Baird and Your Baird Financial Advisor Are Compensated For Annuity Sales

Baird and your Baird Financial Advisor are compensated by the insurance companies whose products we sell. Baird is paid by the insurance companies in forms including commissions, marketing support payments and payments for training and education.

Baird and your Baird Financial Advisor are paid based on the type of annuity, the amount invested, and the insurance company. Your Baird Financial Advisor's initial compensation is based on the invested purchase payments. This initial compensation is typically referred to as a commission. These commissions generally range from 0.25% to 7% of the purchase payments. In addition, Baird also receives ongoing payments on the invested assets in your variable annuity that are held for greater than one year. These types of payments are typically known as trail commissions or residuals and are generally up to 1.25% per year on invested assets. Baird pays a portion of these trail commissions or residuals to Baird Financial Advisors. Commissions and trails also depend on your annuity contract structure (e.g., B share, L share, C share and bonus) and differ by insurance company.

In addition to the compensation described above, Baird may receive additional financial support from the insurance companies of certain annuities that it sells. This support, which varies from insurance company to insurance company is commonly referred to as "marketing support payments." As of the end of 2008, 18 insurance companies have been identified for inclusion on the "Baird Focus List." The Baird Focus List is determined through an evaluative process taking into account numerous qualitative and quantitative factors, including but not limited to the ratings of the insurance companies; the pricing of the annuity product, including associated expenses; and the diversification of the annuity product line, including, when applicable, the diversification of the sub accounts offered, the quality of the sub account managers and the various types, features and characteristics of the annuity offerings. These 18 insurance companies consisted of AIG Sun America Life Assurance Company, Prudential Annuities, AXA Equitable Life Insurance Company, Genworth Financial, Hartford Life Insurance, ING USA Annuity and Life Insurance Company, Jackson National Life, John Hancock Life Insurance, Lincoln Financial, MetLife Investors USA, Nationwide Life Insurance, Ohio National Life Insurance, Pacific Life Insurance, Protective Life Insurance, RiverSource Life, State Life, Sun Life

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Financial, and Transamerica Capital. Some of these insurance companies provided marketing support payments. In exchange for such financial support, insurance companies that have earned placement on the Baird Focus List may receive such benefits as:

- Participation in meetings and conference calls with Baird Financial Advisors and home office personnel
- Ability to conduct marketing campaigns tailored to the needs of Baird Financial Advisors
- Participation by Baird Financial Advisors and home office personnel in insurance company due diligence meetings
- Posting of marketing materials on internal websites accessed by Baird Financial Advisors
- Information regarding Baird Financial Advisors
- Information on insurance companies' market share within Baird

The financial support that we may receive from annuity sponsors on the Baird Focus List does not create incentives for Baird Financial Advisors to recommend specific annuity sponsors because Baird Financial Advisors' compensation is not tied to such support. Baird does not consider the receipt of these payments in compiling its Focus List. The financial support Baird receives from an annuity sponsor is typically based on the investor's total purchase amount and has been up to 0.25% of that amount and up to 0.025% of assets. Following is a list of annuity sponsors that have made marketing support payments to Baird during 2007 and 2008. They are listed in order of total marketing support payment (from largest to smallest): Pacific Life Insurance; Hartford Life Insurance; AXA Equitable Life Insurance; Nationwide Life Insurance; ING USA; Prudential Annuities and RiverSource Life.

Also, in the ordinary course of business, Baird Financial Advisors may receive nominal promotional items, meals or entertainment, or other similar "non-cash" compensation, in accordance with industry regulation and firm guidelines from representatives of the insurance companies with whom Baird does business.

Please ask your Baird Financial Advisor or read the prospectus regarding the types of compensation payments related to your annuity. In addition, please contact your Baird Financial Advisor for more specific information about the amount of market support payments Baird may receive from any of the annuity sponsors on the Baird Focus List.

To Learn More About Annuities

Baird is fully committed to helping you understand your annuity investment.

To learn more about annuities, please contact your Baird Financial Advisor or review the Financial Industry Regulatory Authority ("FINRA") web site at www.finra.org or the Securities and Exchange Commission ("SEC") web site at www.sec.gov. Many states also have regulatory bodies that provide information regarding annuities, such as the State of Wisconsin Office of the Commissioner of Insurance, which provides the Wisconsin Buyer's Guide to Annuities at http://oci.wi.gov/pub_list/pi-016.htm#types.

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