TheStandard®
Positively different.

An Annuity Issue: Renewal Rates

Why a renewal rate can go down when short-term rates in the industry are rising.

Renewal-Rate Performance

In our current investment environment, the most frequent question we get is *"How can my rate go down when rates in general are going up?"* This question, though seemingly simple, has an answer that is quite complex. So let's take this in stages.

Buying A Promise

With most fixed annuity products available today, an insurance company guarantees a certain interest rate for a certain period of time. When a company accepts a premium and issues an annuity contract, a consumer is buying a promise of a set rate over a set term. In order to be true to that promise, the company takes the money and invests it in assets that will support the guarantee.

After your initial guaranteed interest rate period The Standard may change your annuity's interest rate according to prevailing interest rates and the performance of The Standard's investment portfolio. This new rate is called a "renewal rate."

Jane buys a promise.

Premium:	$100,000
Rate Guarantee:	6.25% for Five Years
Benefits:	Safety, Tax-Deferral and Personal Choice

The company backs that promise.

Investment:	Five-Year Bonds and Mortgages

Investing for A Promise

There are generally only a few types of assets that an insurance company will buy to support the commitment to a fixed annuity: corporate bonds, commercial mortgages and government securities. These investments are safe, conservative and predictable. To back an annuity promise, The Standard purchases only highly rated vehicles that are likely to perform as intended without much risk of default — a perfect match to backing the rate promise.

Because of the high quality of the bonds and mortgages, these investments will cost slightly more than other higher-yielding, lower-rated instruments. But, as an annuity is a long-term investment that is generally held into retirement (not just for the guarantee period), the company can rely on this fact to purchase bonds and mortgages with longer maturities — most commonly five- to ten-year options. The long-term nature of these investments is what allows the company to provide a higher interest rate over time than many shorter-term investments.

Standard Insurance Company
Individual Annuities
1100 SW Sixth Avenue
Portland OR 97204
800.247.6888

www.standard.com

A subsidiary of StanCorp Financial Group, Inc.

13070 (09/06)

The insurance company now earns a fixed rate of interest on each of the bonds and mortgages it owns. As these investments mature in five to ten years, the overall yield earned on the company's total investment portfolio changes over time. During these years, the company continuously receives interest and principal payments and perpetually reinvests the funds in similar investments, at *current-market rates*. By the end of the annuity term, the company has reinvested virtually all of the original principal and interest payments at many different rates.

In a declining-rate environment, like we have experienced recently, as investments supporting higher-rate annuities mature and pay out interest, the company must reinvest those assets at current rates, which are lower than the original rate.

The Promise Evolves

When the guarantee period of an annuity expires, the company begins to set renewal interest rates based on the currently owned assets. If the yield on the portion of the portfolio that funded the original investment has dropped considerably as a consequence of being reinvested at steadily lower rates, the buyer will likely see a drop in the renewal rate. After all, the yield on the assets backing the annuity has dropped — even though short term rates may have increased.

Interesting Trends

In August of 2000, A-rated corporate bonds of a typical maturity were yielding 7.56% interest. By August of 2003 those same bonds were down to 4.57% and by March of 2004 had dropped all the way to 3.82%.

For sake of comparison, some short-term bank instruments were yielding 6.84% in August of 2000 and fell all of the way down to 1.55% in August of 2003.

As the Fed began increasing short-term borrowing rates for banks every quarter, interest rates on short-term instruments began rising very visibly in mid-2004. This, however, had little effect on longer-term investments like bonds and mortgages.

Jane is happy with the outcome.

Account Value:	$135,408 Grown from $100,000 at 6.25% annual interest for five years.
Renewal Rate:	5.75%
Benefits:	Safety, Tax-Deferral and Personal Choice

What To Do With This Information

It's true that the fixed-annuity renewal rate an insurance company can provide may be lower than current short-term rates. But don't overlook the years when the annuity received higher-than-average returns because bond and mortgage rates exceeded short-term rates. But to make an informed decision, be sure to reacquaint yourself with *all* the positive characteristics of a fixed annuity — it's about much more than the rate!

- The growth of the fixed annuity is tax deferred.
- You will *always* see gain from year to year. The fixed-annuity contract features a guaranteed minimum interest rate.
- A fixed annuity is safe. Contract values are guaranteed by the general assets of the company.
- You have excellent liquidity. With an annuity outside of the surrender charge period, you have complete access to the account balance without contract penalties.*

  * Please note that an additional 10% IRS penalty may apply to withdrawals taken before age 59½.
- The annuity offers guaranteed lifetime income options.