PRODUCT CHARGES AND EXPENSES

Before investing in any financial product, it is important that you understand the sales charges, expenses, and fees that you will be charged, as well as applicable discounts to which you may be entitled. Understanding these charges and discounts will assist you in identifying the best investment for your particular needs and may help you reduce the cost of your investment. This disclosure document will give you general background information about these charges and discounts. However, sales charges, expenses, fees, and discounts vary from product to product, and even within product categories. You should also understand that a portion of any sales charges that you pay, as well as certain internal product expenses, is allocated to compensate your financial advisor. You should discuss these issues with your financial advisor and review each product's prospectus or other disclosure documents which are available from your financial advisor, to get the specific information regarding the charges and discounts.

Mutual Fund Sales Charges

Investors that purchase mutual funds must make certain choices, including which funds to purchase and which class share is most advantageous. Each mutual fund has a specified investment strategy. You need to consider whether the mutual fund's investment strategy is compatible with your investment objectives. Additionally, most mutual funds offer different share classes. Although each share class represents a similar interest in the mutual fund's portfolio, the mutual fund will charge you different fees and expenses depending upon your choice of share class. As a general rule, Class A shares carry a "front-end" sales charge or "load" that is deducted from your investment at the time you buy fund shares. This sales charge is a percentage of your total purchase. As explained below, many mutual funds offer volume discounts to the front-end sales charge assessed on Class A shares at certain pre-determined levels of investment, which are called "breakpoint discounts." In contrast, Class B and virtually all C shares do not carry any front-end sales charges. Instead, investors that purchase Class B or C shares pay asset-based sales charges, which may be higher than the charges associated with Class A shares. Investors that purchase Class B and C shares may also be required to pay a sales charge known as a contingent deferred sales charge when they sell their shares, depending upon the rules of the particular mutual fund. Liquidations of Class B or C shares immediately prior to the anniversary date of your purchase will result in a higher contingent deferred sales charge than liquidations made after the anniversary date.

Understanding Mutual Fund Fees

Fees are charged by all mutual funds. Over time, even a small difference in percentages can have a significant effect on the overall return. That's why you should be aware of all the fees associated with any investment. Some fees are transaction based, while others are charged on an ongoing basis. The details of the types of fees you will be charged are described in detail in each fund's prospectus. It is important to read the prospectus before you invest. Following are some of the types of fees, including internal product expenses, which are charged on an ongoing basis:

- **12b-1 fees.** These fees are taken out of the fund's assets to pay for the cost of marketing and selling the fund, for some shareholder services, and sometimes to pay employee bonuses. These fees are capped at 1% annually.
- **Management fees.** These fees pay the fund's portfolio manager and vary from fund to fund.
- **Other expenses.** This miscellaneous category includes the costs of providing services to shareholders outside of the expenses which are covered by 12b-1 fees or portfolio management fees. You also pay transaction fees for the trades the fund makes, though this amount is not reported separately as the other fees are.

Other fees may be charged depending on the type or terms of a particular mutual fund, or characteristics unique to particular investors' activity:

- **Redemption fees.** Mutual funds are long term products and investors are discouraged from making very short-term trades. Funds often charge a redemption fee to investors who sell shares shortly after buying them. The redemption fee period can vary from just a few days to over a year depending on the fund. If you think you might need to sell your shares shortly after purchasing them it is important to thoroughly understand the fund's redemption policy.
- **Exchange fees.** Some funds also charge exchange fees for moving your money to another fund offered by the same fund company. So, you may incur an exchange fee if you move your money from one fund to another within the same fund company.
- **Account fees.** Funds may charge you a fee for account maintenance. Particularly, if your account drops below an established dollar amount.
- **Purchase Fee.** A purchase fee is another type of fee that some funds charge their shareholders when the shareholders purchase their shares. A purchase fee differs from, and is not considered to be, a front-end sales load because a purchase fee is paid to the fund (not to a broker) and is typically imposed to defray some of the fund's costs associated with the purchase.

You can compare mutual fund fees by looking at the expense ratio, sometimes called the Total Annual Fund Operating Expenses. This represents the percentage of the fund's total assets that goes toward paying its recurring fees every year. You can find this percentage in the prospectus, on the fund's Web site, or in financial publications that evaluate mutual fund products. As mentioned earlier, with higher fees, it is more difficult for the fund to do better than the overall market as measured by the appropriate benchmark.

The Financial Industry Regulatory Authority (FINRA) provides an easy-to-use, online Fund Analyzer that allows you to compare expenses among funds-or among different share classes of the same fund. FINRA uses live data and captures expense information for thousands of funds. The analyzer can help you understand the impact fees have on your investment over time. Once you select up to three funds, type in the amount you plan to invest and how long you plan to keep the fund.

You should also be aware of transaction fees, which the mutual fund pays to a brokerage firm to execute its buy and sell orders. Those fees are not included in the expense ratio, but are subtracted before the fund's return is calculated. The more the fund buys and sells in its portfolio, which is reported as its turnover rate, the higher its transaction costs may be.

Variable Insurance and Variable Annuity Charges

You will pay several charges when you invest in variable insurance contracts, including variable annuities. Be sure you understand all the charges before you invest. *These charges will reduce the value of your account and the return on your investment.* The following discussion will focus on charges and expenses associated with variable annuities; however, many of the same expenses that apply to variable annuities are also applicable to variable life insurance contracts. Typically, the costs associated with the insurance component of the contracts will be more significant with respect to variable life insurance because of the more substantial tax-free death benefits. As with all products, refer to the prospectus or other offering documents for specific details.

Typical charges and expenses for variable annuities will include the following:

- **Surrender charges** – If you withdraw money from a variable product 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. This charge is used to pay your financial professional a commission for selling the variable 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 value, for example – without paying a surrender charge.
  Example: You purchase a variable annuity contract with a $10,000 purchase payment. The contract has a schedule of surrender charges, beginning with a 7% charge in the first year, and declining by 1% each year. In addition, you are allowed to withdraw 10% of your contract value each year free of surrender charges. In the first year, you decide to withdraw $5,000, or one-half of your contract value of $10,000 (assuming that your contract value has not increased or decreased because of investment performance). In this case, you could

withdraw $1,000 (10% of contract value) free of surrender charges, but you would pay a surrender charge of 7%, or $280, on the other $4,000 withdrawn.

- **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 financial professional for selling the variable annuity to you.

  Example: Your variable annuity has a mortality and expense risk charge at an annual rate of 1.25% of account value. Your average account value during the year is $20,000, so you will pay $250 in mortality and expense risk charges that year.
- **Administrative fees** – The insurer may 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 value (typically in the range of 0.15% per year).

  Example: Your variable annuity charges administrative fees at an annual rate of 0.15% of account value. Your average account value during the year is $50,000. You will pay $75 in administrative fees.
- **Underlying Fund Expenses** – You will also indirectly pay the fees and expenses imposed by the mutual funds that are the underlying investment options for your variable annuity. Such fees include, for example, 12b-1 fees (see discussion in mutual fund section), certain tax charges levied against insurance companies, and similar expenses.
- **Fees and Charges for Other Features** – Special features offered by some variable annuities, such as a stepped-up death benefit, a guaranteed minimum income benefit, or long-term care insurance, often carry additional fees and charges.

Other charges, such as initial sales loads, or fees for transferring part of your account from one investment option to another, may also apply. You should ask your financial professional to explain to you all charges that may apply. You can also find a description of the charges in the prospectus for any variable annuity that you are considering.

Tax-Free "1035" Exchanges of Variable Products

Section 1035 of the U.S. Tax Code allows you to exchange certain insurance products for others, such as an existing variable annuity contract for another variable annuity contract, or a variable life insurance contract to another variable life or variable annuity contract, without paying any tax on the income and investment gains in your current variable annuity account. These tax-free exchanges, known as 1035 exchanges, can be useful if another variable product has features that you prefer, such as a larger death benefit, different annuity payout options, or a wider selection of investment choices.

You may, however, be required to pay surrender charges on the old contract if you are still in the surrender charge period. In addition, a new surrender charge period generally begins when you exchange into the new contract. 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 substantial) if you withdraw funds from the new contract. Further, the new contract may have higher annual fees and charges than the old contract, which will reduce your returns. You should take all these factors into consideration in determining whether an exchange makes sense for you.

Other Products

The discussion above provides significant detail concerning mutual funds as well as variable insurance and annuities; however investors should understand that the fees, expenses and charges described above are typical of many financial products, including managed futures, hedge funds and funds of funds, 529 college savings plans, and other pre-packaged, professionally-managed products. These costs are typically described in detail in prospectuses or similar offering documents and should be a factor in your decision whether to invest in a particular product.

We encourage you to review all materials and discuss the various investments with your advisor.