

INDEX ANNUITIES AND THE S&P 500[®]: A PRIMER

S&P Indices are widely used by insurance carriers as a basis for crediting rates within their indexed linked insurance products. S&P 500 is the leading index provider for indexed-linked insurance products, with over 92% of the top fixed indexed annuity products offering accounts linked to the S&P 500.¹ In addition, over 60 insurance products offer accounts linked to the S&P MidCap 400[®].²

Insurance carriers choose the S&P 500 and its related indices because of its brand recognition (the index has been widely published since 1957), the high liquidity of various products linked to the indices and its reputation as an objective representation of the U.S. equity market.

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About the S&P 500: The Leading Benchmark for U.S. Equities

Since its inception in 1957, the S&P 500 has emerged as one of the top brands in the financial industry and is recognized worldwide as the premier benchmark for U.S. stock market performance. Almost all cable and network news outlets regularly reference the performance of the S&P 500 and almost every newspaper publishes its performance daily. From a product exposure standpoint, over US\$ 3.5 trillion is benchmarked to the S&P 500, with index assets comprising approximately US\$ 915 billion of this total,³ making it the most widely followed stock market index in the world.

The S&P 500 is widely regarded as a proxy of the U.S. equity market. It is the only stock market benchmark in The Conference Board's Index of Leading Economic Indicators and has served as the leading indicator of the U.S. equity market since 1968.

Index-Based Products Linked to the S&P 500

One of the reasons the S&P 500 is widely used in insurance products is because of the broad, liquid pool of trading and investment vehicles linked to the index. Additional reasons include:

- Exchange Traded Funds (NYSE:SPY and NYSE:IVV) linked to the index traded an average of US\$ 15 billion dollars per day in 2010. (Source: *BlackRock ETF Landscape: Industry Highlights Year End 2010*)
- In 2010, 2.2 million S&P 500 E-Mini futures contracts traded daily, on average, at Chicago Mercantile Exchange. (Source: *Futures and Options Intelligence*; www.fointelligence.com)
- 700,000 S&P 500 options contracts traded daily, on average, at the Chicago Board of Options Exchange (CBOE). (Source: *Futures and Options Intelligence*; www.fointelligence.com)

¹ Cerulli Quantitative Update: Annuities and Insurance 2010

² www.annuityspecs.com

³ S&P Index Assets Survey, 2010

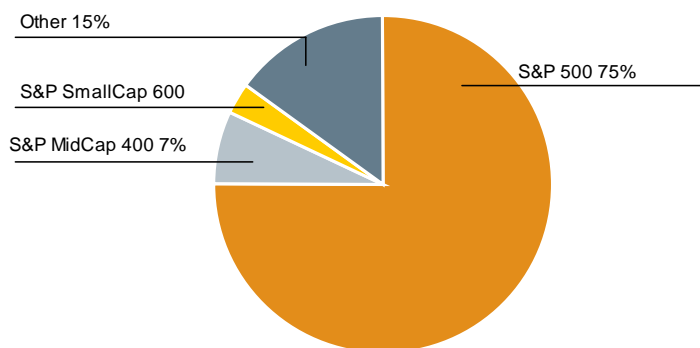
S&P 500 Index Methodology

The S&P 500 represents leading U.S. companies in leading industries. It does not include the largest 500 companies in the U.S., but a broad cross-section of large cap common stocks from various industries listed on U.S. stock markets.

On an ongoing basis, S&P Indices makes changes to the index to reflect the large cap portion of the U.S. equity market, with larger companies having greater weight in the index. Index constituents are added based on the following criteria:⁴

- Market capitalization of at least US\$ 4.0 billion
- Adequate liquidity and reasonable price
- Companies headquartered in the U.S.
- Public float of at least 50% of the stock
- Four consecutive quarters of positive as reported earnings

Chart 1: Coverage of U.S. Equities – Beyond the S&P 500



Source: S&P Indices. As of December 31, 2010.

The S&P 500 represents about three fourths of the total domestic U.S. equity market capitalization. What about the remaining 25%? In the early 1990's, Standard & Poor's launched S&P MidCap 400 and S&P SmallCap 600®. The S&P MidCap 400 provides a benchmark for mid-sized companies and represents over 7% of the U.S. equity market. The index is widely used – it has more than US\$ 75 billion in assets tracking it and has widely traded ETFs and ETF options linked to it.

⁴ For complete methodology, please visit www.indices.standardandpoors.com.

Chart 2: Daily Performance Chart -- S&P 500 vs. S&P MidCap 400



Source: Standard & Poor's. Daily data from January 2, 1992 through January 31, 2011. Past performance is not an indication of future results.

Tickers	
ETF	Ticker
iShares S&P 500 Index Fund	IVV
SPDR® S&P 500 ETF	SPY
Vanguard S&P 500 ETF	VOO

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