



FREEDOM 1

Smart Saver Flexible Premium Deferred Annuity

Underwritten by USA Life One

DRAFT

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Agent Product Brochure

For Agent Use Only

Here is what we know thus far:

We know that annuities have surrender periods. The average annuity surrender period is somewhere between five and ten years. Most clients see that as a negative.

We also know that many guaranteed term annuities have a market value adjustment. Explaining a market value adjustment to a prospective client certainly a negative.

We know that there are annuities that have a seemingly short surrender period; but in reality, it's only a thirty day window to take action or be stuck for several more years. Another negative.

We know there's been some really big insurance companies with seemingly rock solid ratings only to have unidentified underlying investments crash and burn. A really big negative.

All these negatives along with a stubborn interest rate market are some of the problems agents have been telling us about without much out there to address the market needs. And that's just the annuity side.

On the bank side of the coin we know clients don't like getting a taxable interest statement every year or losing most of the interest gained to early withdrawal penalties or monthly service charges. Then there's getting locked into a low interest rate for five years.

On the agent side of the coin there are issues with getting paid a commission on the business and then getting a charge back through no fault of the agent.

Seems an impossible knundrum...

MARKET RISK... Will the market drag me down?

LIQUIDITY RISK... Have I lost access to my money?

INFLATION RISK... Does my money buy less?

REGULATORY RISK... taxes or new taxes coming?

BUSINESS RISK... Bad Management a la Enron, MCI

ARE THERE RISK-FREE ALTERNATIVES? - NO, not even the government is entirely risk free.

A GAME OF RISK.

DEGREES OF UNCERTAINTY

ARE YOU WILLING TO GAMBLE YOUR CLIENTS NEST EGG?

WHAT CAN I DO FOR MY CLIENTS THAT LETS ME SLEEP AT NIGHT? AND OH YEA, THAT DOESN'T REQUIRE A Ph.D. IN MATH & ECONOMICS TO EXPLAIN ?

What if A company designed an annuity product that was actually engineered with the specific intent of providing clients an alternative to a bank's money market savings, interest checking, and passbook accounts? Then providing that alternative without all the perceived negatives that usually plague annuities. And what about those who are considering a three or five year Certificate of Deposit? . . . Is it worth picking up a few extra basis points of yield and end up taking on the real risk of missing out on the next interest rate cycle; which will probably be up, not down.

USA life One Insurance Company of Indiana has been quietly studying the annuity marketplace for the last few years, talking to agents and uncovering the perceived negatives and identifying marketplace solutions.



A USA LIFE ONE Annuity can be part of a conservative wealth management financial strategy. With USA Life One, your clients can really see their interests placed first!

Squeezing the majority of a client's retirement nest egg into one proverbial long term annuity egg basket has never been a good idea; and now, with standardized suitability requirements for annuities, it will get you in hot water. You've identified longer term allocations but nothing for the short run. Many of your clients already have parts of their retirement stuck in bank money market deposits, passbook savings, and interest checking and you've ignored it because up until this point there hasn't been any good options.

A whole new market, driven by unforeseen circumstances the last five years, is opening up in front us.

Agents - Meet the Short Term Annuity Market and the solution:

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The *Freedom 1 Smart Saver Flexible Premium Deferred Annuity*.

It is the Company's intent to manage this product very much like a Bank would manage their money market and interest checking accounts. Banks invest in very short term debt instruments and/or variable rate loans that are tied to the National Prime Rate or some other market benchmark that re-sets every 90 days or so. If interest rates are rising, short term debt instruments mature and are reinvested at higher rates, and variable rate loans re-set at higher rates as well. As the Bank's spread increases, they normally pass that on to the consumer in the form of a higher deposit rate. And of course, the reverse is true if interest rates are heading down. Our product will be based on this concept.

Who is the ideal client for this product? Any of your existing clients or new prospective clients who are leaving parts of their nest egg in their local bank. **Product Target Market:** Initially Indiana and Illinois

- o Our research indicates there are trillions of dollars parked in Bank - Interest Checking accounts, Money Market Savings accounts, and traditional Passbook Savings accounts across the Nation.

THIS IS OUR PRODUCT'S TARGET MARKET

- o Our research further indicates the insurance Industry has yet to design an annuity product that taps into this very significant source of potential premium deposits. The vast majority of annuity products being offered today have five (at a minimum) to ten years of hefty surrender charges along with Market Value Adjustment provisions; these structures simply cannot compete with a Bank's liquid deposit base. We could only find a few commercial companies offering a three year surrender charge product in our research universe, but the magnitude of the surrender charges along with the MVA provisions are a real detriment to serving this market segment, and even the three year duration of the surrender charges are a real hurdle.
- o Looking at the **top 25%** of the highest interest rates paid on Money Market Savings accounts in the Country, the average compounded yield is **.67%** (and it's fully taxable). Traditional Passbook Savings accounts pay even less.
- o With respect to Interest Checking accounts, the average compounded yield is **.22%** for Indiana and **.16%** for Illinois (Again, fully taxable).
- o The vast majority of Bank product offerings have an array of minimum account balance requirements and related monthly service fees which often reduce the compounded yields significantly and often to zero or less.
- o Although Bank product offerings are transaction accounts (check writing capabilities), we believe there is a significant percentage of accounts that keep more than they need to cover day-to-day and month-to-month living expenses. Many keep excess funds for that rainy day, or they may be continuing to ride the low interest rate cycle out which has proven to be very stubborn and protracted. There are very few, if any, attractive fixed income alternatives today if risk is at all important to your clients. Many are storing their cash component requirements for an allocated retirement portfolio, and there are those folks that simply don't know what else to do with it.
- o The product we have designed attempts to capture the opportunities the current rate cycle is offering, the typical savings habits of Middle America, and the tax status difference between annuities and Bank products. To that end, please see the attached **Product Profile**.

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PRODUCT PROFILE

Type of Premium:	Flexible Premium
Issue Ages:	1-85 Non-qualified & Roth IRAs; 1-68 qualified.
Minimum Premium:	\$7,500 Qualified or Non-qualified.
Maximum Premium:	Home Office approval required on \$100,000 or more.
Current Interest Rate:	1% initial offering rate.
Minimum Guarantee:	100% of premium, less withdrawals, credited at .25% interest annually. (less applicable surrender charges)
Payout Option:	No annuitization or payouts required. There will be no surrender charges after 12 months and never any market value adjustment (MVA). The company has no time frame requirement for the client to provide notice to continue or surrender the contract. The contract will continue indefinitely at the company's prevailing interest rate.
Cash Surrender Value:	The accumulation value minus a 2% surrender charge in year 1 only.
Loans:	None.
Withdrawal Provision:	Beginning immediately, 5% of premium paid is available each contract year. The withdrawal must be at least \$100; and the withdrawal cannot reduce the remaining Accumulated Value to less than \$1,000 unless a full surrender is taken. Any account value below \$1,000 will be deemed a full surrender.
Death Benefit:	Full accumulation value paid to the beneficiary in a lump sum or annuity payments (available to contracts in deferral). Annuitized contracts as determined by beneficiary designation and payout term.
Rate Lock:	Not Applicable.
Annuitization:	Available at 5 to 30 years. No life options.
RMD:	Available. Beneficial IRAs accepted on this product.
Agent Compensation:	Agents will share in the profitability in the segment's performance. See Agent Compensation Sheet.
Surrender Charges:	Year 1: 2.00%; year 2 and beyond 0.00%.
Crediting Method:	Credited and compounded monthly.
Fees:	No up-front fees or sales charges ever.

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Agent Profit Sharing Compensation Sheet

Given the nature of the product (surrender charge free after 12 months and no market value adjustments... absolutely no constraints on policyholder surrenders – just like a bank savings account), a traditionally paid commission rate does not make economic sense for the company unless the rate was very low. No company in their right mind could do this. Our solution is simple; let's give the agents an opportunity to participate in the profits of the segment's performance. If the product is successful, the agent will be successful as well.

In a nutshell, here's how it works: 58% of the segments net income will be paid as earned (quarterly) for three years. No charge-backs.

-At the end of each calendar quarter, we will prepare a Statutory Income Statement for this segments polices that are in their first three policy years.

-We will payout 58% of the Segments pre-tax statutory profits to the agents.

-An agent's share of the total payout will simply be:

***the average of the first day of the quarter's reserve value for his polices and the last day of the quarters reserve value for his polices,**

***divided by the total Segment's average reserve balance (those that are in their first three policy years) for the same period,**

***times the total Segment payout (again, for those policies that are in their first three policy years).**

Please see the hypothetical example enclosed with this brochure for further understanding of the calculations.

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Agent Profit Sharing Compensation Sheet

CHARGE-BACK FREE COMPENSATION: A TWO SCENARIO EXAMPLE

Charge-back Free Compensation with a 0% Lapse Rate		Charge-back Free Compensation with a 30% Lapse Rate	
Typical Income Stmt:			
Policies In-Force	3 3 3	Policies In-Force	3 3 3
REVENUES:			
Policy Years 1 ~ 3	Year 1 Year 2 Year 3	Policy Years 1 ~ 3	Year 1 Year 2 Year 3
Premium Income	\$300,000 \$0 \$0	Premium Income	\$300,000 \$0 \$0
Interest Income:	\$6,436 \$6,532 \$6,616	Interest Income:	\$4,520 \$4,577 \$3,254
Total Revenue:	\$306,436 \$6,532 \$6,616	Total Revenue:	\$304,520 \$4,577 \$3,254
EXPENSES			
Reserves: Dep. & Releases.	\$300,000 \$0 \$0	Reserves: Dep. & Releases.	\$300,000 -\$64,266 -\$45,436
Reserves-Interest Expenses	\$3,000 \$3,030 \$3,060	Reserves-Interest Expenses	-\$87,900 \$2,121 \$1,500
Surrenders: net of SC's	\$0 \$0 \$0	Surrenders: net of SC's	\$89,082 \$64,266 \$45,436
Cash Reserve Expense:	\$645 \$651 \$658	Cash Reserve Expense:	\$645 \$456 \$322
Operating Costs:	\$27 \$14 \$15	Operating Costs:	\$25 \$9 \$6
Total Expenses:	\$303,672 \$3,696 \$3,733	Total Expenses:	\$301,852 \$2,586 \$1,828
Net Gain before Taxes & Security Gains or (Losses)	\$2,763 \$2,836 \$2,883	Net Gain before Taxes & Security Gains or (Losses)	\$2,668 \$1,992 \$1,426
Sec Gains (Losses):	\$0 \$0 \$0	Sec. Gains (Losses):	\$0 \$0 \$0
Net Income Before Taxes	\$2,763 \$2,836 \$2,883	Net Income Before Taxes	\$2,668 \$1,992 \$1,426
Agent Profit Sharing Payout Rate	58% 58% 58%	Agent Profit Sharing Payout Rate	58% 58% 58%
Agent comp:	\$1,612 \$1,655 \$1,681	Agent Comp:	\$1,556 \$1,162 \$832

Agent Comp Rate 3 Year Total 1.65%

Agent Comp Rate 3 Year Total 1.18%

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Annuities are not deposits of or guaranteed by any bank and are not insured by the FDIC or any other agency of the US. All guarantees are subject to the financial strength of USA Life One. Withdrawals taken during the Surrender Charge Period above the penalty-free amount will be subject to Surrender Charges. Penalty-free withdrawals are available after year one. Withdrawals prior to age 59 1/2 may be subject to IRS penalties. Fixed annuities are not a direct investment in the stock market or indices. They are insurance products that provide growth potential without experiencing loss of premium from market loss or fluctuation in the market and may not be appropriate for all clients. Under current law, annuities grow tax deferred. An annuity is not required for tax deferral in qualified plans. Annuities may be subject to taxation during the income or withdrawal phase. Please note that neither USA Life One, nor any agents acting on its behalf, should be viewed as providing legal, tax or investment advice.

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