



Variable annuities

A look at retirement income



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Variable annuities are sold by prospectus. Before purchasing a variable annuity contract, investors should carefully consider the investment objectives, risks, charges and expenses of the variable annuity contract and its underlying investment choices. For this and other information, obtain the prospectuses for the variable annuity contract and its underlying investment choices from your registered representative. Please read the prospectuses carefully before investing or sending money.

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Common terms

Annuitant

The person, may be the same as the annuity owner, whose life expectancy is used to calculate the income payment amount on the annuity.

Annuitization (Annuitize)

The conversion of the accumulated value of an annuity into a stream of income, either for one or more lifetimes or a specific period of time. Lifetime income payments are based on the claims-paying ability of the issuing company.

Annuity owner

The annuity owner is the person(s) who make decisions about an annuity's investments. The owner or owners have the rights to the terms of the annuity, such as to make withdrawals from the annuity, surrender or change the designated beneficiary.

Flexible payment annuity

A tax-deferred investment plan in which an individual has no fixed schedule for purchase payments. For example, premiums can be paid for 10 straight months, then not paid for the next 10 months, then paid every other month, or any combination thereof. The contract is a flexible payment deferred annuity (FPDA) and the contract is annuitized at a later date.

Single payment annuity

A tax-deferred investment plan in which an individual makes a single purchase payment to an annuity contract. If the contract is a single premium deferred annuity (SPDA) the contract is annuitized at a later date, if the contract is a single premium immediate annuity (SPIA) the contract is annuitized immediately.

Variable annuities

What you should know

Variable annuities have become a part of the retirement and investment plans of many Americans. Before you buy a variable annuity, you should know some of the basics – and be prepared to ask your insurance agent, broker, financial planner, or other financial professional lots of questions about whether a variable annuity is right for you.

This is a general description of variable annuities – what they are, how they work, and the charges you will pay. Before buying any variable annuity, however, you should find out about the particular annuity you are considering. Request a prospectus from the insurance company or from your financial professional, and read it carefully. The prospectus contains important information about the annuity contract, including fees and charges, investing 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.

Variable annuities combine tax-deferred growth of earnings with the income and capital appreciation potential of investing in professionally managed investment choices. They can also guarantee a retirement income you cannot outlive and, usually, avoid probate with a death benefit at least equal to your investment. The guaranteed death benefit, payment of lifetime income and any optional living benefits are based on the claims-paying ability of the issuing company and do not apply to the investment performance or the safety of amounts held in the variable investment choices.

Variable annuities do not provide any additional tax advantage when used to fund a qualified plan. Investors should consider buying a variable annuity to fund a qualified plan for the annuity's additional features such as lifetime income payments and death benefit protection.

What is a variable annuity?

A variable annuity is a contract between the annuity owner(s) and an insurance company, under which the insurer agrees to make periodic payments to the annuitant, 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. In return for payments, the insurance company agrees to provide either a regular stream of income (the annuity) or a lump-sum distribution at some future time, generally after you retire or reach age 59½. Liquidated earnings are subject to income tax and may be subject to a contingent deferred sales charge or a surrender charge. If taken prior to age 59½, a 10% federal income tax penalty may apply.

A variable annuity typically offers equity investment choices via variable product funds covering multiple asset classes to suit most investors' risk tolerance. Guaranteed interest accounts are also usually offered. The value of the annuity contract will vary depending on the performance of the chosen investment choices over time. However, the flexibility to invest your assets over a broad category of investment styles and managers, without current taxation and without transaction fees, helps to diversify your investment and reduce your investment risk over the long-term. There is, however, no guarantee that a diversified portfolio will outperform a non-diversified portfolio, or that diversification among different

asset classes will reduce risk. Diversification does not assure a profit or protect against loss in a declining market.

The death benefit and living benefits

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: (1) all the money in your account, or (2) some guaranteed minimum (such as all purchase payments minus prior withdrawals).

Example: You own a variable annuity that offers a death benefit equal to the greater of account value or total purchase payments minus withdrawals. You have made purchase payments totaling \$50,000. In addition, you have withdrawn \$5,000 from your account. Because of these withdrawals and investment losses, your account value is currently \$40,000. If you die, your designated beneficiary will receive \$45,000 (the \$50,000 in purchase payments you put in minus \$5,000 in withdrawals).

Some variable annuities allow you to choose an enhanced 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 choices have performed well. The purpose of an enhanced 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 to your beneficiaries. This feature carries a charge or fee, however, which will reduce your account value.

Variable annuities sometimes offer optional living benefits, which also have extra charges or fees and are subject to the claims-paying ability of the issuing company. These benefits are designed to provide the protection and confidence you need to help you stay focused on your long-term investment objectives.

You may want to consider the financial strength of the insurance company that issues any variable annuity you are considering buying. This can affect the company's ability to pay any benefits that are greater than the value of your account in the investment choices, such as a death benefit, any living benefits, or amounts you have allocated to a fixed account investment choice.

Important considerations

You may incur additional charges for each optional benefit provided by your variable annuity. Be sure you understand the charges. Carefully consider whether you need the benefit.

Once you are ready to start receiving income for retirement, a variable annuity can provide you with an income stream that is guaranteed to last a lifetime. Ultimately, these annuity payments can help reduce longevity risk, or the risk of outliving your assets. Referred to as the annuitization phase of an annuity, these regular payments from your annuity can help to supplement or replace other forms of retirement income, such as Social Security benefits, or payments from a defined benefit pension plan. If the annuity was purchased with after-tax dollars, a portion of the payments received will be tax-free, as taxes are only paid on the earnings portion of the income payment.

Important considerations

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.

Remember: Variable annuities are designed to be a long-term investment, to meet retirement and other long-range goals. Variable annuities are not suitable for meeting short-term goals because substantial taxes and insurance company charges may apply if you withdraw your money early. Variable annuities also involve investment risks.

How variable annuities work

A variable annuity has two stages: the accumulation period and the payout period. The accumulation period begins as soon as you invest. If you select a single-premium deferred annuity, this is done with one large payment. You may make one or more payments of various amounts, whenever, you like, to a flexible-premium deferred annuity. 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.

Your payment purchases “accumulation units” in the insurance company’s separate account(s). In turn, these separate accounts invest in variable investment choices, such as equity or bond-based subaccounts, which are established and administered solely for the benefit of the variable annuity.

Later, your principal and earnings are paid out to you, either as a regular income for life or for a designated number of years, or as a single lump-sum amount or through systematic distributions.

How many accumulation units can I purchase with my payment?

Each accumulation unit represents a proportionate share of the net assets of a portfolio. For example, assume a \$10 million portfolio with one million accumulation units; each unit has a current value of \$10. If the entire portfolio appreciates to \$12 million, the unit value rises accordingly, to \$12. Divide your payment by the accumulation unit value to approximate the number of units you'll purchase.

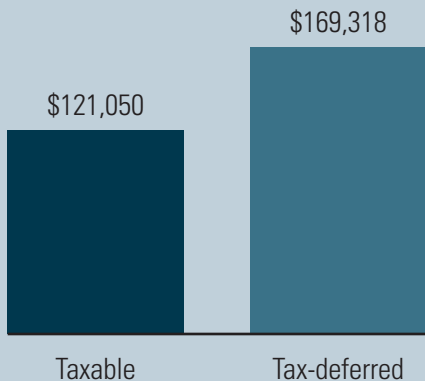
What happens once I've purchased accumulation units?

The investment choices accumulate tax-deferred earnings, dividends and/or capital gains that are reinvested to earn still more income. This tax-deferred compounding – earning current income on past income without paying taxes until a distribution is taken – helps allow the value of the accumulation units to grow considerably faster than in a comparable taxable investment.

Does tax deferral really make that much difference?

In a tax-deferred investment your money grows faster because you're deferring taxes on your earnings and allowing that tax-deferred money to benefit from investment earnings. With a taxable investment you pay taxes on your earnings each year, leaving you with less money to benefit from investment earnings. In an annuity, you will pay taxes when you take a distribution, but at that point, you may be in a lower tax bracket.

The power of tax deferral



Here's how a \$50,000 hypothetical investment accumulates at an assumed interest rate of 5% for 25 years, assuming a 28% income tax bracket.

This illustration is not intended to be a projection of future values and does not represent the performance of any Massachusetts Mutual Life Insurance Company (MassMutual) product. Annuities usually carry mortality and expense charges, administrative fees, and in some cases sales charges and/or charges for optional benefits, if selected. These charges were not included; if they had, the tax-deferred performance would have been lower. The performance would be further reduced by taxes upon annuitization or withdrawal. Withdrawals prior to age 59½ may be subject to a 10% federal income tax penalty. This illustration assumes a 28% federal income tax rate and a gross annual growth rate of 5%. Note that lower maximum tax rates on capital gains and dividends would make the investment return for the taxable investment more favorable, thereby reducing the difference in performance between the investments shown. Please consider your personal investment horizon and income tax bracket, both current and anticipated, when making an investment decision as these may further reduce the results of the comparison.

Variable annuity charges

You will pay several charges when you invest in a variable 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 investment. Often, they will include the following:

- **Contingent deferred sales charge** – If you withdraw money from a variable 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 “contingent deferred sales” or “surrender” charge, which is a type of sales charge. Generally, the contingent deferred sales charge is a percentage of the amount withdrawn, and declines gradually over a period of several years. 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.
- **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. Part of the mortality and expense risk charge is also used to pay the insurer’s costs of selling the variable annuity, such as compensation paid to your financial professional for selling the variable annuity to you.
- **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).

- **Underlying Fund Expenses** – You will also indirectly pay the fees and expenses imposed by the fund companies that are the underlying investment choices for your variable annuity.
- **Fees and Charges for Optional Features** – Special features offered by some variable annuities, such as an enhanced death benefit and living benefits often carry additional fees and charges.

Other charges, such as initial sales loads, or fees for transferring part of your account from one investment choice 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.

Ask questions before you invest

Financial professionals who sell variable annuities have a duty to advise you as to whether the product they are recommending is suitable to your particular investment needs. Don't be afraid to ask them questions. And write down their answers, so there won't be any confusion later as to what was said.

Variable 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 investment). You can continue to ask questions in this period to make sure you understand your variable annuity before the “free look” period ends.

Before you decide to buy a variable annuity, consider the following questions:

- Will you use the variable annuity primarily to save for retirement or a similar long-term goal?
- Are you investing in the variable annuity through a retirement plan or IRA (which would mean that you are not receiving any additional tax-deferral benefit from the variable annuity)?
- Are you willing to take the risk that your account value may decrease if the underlying mutual fund investment choices perform negatively?
- Do you understand the features of the variable annuity?
- Do you understand all of the fees and expenses that the variable annuity charges?
- Do you intend to remain in the variable annuity long enough to avoid paying any surrender charges if you have to withdraw money?
- Have you consulted with a tax adviser and considered all the tax consequences of purchasing an annuity, including the effect of annuity payments on your tax status in retirement?
- If you are exchanging one annuity for another one, do the benefits of the exchange outweigh 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?

Remember: Before purchasing a variable annuity, you owe it to yourself to learn as much as possible about how they work, the benefits they provide, and the charges you will pay.

Please note: Optional features cannot be elected without purchasing a variable annuity contract. The benefits may not be appropriate for investors who do not foresee a need for additional principal protection, lifetime income or death benefit protection and whose primary focus is tax deferral. Please make sure the variable annuity contract is suitable for your investment goals before considering electing optional features.

Your registered representative can help you review your individual circumstances – income, goals, financial/ retirement resources, age and other investments – to determine what type of annuity is best for you.

Consider the annuity's unique advantages – no maximum investment, retirement income you cannot outlive, guaranteed death benefit, professional management and diversification. You'll see why variable annuities are so popular in today's economic and tax environment.

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