



Separate Accounts 101:  
*Understanding the  
Investment Choices in  
Your Retirement Plan*

**SIMPLE** Solutions  
*for your retirement*

## THE BASICS OF A SEPARATE ACCOUNT

### Q. What is a separate account?

A. A separate account is an account established by an insurance company under state law. Assets of each separate account are separate from all other insurance company assets. Assets are pooled with the funds of other investors and invested in securities (e.g., stocks and bonds), collective trusts, and mutual funds.

### Q. How does a separate account work?

A. When you allocate money to a separate account, you are purchasing units for your plan account. The separate account may consist of individual stocks, bonds, shares of funds, another underlying fund, or a collective trust. Separate accounts can function and perform in a way that's similar to a mutual fund. Consequently, the unit value of a separate account fluctuates in accordance with changes in the value of its underlying investments minus any separate account fees and charges.

### Q. Is a separate account the same as a mutual fund?

A. No. Both separate accounts and mutual funds pool the resources of multiple investors to invest in individual securities, but there can be a difference in how the two are regulated. Mutual funds are primarily regulated by the U.S. Securities and Exchange Commission (SEC). Separate accounts that are offered through group variable annuity contracts (which are only issued to certain retirement plans) are primarily regulated by state insurance departments.

### Q. What is the investment vehicle for my retirement plan?

A. The investment vehicle for your retirement plan is a group variable annuity offered by Transamerica Life Insurance Company or Transamerica Financial Life Insurance Company.<sup>1</sup> A group variable annuity is an insurance contract that often provides for both general account and separate account investment options.\* These types of investment vehicles are used to fund qualified retirement plans, like 401(k), profit-sharing, and other types of company-sponsored retirement plans.

## FEEES

### Q. Are there fees associated with investments held in a separate account?

A. Any investment—be it a separate account within a retirement plan, mutual fund, or individual security—will include certain expenses. Those expenses are generally necessary to provide for the administration, investment management, sales, and marketing of that investment.

There are certain expenses charged to cover the day-to-day administration and professional investment management of the separate accounts or underlying funds. These fees reduce the value of your investments (refer to your Investment Fact Sheet for details on these charges). In addition, contract asset charges also apply to the group variable annuity. These charges are monthly fees calculated as of the 15th day of each month and withdrawn monthly. The rates vary, but generally decrease as the plan assets invested in the group annuity contract increase.

## TRACKING THE PERFORMANCE OF A SEPARATE ACCOUNT

### Q. How is the value of a separate account determined?

A. When discussing the value of a separate account, we refer to its unit value or price per unit. That unit value is calculated by dividing the total value of account assets (minus any fees) by the number of units in the separate account.

In this example, the Transamerica XYZ separate account portfolio looks like this:

Transamerica XYZ  
4 shares of IBM stock at \$100 per share = \$400  
20 shares of Xerox stock at \$10 per share = \$200  
20 shares of AT&T stock at \$20 per share = \$400  
**Total: 44 shares of stock = \$1,000**

Therefore, \$1,000 is the total value of the assets of the separate account.

If 50 units of this separate account are issued, the unit value would be calculated in this way:

$\$1,000 \text{ (asset value)} - .83\% \text{ (separate account fees)} \div 50 \text{ (separate account's total units)} = \$19.83 \text{ (unit value)}$ . Therefore the unit value is \$19.83.

Separate accounts that invest exclusively in mutual funds are calculated differently. The total value of assets in this type of account are based on the net asset value (NAV), or price per share of the underlying mutual fund, minus any fees charged by the separate account and mutual fund. The mutual fund calculates its NAV by dividing the mutual fund's assets (minus any daily asset charges) by the number of shares issued by the mutual fund.

\*General account options are not discussed in this document. If you have questions about your general account options, please contact your plan administrator.

For example, if there are 100 units of the Transamerica ABC separate account, the Transamerica ABC Fund separate account owns 50 shares of the ABC Mutual Fund, and the shares of the ABC Mutual Fund have an NAV of \$20 per share. Generally, any underlying mutual fund fees are included in its NAV (excluding sales charges, redemption fees, etc., which are usually not applied to separate account investors). The separate account's unit value is determined by first establishing the total value of the separate account's assets:

50 shares of ABC mutual fund at an NAV of \$20  
per share = \$1,000

Therefore the total value of the assets of this separate account is \$1,000.

Using the total market value of the assets, the separate account's unit value is calculated as follows:

$\$1,000$  (value of separate account assets) – .92%  
(separate account fees) ÷ 100  
(separate account total units) = \$9.91 (unit value).

Therefore the unit value is \$9.91.

Both the separate account's unit values and the mutual fund's NAV per share are determined at the close of each business day.

### Q. Is the separate account's unit value the same as its underlying mutual fund's NAV?

A. No. The NAV refers to the value of the individual shares in the underlying mutual fund. The unit value refers to the value of the individual units of the separate account. (Also refer to previous Q & A "How is the value of a separate account determined?").

While the separate account's unit value is affected by the underlying mutual fund's NAV, its unit value will differ from the underlying mutual fund's NAV because of one or more of the following factors:

#### 1. Initial value assignment

When a separate account is established, an arbitrary initial unit value is assigned to that separate account. This initial unit value may have no direct relationship to the net asset value of the underlying mutual fund at that time.

#### 2. Dividends and capital gains

When a mutual fund pays out dividends or capital gains, the mutual fund's net asset value (NAV) is reduced by approximately the amount of the dividends or capital gains paid. However, the unit value of the separate account which invests in this underlying mutual fund is not affected. Here's why: the dividends or capital gains are paid to the separate account and the cash from the dividends and capital gains is used to purchase additional shares of the mutual fund. The total value of the assets and number of units in the separate account remain the same before and after the mutual fund dividend is paid. Effectively, the mutual fund's

NAV is decreased because of the dividend payments, but the separate account's unit value is not because dividends are reinvested.

### 3. Charges

Separate account unit values reflect any other fees charged by the separate account, such as applicable investment management and administrative charges, as set forth in the group annuity contract. The charges vary by separate account. Please see the Investment Fact Sheets for specific details of the charges for each separate account. (For a further explanation of the types of charges you may incur, see the Q&A "Are there fees associated with participation in my retirement plan?").

### Q. Is separate account performance data publicly available?

A. No. The separate accounts offered as investments in your retirement plan are available only to employer-sponsored retirement plan investors. Because the separate accounts are not available as publicly traded funds, the performance and unit values are not published, and the accounts are exempt from registration with the SEC. This also means that, instead of receiving a prospectus, you would receive documents that describe the investments in your plan. Refer to your Investment Fact Sheets<sup>2</sup> (available online at [www.TA-Retirement.com](http://www.TA-Retirement.com)) or contact your plan administrator for more information regarding your plan's separate accounts.



## GLOSSARY

**401(k)** - A section of the Internal Revenue Code allows companies to set up a retirement plan with a Cash or Deferred Arrangement, or CODA. The plan allows eligible employees to defer a portion of their compensation on a tax-deferred basis. Employees who participate in the plan typically do not pay income tax on their contributions or earnings until they are withdrawn from the plan.

**Capital Gains** - An increase in the value of a capital asset (e.g., investment) above the purchase price.

**Collective Trust** - An investment fund formed from the pooling of investments by institutional investors (i.e., banks, brokerages, insurance companies, investment companies, pension funds).

**Contract Asset Charges** - Monthly fees charged under a Transamerica group annuity contract to cover the administrative, sales, and marketing expenses of the contract.

**Dividend** - Distribution of earnings to shareholder, prorated by class of security and paid in the form of cash, stock, scrip, or rarely, company products or property.

**Group Variable Annuity Contracts** - Insurance contracts issued to retirement savings plans by insurance companies. Both general account and separate account options are offered under the group variable annuity to provide various investment choices.

**Mutual Fund** - An investment vehicle that pools funds of investors (called shareholders), and invests the funds in instruments, such as stocks, bonds, options, futures, currencies, or money market securities.

**Net Asset Value (NAV)** - Represents a mutual fund's per share market value and the price at which investors sell fund shares back to a fund company (fund shares are purchased at the Public Offering Price, which is NAV plus any sales charge). A fund's NAV

is calculated each trading day based on the closing market prices of the portfolio's securities. The NAV is derived by deducting the fund's liabilities from the market value of all of its shares and then dividing by the number of issued shares. This value is net of applicable fees.

**Profit Sharing Plan** - A retirement plan established and maintained by an employer to provide its eligible employees with retirement benefits that are funded by employer contributions. Depending on the terms of the plan, the employer may decide each year whether or not to contribute to the plan. That decision is not necessarily contingent on the company's profits for that year.

**Prospectus** - A written description of a security, including mutual funds, as well as the legal selling document. It describes the fund's investment objectives and investment strategies. It also provides information on the background of the fund's managers, a financial statement, an explanation of fees, and other important information about the fund.

**Securities** - Generally, an instrument that signifies an ownership position in a corporation (a stock), a creditor relationship with a corporation or governmental body (a bond), or rights to ownership (share of a mutual fund).

**Separate Account** - Segregated (usually pooled) portfolios established by an insurance company. They are regulated by individual state insurance departments and may be exempt from registration under the Securities and Exchange Commission rules if they are available only to investments from retirement plans that are qualified under Section 401(k) of the U.S. Internal Revenue Code and certain other governmental plans.

**Share** - Unit of ownership in a mutual fund.

**Unit** - Unit of account for investment in a separate account.

*Still have questions?*

**If you'd like more information about the separate account investment choices in your retirement plan, please contact your plan administrator.**

Securities offered by Transamerica Investors Securities Corporation (TISC), 440 Mamaroneck Avenue, Harrison, NY 10528. Transamerica and TISC are affiliated companies.

1. Plan record keeping services are provided by Transamerica Retirement Solutions Corporation. The investment choices are available through a contract issued by Transamerica Financial Life Insurance Company (TFLIC), TA-AP-2001-CONT, or Transamerica Life Insurance Company (TLIC), CNT-TLIC 10-05.
2. The information contained in the Investment Fact Sheets is date-sensitive and updated quarterly.

All investments involve risk, including loss of principal and there is no guarantee of profits. Investors should carefully consider their objectives, risk tolerance, and time horizon before investing.