Fixed Indexed Annuities
Terminology & Methodology Explained

FIXED INDEXED ANNUITIES
With Fixed Index Annuities you can benefit from the enhanced stock market and bond-linked growth potential without risking direct participation in the stock market. Premiums are not invested directly in the stock market or in individual stocks.

In contrast to a securities-type product or mutual fund where the investor bears the market risk, the fixed index annuity concept insulates you from any risk or loss of premium due to market downturns.

WHAT IS INDEXING?
Interest Credits in a Fixed Index Annuity are based on stock market, or bond-linked performance from certain indices. But what is indexing?

Indexing is simply an investment strategy that follows the performance of select securities, such as the S&P 500* for example. With indexing, you can participate in a diversified passive investment strategy; the interest credits earned are linked in part to the value of these indices. However, regardless of the index performance, the interest credits will never be less than zero.

WHO IS BUYING INDEXED ANNUITIES?
- Conservative Investors
- Retirement Savers
- Nervous Investors Desiring Potentially Higher Returns with Downside Protection
- A Fixed Annuity Buyer Concerned about Inflation
- Generally Risk-Averse Individuals
- Individuals Concerned about Outliving Their Assets.

VARIOUS CREDITING METHODS
Learning the terminology and understanding the various crediting methods can help you understand how Fixed Indexed Annuities work. As well as help determine which strategies are best for you.

Terminology

PARTICIPATION RATE

The percentage of the index-linked gains that are credited to the account.

EXAMPLE: If there was a 10% gain in the index and the product had a 40% participation rate then 4% would be credited to the contract.

40% of 10 = 4%

SPREAD OR MARGIN

This is the amount subtracted from the index linked gains.

EXAMPLE: If there was a 10% gain and a 4% spread or margin then, 6% would be credited to the contract.

10% - 4% = 6%

CAP RATE

This is the maximum amount that is to be credited to the account.

EXAMPLE:

- If there was a 10% gain and a 4% cap then, **4%** would be credited to the contract.
- If there was a 3% gain and a 4% cap then, **3%** would be credited to the contract.

PERFORMANCE TRIGGERED

Depending on the contract the declared rate of the performance triggered account would be credited if the value of the Index is either greater than or equal to the prior year value.

EXAMPLE:
If the declared rate is 4 and the Index is at 1500 at the start of the contract and at 1500 or greater on the anniversary date, then **4%** is credited to the contract.

MOVING PARTS

Most contracts have moving parts. For example if the contract uses an annual reset method, usually either the cap, spread or participation rate can change each year.

The products normally have a maximum and or a minimum that the moving parts could be changed to. Details will vary by contract.

Features may vary by contract and are subject to change

Methodology

ANNUAL RESET

Annual reset means that the index-linked interest is determined each year by comparing the index value at the end of the contract year with the index value at the start of the contract year. Any index gains are then added to the Contract.

Gains are calculated and locked in annually; also if there is a decreasing year a new starting point is determined. This is the new beginning index value; therefore there are no losses to make up.

ANNUAL RESET EXAMPLE

Based on Point-to-Point Crediting Method:

Premium = $100,000
Index Starting Point = **1,200**
Ending Index Value on Anniversary Date = **1,000**

No index gain so zero interest would be credited and the account value would still be $100,000.

The new starting point is now 1,000. **The index does not have to get back up to 1,200 before earning again.**

ANNUAL RESET "MONTHLY AVERAGING" METHOD

This method takes a monthly average index return throughout the year to determine any index gains in the contract. Daily averaging crediting methods are also used.

EXAMPLE: Index Starting Point = **1,000**
The company records the Index value each month, adds all months together and divides them by 12 to get an ending point, **1,100** for example.

They then subtract the starting point from the ending point and divide to calculate the increase.
1,100 – 1,000 = 100
100 divided by the starting point of 1,000 = **10**

This calculates as a **10% Gain**. Then any applicable cap, spread or participation rate would be applied to the 10%.

ADVANTAGE:

In a volatile market, when the Index goes up and down, averaging could still capture gains in the market.

DISADVANTAGE:

In a steady increasing market, averaging would decrease the amount of index-linked interest that could be earned. Usually when you average something you are cutting returns in half.

ANNUAL RESET "POINT-TO-POINT" METHOD

This method uses the starting point of the index and the annual ending point of the index to calculate any index linked interest added to the contract.

EXAMPLE: Index Starting Point = **1,000**
Index Ending Value on Anniversary Date = **1,100**
1,100 – 1,000 = 100
100 divided by starting point of 1,000 = **10**

This calculates as a **10% Gain.** Then any applicable cap, spread or participation rate would be applied to the 10%.

ADVANTAGE: In a steady increasing market the point-to-point method would generate a higher index return than averaging would.

DISADVANTAGE: In a volatile market the point-to-point would not capture gains if the market had a rise throughout the contract year, then fell at the end of the year lower than or equal to the starting point.

ANNUAL RESET "MONTHLY POINT-TO-POINT" WITH CAP METHOD

This method credits index earnings annually based on the cumulative monthly changes up and down in the Index Option chosen.

EXAMPLE:

Based on a 2% Monthly Cap Rate:

1st month Index goes up **3%**
2% is logged (nothing is credited yet)

2nd month Index goes down **1.5%**
-1.5% is logged, you are now at **+.5%**

This is done for 12 months, the plusses and minuses are added together and at the end of the year the total if positive is added to the contract. If the total is negative nothing is added and nothing is lost.

ADVANTAGE: In a steady increasing market the Monthly Point-to-Point method would typically generate a higher index return. Based on a 2% monthly cap, if the market went up at least 2% each month for 12 months that would generate a **24%** return. However the market does not typically continuously go up every month.

DISADVANTAGE: With most contracts there is no limit on the downside, therefore one bad month could wipe out the gains from the positive months that are capped.

QUESTION: What method to calculate index gains is better, Averaging, Point-to-Point or Monthly Point-to-Point with Cap?

If we could predict the market then we could tell you which method is better. However, we cannot predict the market so an understanding of how each method works will help you decide which would be best for you.

SUGGESTION: If the product allows, divide the premium between the different crediting methods. This way you can take advantage of the market during increases and volatility.

For more information on Fixed Indexed Annuities and how they can fit into your retirement portfolio as a safe no risk option, contact:

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