Index Annuities Made Simple

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Ok, they really are very simple to understand, yet some financial specialists refuse to take a few minutes to comprehend how simple and secure a fixed index annuity can be. Others have embraced them and are now part of one of the fasting growing product lines in the last 10 years.

Lets break it down for simplicity:

- They are called Fixed Index Annuities.
- Like the *traditional fixed*, they come in many different surrender time frames. From 3 year surrenders to 14 year surrenders or more. Use what is right for your client's time horizon, or shorter to give them options later.
- Fixed INDEX annuities have upside potential because the funds are tied to indices. Most use the S&P 500, but many also have the DOW, and even some international exposure.
- Clients share positive returns with the Insurance Company on years that those indices do well. They do this in the form of caps, spreads or participation %.
- Clients loose nothing on years that those indices tank or loose! This is when you hear the term: Zero is Your Hero!
- Each year on the anniversary of the contract, the new caps, spread and par rates are offered to the client so they can make adjustments if desired.
- MANY index annuities have fixed rated "buckets", also.
- Clients can put some of their funds in the fixed and some in an index option of their choice.

CAPS, SPREADS, and PARTICIPATION RATES

- A "CAP" is just that. If some of the funds are in a "CAP" strategy, that is their limited upside potential for that year. If the cap is set at 7% and the indices does 10% that year, then the client is awarded 7%. If the indices return 5%, then the client gets 5%. If the indices drop that year 10%, the client's account remains flat with no loss or gain.

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- A “Spread” works different. If a client has a spread of 7%, then the client would receive everything ABOVE the 7%, once that spread is met. So if the indices did 10%, the client would be credited 3% that year. If the indices did 20%, the client would receive 13%. If the indices did 5%, the client would get a goose egg. Again, if the market dropped that year, they would loose zero.
- Participation rates are really just the shared % if there are returns. If the client has a par rate of 40% and the market does 20% that year, then the client receives 40% of the 20%. So that would be 8%. If the market is flat or drops, the client looses nothing that year.

We talked about the caps and spreads, now lets discuss how those strategies are credited.

- Annual Point to Point: Very simply, they look at where the indices started and finished for that contract year.
- Monthly average: performance each month, divided by 12.
- Monthly Cap, also known as Monthly Point to Point: This caps you each month on the up side, ***but not on the down side***. So in a perfectly rising market, this gives the most up-side opportunity.

Unlike a variable annuity, clients will see no loss in their account values on the years that the markets drop. One exception to that is any costs associated with any additional riders; such as income riders or added death benefit riders, and of course, withdrawals from the account.

- INDEX annuities do not charge M & E & A.
- INDEX annuities do not have a prospectus. They are Fixed Annuities.
- INDEX annuities do not have money manager fees.
- INDEX annuities do not usually have annual fees.

- INDEX annuities do have surrender charges.
- INDEX annuities do charge for additional riders if selected.
- INDEX annuities normally **do** have guarantee minimums:

The guaranteed minimums on index annuities can range from 0% to 3% normally. Make sure these are explained to the client correctly. If a contract has a minimum guarantee of 3% on 100% of the monies, then at the END of the surrender time frame, if the contract did not perform with at least a 3% compounded over that time frame, the client is then made whole with that guaranteed minimum. It does not mean that on years with zero returns, the client gets 3%. With that said, there are a FEW that do work that way, so be aware and proper disclosure is imperative. Some companies market their minimums by saying it is 3% guarantee on 87.5% of the monies. Why, I have no idea. Then you have to do the math, just note if it is on 100% of the premium paid or not, so full disclosure to the client can be completed.

We should mention that guaranteed income riders are offered on many index annuities. These can guarantee a calculation of growth to be used for guaranteed income. It can range for 4% to 8% compounding calculations, to 10% simple. The most important part of these riders is to make sure your clients understand that most of these income riders are not **REAL RETURNS**, but calculations to be used to determine income withdrawals later in life. A few of these income riders even double the guaranteed income should the client be confined to nursing facilities.

Bottom line is, if you read this article 2 or 3 times, hopefully it will help with the simplicity of the Index Annuity. I also urge you to look at a few illustrations and it should make better sense. And lastly: If you asked each of your clients if they would be interested in a product that would:

- Let them share in some of the upside returns of the market…
- Give a low minimum guarantee, just in case the market is flat or down over that time frame…
- In years that the indices returned nothing or was down, they would loose nothing…
- Is tax deferred…
- And can produce guaranteed income for life…

How many hands would you see go up? Index annuities have a place and can preserve gains that have been realized, with no downside risk. Good selling!

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http://ufc.bz/newsite/pdf/Where-Would-You-Be-Today.pdf

http://ufc.bz/newsite/pdf/Index-Crediting-Methods.pdf

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