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Annuities 101

Darwin Couch
Exec Sales Mgr

Retirement Concerns

- **Concerns are:**
  - Successful Retirement
  - Risks in Retirement
  - How long will it need to last?

More consumers are concerned about running out of money during their retirement years. An annuity is one way that they can receive guaranteed lifetime income (based on the claims-paying ability of the insurance carrier).

Top Retirement Concerns

1. Running out of money
2. Maintaining the current lifestyle
3. Covering healthcare expenses

Successful Retirement

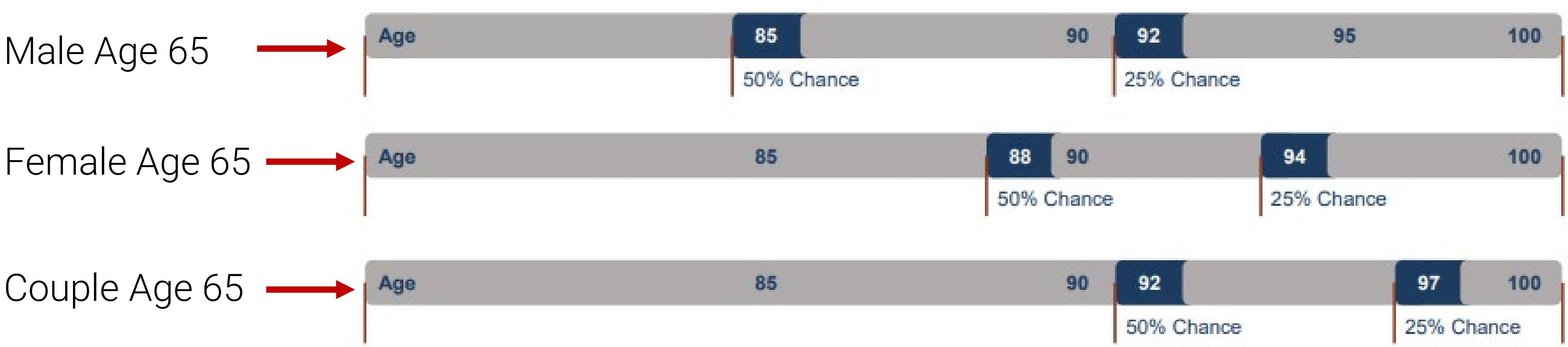
- How much guaranteed lifetime income does one have?
- Have you reviewed the risks in retirement?

Risks in Retirement

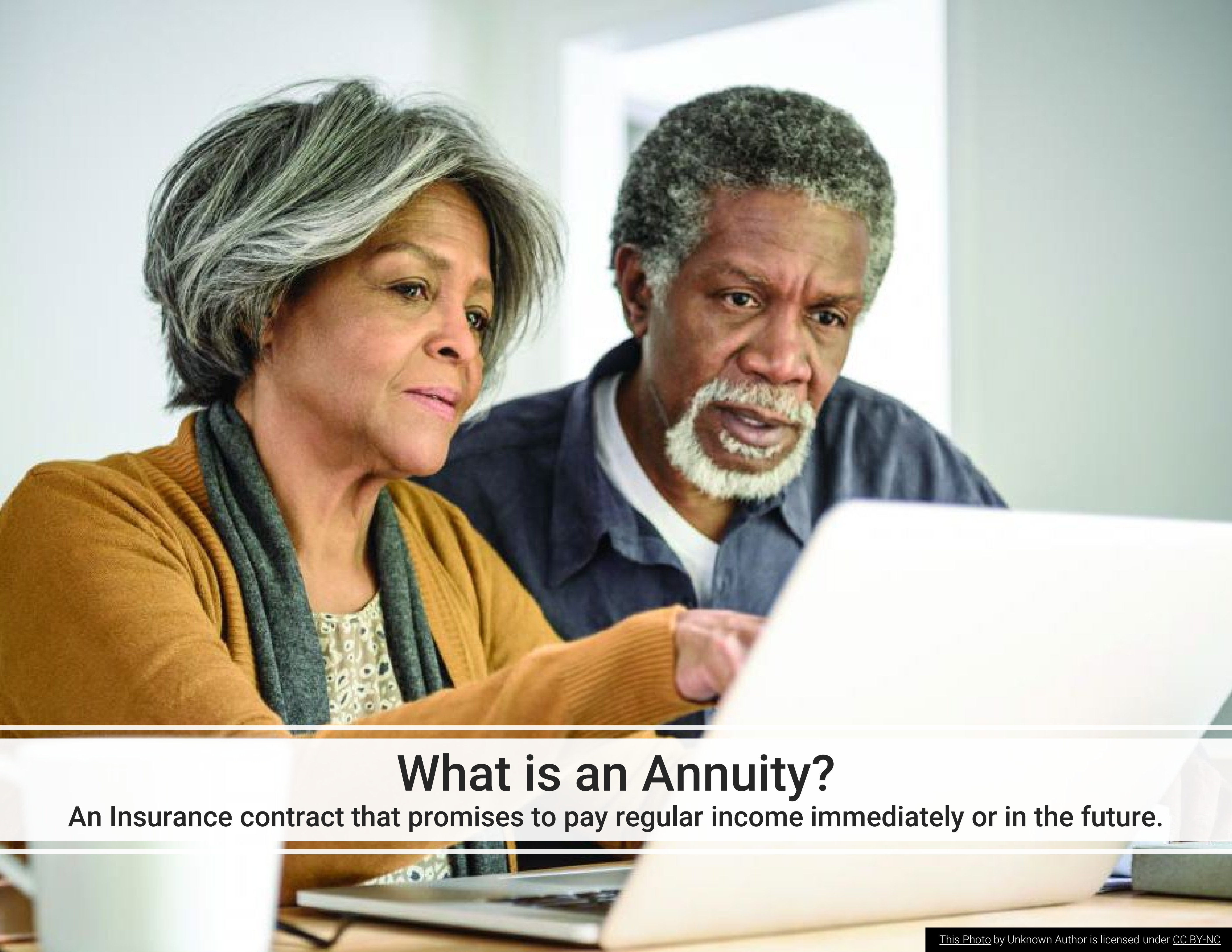
- Market Risk
- Long-Term Care Risk
- Interest Rate Risk
- Inflation Risk
- Sequence of Returns Risk
- Longevity Risk

How Long Will Retirement Income Need to Last?

Longevity Risk:



Source: American Academy of Actuaries- www.longevityillustrator.org



What is an Annuity?

An Insurance contract that promises to pay regular income immediately or in the future.

Why Offer Annuities?

Principal Protection

Accumulation

Lifetime Income

Tax Deferred Growth

Death Benefit

Why Sell Annuities?

- Expand your business, retain your clients
- Meet current state best interest standards
- Retirees can benefit from future annuities
- Reach your business goals by increasing your overall production

Fixed Annuities

- Protection of principal to owner
- Fixed rates of annuities
- Minimum guarantees
- Guaranteed time commitments available for fixed rates
- Guarantees are backed by the financial strength and claims-paying ability of issuing company

Fixed Indexed Annuities

Protection of principal of opportunity to earn interest, based on changes in an external market index, without participating in the market.

Interest credited is calculated by various formulas

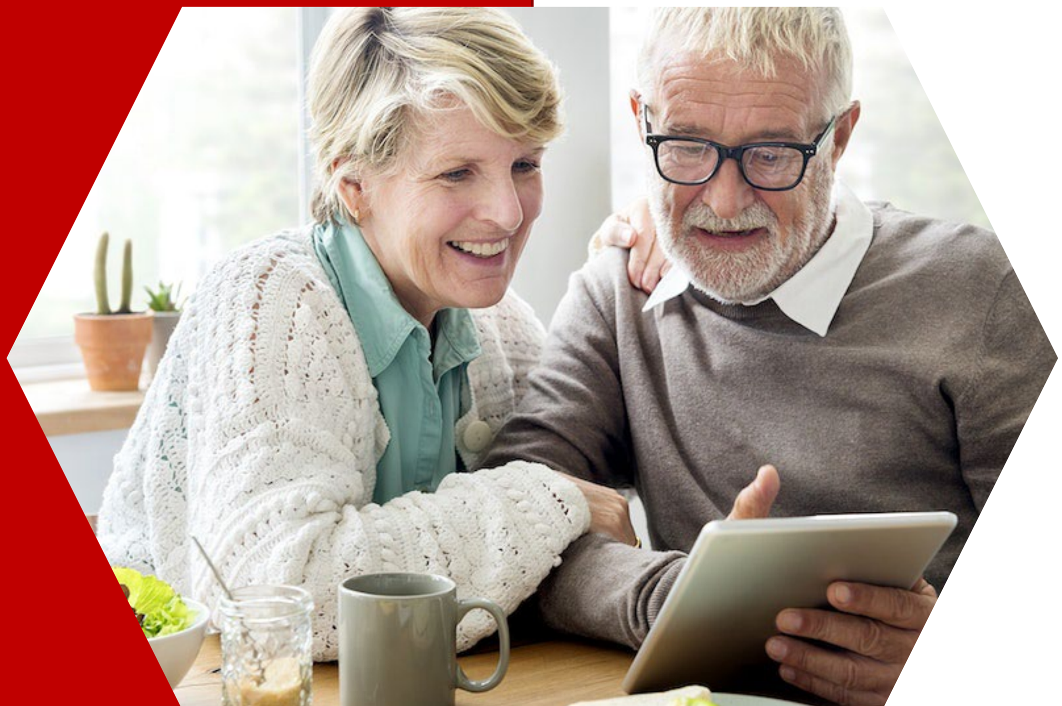
Classifying Annuities

- By Distribution or Accumulation phase
- By interest crediting methods
- By methods of premium payments
- By qualifying status

Immediate Annuities

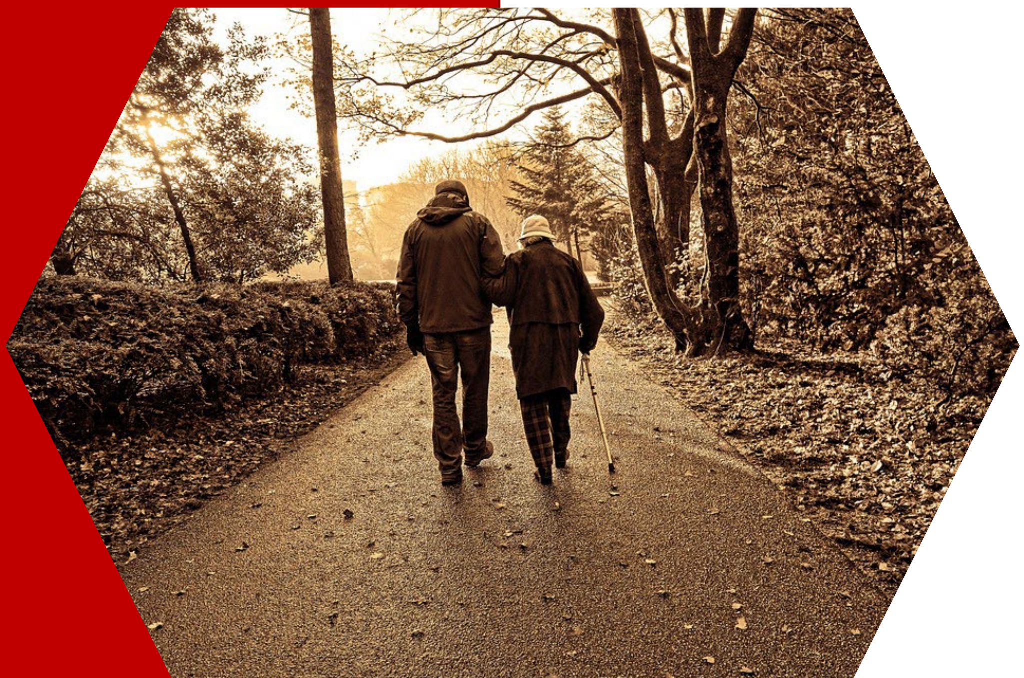
Distributions begin immediately after premium payment for a defined time period and commitment

Deferred Annuities



Payments are deferred until a later date. Distribution options are not determined until later.

Single Premium



An annuity contract that allows only one premium payment.

Flexible Premium

An annuity contract that allows for multiple premium payments. May or may not extend surrender charges.

Non-Qualified Annuities

Not a part of a qualified retirement plan

Qualified Annuities

Group annuities in defined contribution and defined benefit plans. Tax-sheltered annuities (TSAs) are extensively used for 403(b) plans (for non-profits, schools, municipalities, etc.)

Annuity Features

The people/parties involved in an annuity purchase

Owner

- The annuity contract owner exercises control over the contract
- Has all rights of ownership: names the annuitant, and beneficiary, receive distributions
- Usually a natural person (trust may be OK if properly drafted by a qualified individual)
- With corporate ownership there is no tax-deferral

Annuitant

- Must be a natural person
- The annuitant is the life, which will be the measuring life for determining benefits
- Is often the owner, but not required

Insurance Company

- Issues the annuity contract
- Obligation to pay based on the contract
- Checks company financial ratings, i.e., A.M. Best

Beneficiary

- The beneficiary's rights are limited to receiving death benefits
- May be an entity other than a natural person
- A spouse can "step into the shoes" of a deceased spouse

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Annuities 201-

Breaking Down Annuities and Their Features

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Comment Contract Provisions

- Charges
- Fees
- Interest Rates

Insurance carriers have some common contract provisions in fixed annuities

Charges and Fees

- Fixed annuities have a surrender charge
- Fixed indexed annuities may have limitations in crediting formulas
- Read and understand the contracts

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Interest Rates

- Base rates – current rate
- Bonus rates (premium and interest)
- Guaranteed rates for varying periods of time
- Guaranteed minimum rate

What is GLWB?

G	L	W	B
Guaranteed	Lifetime	Withdrawal	Benefit

Company A Hypothetical Example

	Interest Credit %	Annuity Value	Bonus % Multiplier	Total Interest Credit %	PIV
-	-	$100,000	18%	-	$118,000
Year 1	4%	$104,000	50%	6%	$125,080
Year 2	0%	$104,000	50%	0%	$125,080
Year 3	6%	$110,240	50%	9%	$136,337

The example shown is for illustrative purposes only and is not guaranteed

Company A Hypothetical Example

	Interest Credit %	Annuity Value	Bonus % Multiplier	Total Interest Credit %	Benefit Base
-	-	$100,000	25%	-	$125,000
Year 1	4%	$104,000	75%	7%	$133,750
Year 2	0%	$104,000	75%	0%	$133,750
Year 3	6%	$110,240	75%	10.50%	$147,794

The example shown is for illustrative purposes only and is not guaranteed

Annuitization Options

Payouts, Guarantees, Withdrawals, and More

- Life Only Payout
- Life with Period Certain Guarantee
- Joint & Survivor Payout
- Period Certain
- Fixed Amount

Withdrawals

- LIFO Rules on taxation withdrawals (1982)
- 5-10% penalty-free withdrawal
- Don’t confuse 10% penalty-free withdrawal with 10% pre-mature distribution penalty tax for withdrawals prior to age 59 1/2

Understanding FIA's

The Essence of a
Fixed Indexed Annuity

Fixed Indexed Annuity is:

A type of Fixed Annuity. It has the potential of crediting interest based on the performance of an external index, while offering protection from loss of principal due to index declines.

The Math

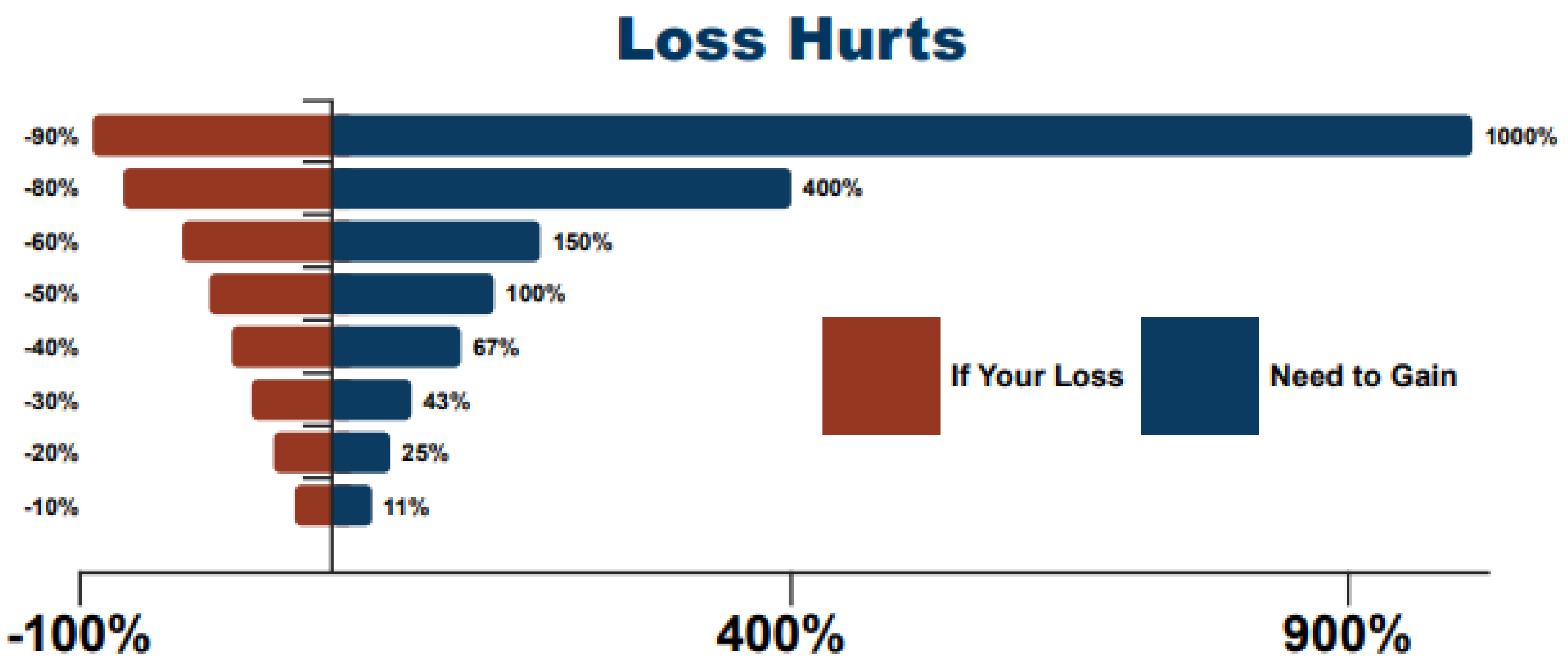
$100,000 – 30% = $70,000
$70,000 x 30% = $21,000

$91,000

If your account LOST 30% in value, you would need to make 43% to BREAK EVEN!

-30% + 43% = 0
$70,000 + 43% = $100,100

This example is hypothetical only and does not represent any specific product or investment.



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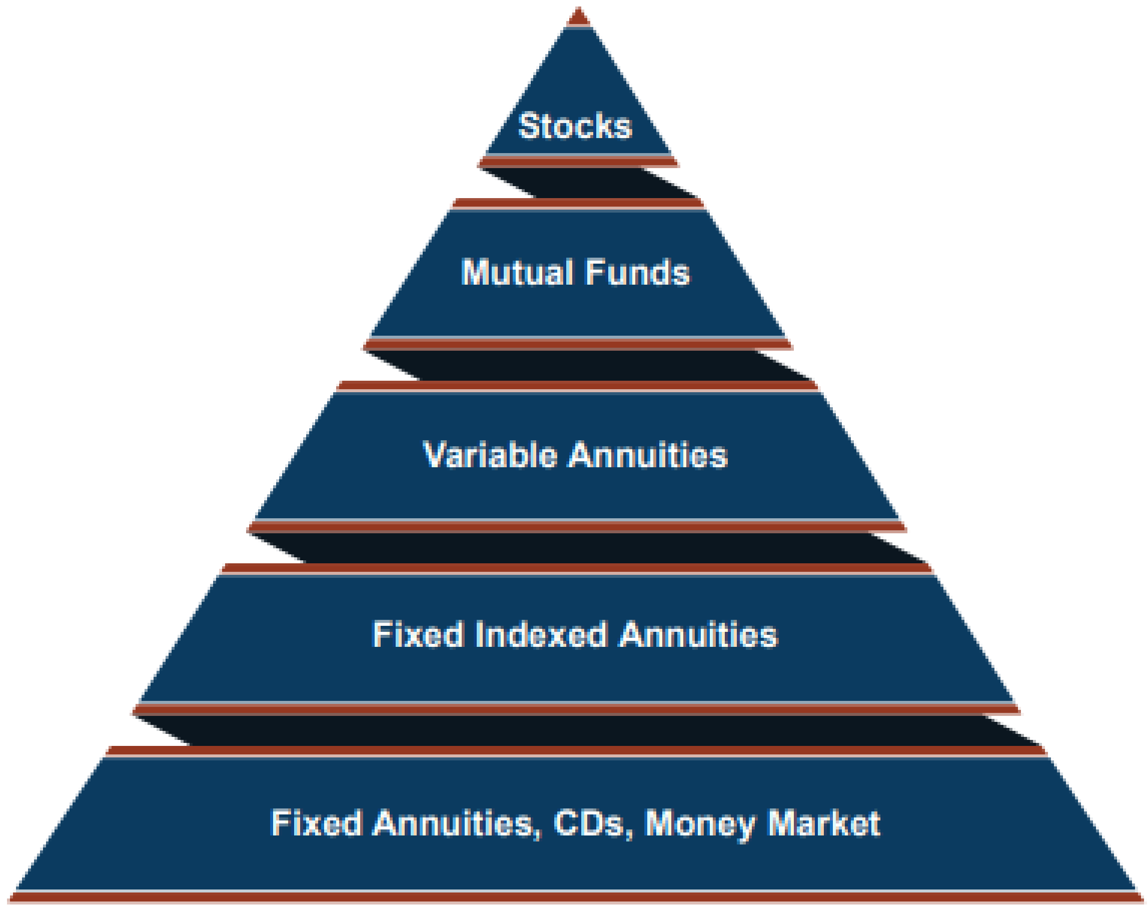
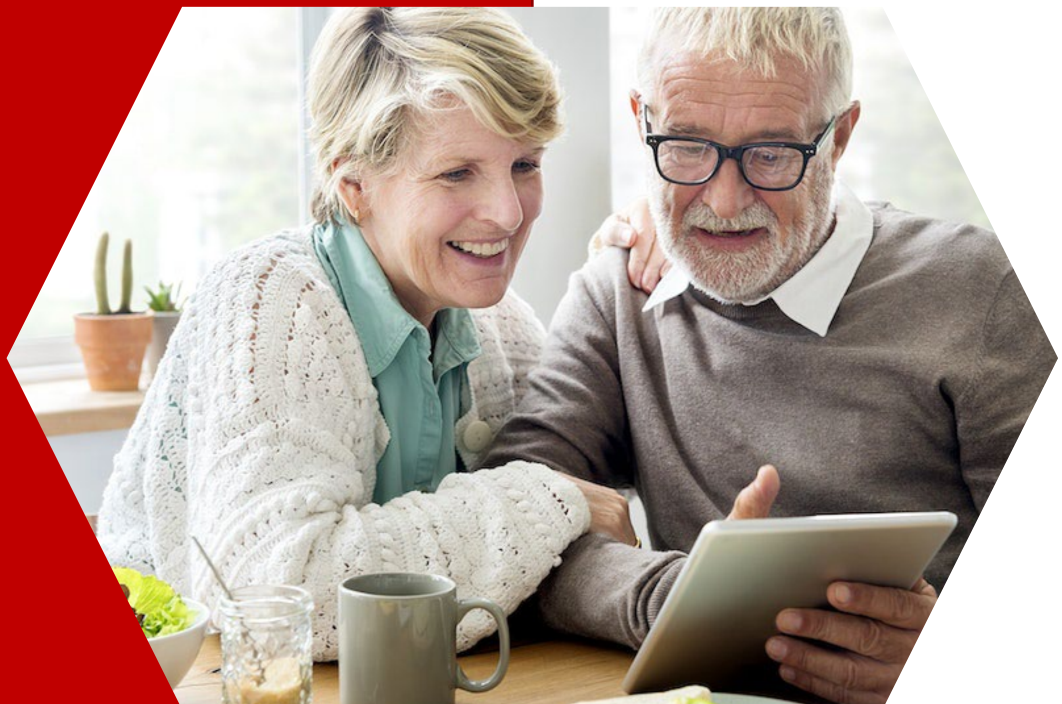
Risk Return

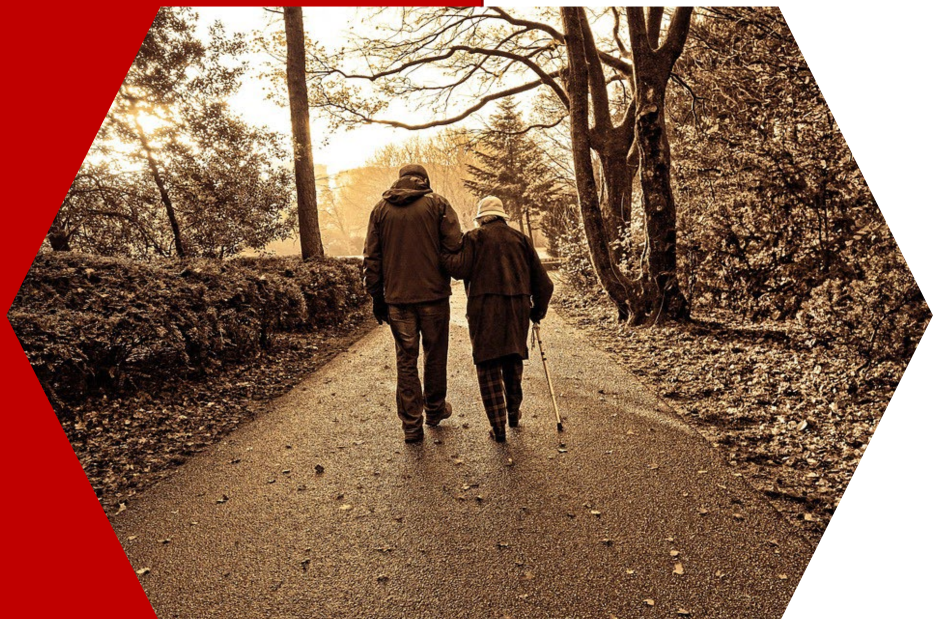

Stocks
Mutual Funds
Variable Annuities
Fixed Indexed Annuities
Fixed Annuities, CDs, Money Market



Are All FIA's Alike?

There are over 60 Insurance companies offering FIA products. Most FIA's are not identical.

S&P 500 Index



- It is the most widely traded option
- It represents the long-term growth potential in the US
- The S&P 500 is comprised of a cross-section of several industries (industrial, utility, financial, and transportation)

Fixed Indexed Annuity

- Fixed Annuities guarantee a declared rate
- Fixed Indexed Annuity with a different way of crediting interest
- Fixed Indexed Annuities guarantee a crediting formula
- Most also offer a Fixed Interest Rate

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Crediting Formulas

Point-to-Point and Monthly Resets

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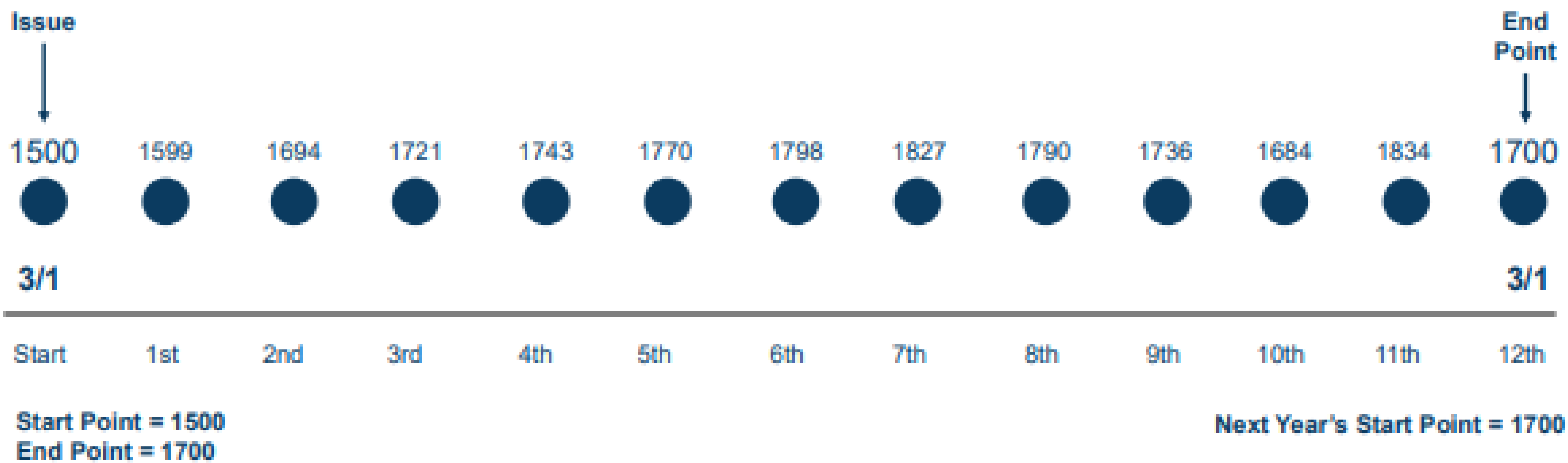
Two Common Crediting Formulas

- Point-to-Point Annual Reset
- Monthly Average Reset

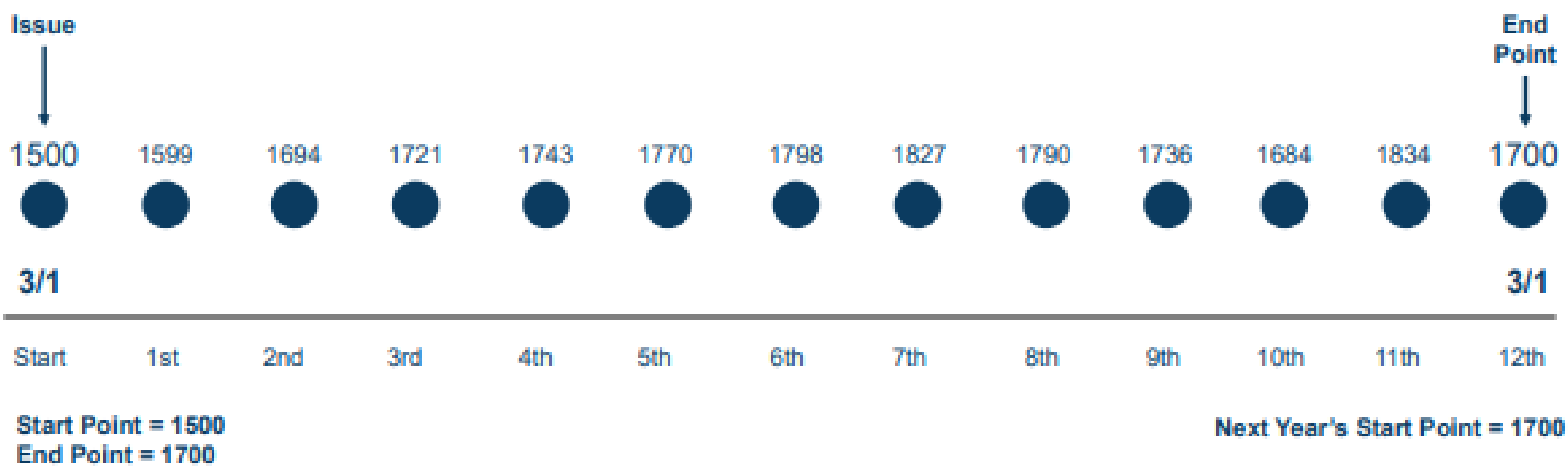
Crediting Formula

Point-to-Point / Annual Reset



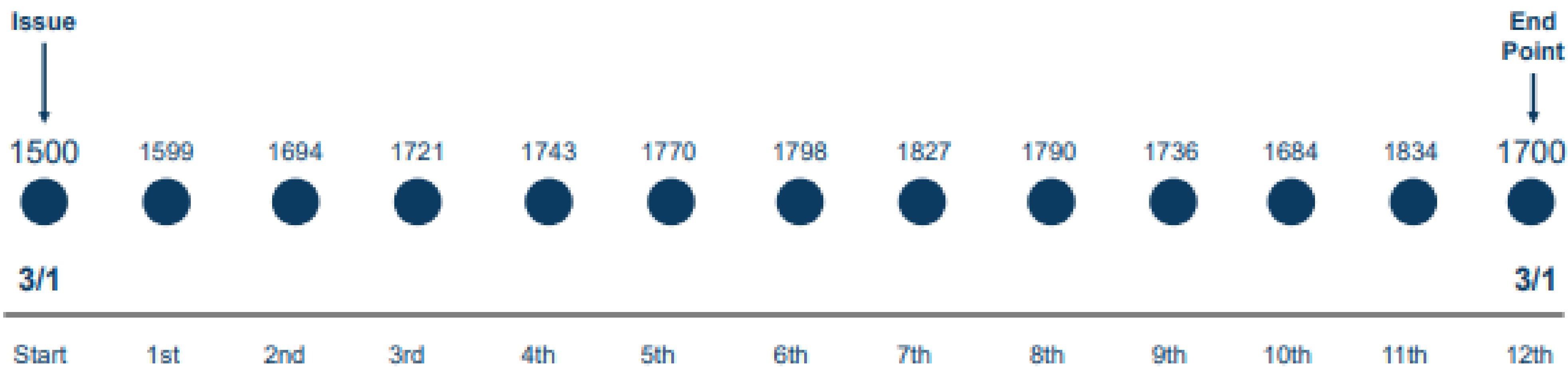
Crediting Formula (continued)

Point-to-Point / Annual Reset



Crediting Formula

Monthly Average / Annual Reset



Sum of 12 Points = 20,696
Average of 12 Points = 1725
Start Point = 1500
Gain % = 15%

Next Year's Start Point = 1700

How Companies Credit Your Contract

PARTICIPATION RATE

SPREAD

CAP

Participation Rate Only

- No Cap, No Spread
- 10% Gain in S&P 500
- 50% Participation Rate
- 10% x 50% = 5.0% Interest Credit Percentage

Spread Only

- 100% Gain in S&P 500
- 5.0% Spread
- 10% - 5.0% = 5.0% Interest Credit Percentage
- 100% Participation Rate, No cap

Cap Only

- 100% Gain in S&P 500
- Cap at 5.0%
- 5.0% Interest Credit Percentage
- 100% Participation Rate, No Spread

Spread Only

- 100% Participation rate, No cap
- 10% Gain in S&P 500
- 5.0% Spread
- 10% - 5.0% = 5.0% Interest Credit Percentage

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Spread Only (continued)

- 100% Participation rate, No cap
- 10% Gain in S&P 500
- 5.0% Spread
- 10% - 5.0% = 5.0% Interest Credit Percentage

Participation Rate Only

- No Cap, No Spread
- 10% Gain in S&P 500
- 50% Participation Rate
- 10% x 50% = 5.0% Interest Credit Percentage

Spread Only

- 100% Participation rate, No cap
- 10% Gain in S&P 500
- 5.0% Spread
- 10% - 5.0% = 5.0% Interest Credit Percentage

Cap Only

- 100% Participation rate, No cap
- 10% Gain in S&P 500
- Cap at 5.0%
- 5.0% Interest Credit Percentage

Fixed Indexed Annuity Calculation

Index
Standard & Poor's 500, Dow Jones Industrial Average, Euro STOXX 50, Nasdaq- 100, FTSE 100

Interest Calculation
Monthly Average, Point-to-Point, Daily Average, High Water, Long-Term Point-to-Point

Adjustment
Cap, Participation Rate, Spread

Interest Credit

The Bottom Line

Minimum Guarantees

A fixed indexed annuity policy value is the greater of the minimum guaranteed interest or the interest credited based on the index

Hypothetical Policy *Minimum Interest Guarantee*		**$100,000 Initial Premium** *Index Credits*
YEAR 1	1%	4%
YEAR 2	1%	0%
YEAR 3	1%	6%
YEAR 4	1%	3%
YEAR 5	1%	0%
YEAR 6	1%	0%
YEAR 7	1%	5%
YEAR 8	1%	3%
YEAR 9	1%	0%
YEAR 10	1%	4%

Year 10 - $110,462*

Year 10 - $127,713

*This assumes minimum guarantee is 1.0% on 100% of premium.
This chart is intended to illustrate how the various indexed interest crediting methods may affect contract values.
This example is hypothetical, is not guaranteed, and does not represent any specific annuity product.

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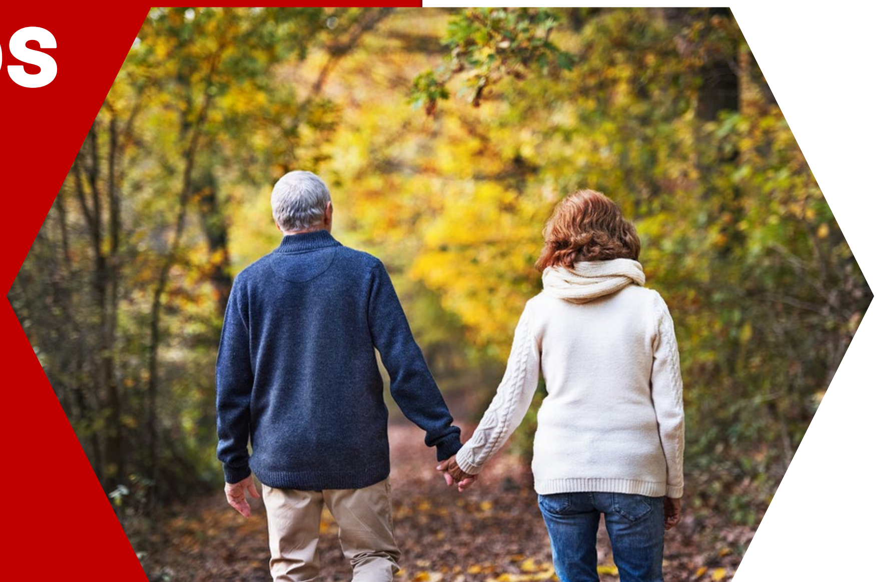
Where Do Annuities Fit In Client Portfolios

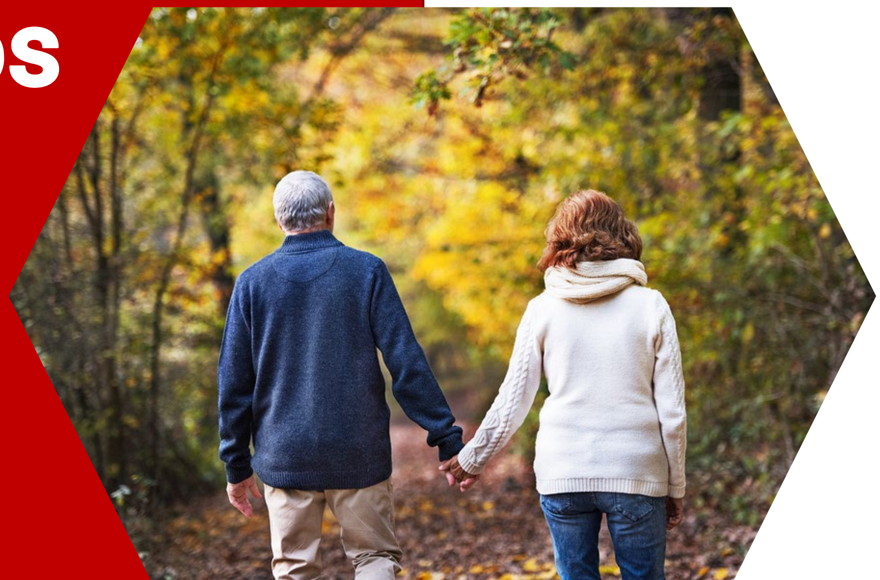
- Income Now
- SPIA- Single Premium Immediate Annuity
- FIA with income rider- Fixed Indexed Annuity

Where Do Annuities Fit In Client Portfolios



- Income Later
- FIA with income rider
- DIA- Deferred Income Annuity
- LTC Alternatives

Where Do Annuities Fit In Client Portfolios



- Income Never
- Fixed Annuities
- FIA- Fixed Indexed Annuities
- MYGA – Multi-Year Guaranteed Annuities

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