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FINANCIAL SERVICES

FIXED INDEX ANNUITIES | PRODUCER'S GUIDE

Complimentary Whitepaper

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- Suitability in 2019
- Conclusion

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WE OFFER

- Quoting engines - Long-Term Care, Annuity, Term & Universal Life
- New business forms
- Discounted E&O and CE's
- Life underwriting risk assessments
- Training & certification tools
- Multiple discounted lead programs
- Annuity sustainability analysis

Contact the annuity team at Pinnacle Financial Services for a no-cost product-by-product analysis before you make your next sale.

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WHAT IS A FIXED INDEX ANNUITY?

A Fixed Index Annuity, FIA, is a fixed annuity that credits interest based on the change of an index, such as the S&P 500 or the Dow Jones. Because your client's money is not actually invested in the index, there is never a risk of loss due to market fluctuations. The company will credit you interest based upon a formula tied to a certain "crediting strategy" such as annual point-to-point, monthly point-to-point, and monthly averaging. Each fo these strategies also include what is known as a CAP, participation rate and spread. Keep in mind, each carrier can vary these strategies, so all FIA's will not credit the same amount of interests.

EXAMPLE: ANNUAL POINT-TO-POINT STRATEGY

100% PARTICIPATION/ 5% CAP/ 1% SPREAD

In this example, the carrier will calculate the interest by subtracting the index's beginning value from its ending value. Then, divide by the beginning value. Finally, they will apply the participation, cap, and spread.

S&P 500: BEGINNING VALUE 1000/ENDING VALUE 1100
10% GAIN IN THE INDEX

Because of the 5% CAP and the 1% spread, the client would get 4% credited to their account.

Before you make your next sale, let the annuity team at Pinnacle Financial Services do a no-cost product-by-product analysis.

FIXED DEFERRED INDEXED FORMULAS

ANNUAL POINT-TO-POINT Change in index, calculated using two dates, one year apart.

MONTHLY OR DAILY AVERAGING Change in index, calculated using multiple dates, (one day of every month for monthly averaging, every day the market is open for daily averaging.) The average of these values is compared with the index value at the start of the index term.

MONTHLY POINT-TO-POINT Change in index, calculated for each month during the index term. Each monthly change is limited to the "cap rate" for positive changes, but not when the change is negative. At the end of the index term, all monthly changes (postive and negative) are added. If the result is positive interest is added to the annuity, if the result is negative or zero, no interest (0%) is added.

REALITY CHECK

INCOME RIDERS

All things are not created equal. This holds true for annuity income riders.

WHAT IS A FIA INCOME RIDER?

An income rider on a FIA annuity allows a retiree to build a secure retirement income. The payout provided by the income rider is guaranteed by the issuing insurance carrier for the life of the annuity owner. In addition, the annuity owner retains access to the annuity's remaining value, and also continues to reap the benefits of interest credits to the annuity's value. Keep in mind that the company charges for the rider, and each company's charge can vary, but typically is around 1% per year.

So how do carriers determine the payout of the income rider? How is it that one carrier with a 7% income rider will payout more than another with a 10% income rider? Many factors are involved in the calculation: most notable is the payout factor. The payout factor is the percentage used by each carrier, typically based on the age of the client at the time of income activation, to determine the actual payout for life to the client.

INCOME RIDER CALCULATIONS

In our income rider example, you will see that the company with the largest rollup rate is not paying the most to the client. The company with the lowest rollup percent is paying the most to the client.

Each of your client's goals and situations are different. Detailed analysis is key. The income rider benefit is optional, and there is a charge which varries by carrier. This charge reduces your client's account value and interest gained. To determine the value of selling an income rider, your client's goals need to be reviewed first. Be aware that many riders offer additional benefits, such as guarantee death and nursing home.

INCOME RIDERS

65 Year Old - $100,00 | Income Starting at Age 70

COMPANY A	
ROLLUP %	10%
RIDER CHARGE	1%
PAYOUT %	5.1%
LIFETIME PAYOUT	$8,415
COMPANY AM BEST	A
INCOME RIDER BONUS	15%
PRODUCT BONUS	3%
COMPANY B	
ROLLUP %	6%
RIDER CHARGE	1.1%
PAYOUT %	6%
LIFETIME PAYOUT	$8,591
COMPANY AM BEST	A-
INCOME RIDER BONUS	7%
PRODUCT BONUS	7%
COMPANY C	
ROLLUP %	7%
RIDER CHARGE	0.95%
PAYOUT %	6%
LIFETIME PAYOUT	$8,100
COMPANY AM BEST	A+
INCOME RIDER BONUS	0%
PRODUCT BONUS	0%

GROWTH WITHOUT RISK

FIA's have long offered a safe haven from market volatility. Upside interest potential without downside market risk. In today's battle for market share, we have seen more interest crediting options from companies looking to turn producer's heads. There are homegrown indexes, Volatility Control indexes, Gold Indexes, and hedge indexes, which will spread your interest potential across multiple indices at once.

The basics of how a company credits interest and what defines realistic expectations of an index annuity have not changed. There are caps, participation rates, and spreads. One tool for setting expectations is historial back testing using real historical data. While not guaranteed, they are a tool for you to illustrate to a client how an index annuity credits interest. Worst case, you cannot lose money when the market dips.

UNCAPPED ≠ UNLIMITED

An "uncapped" index annuity does not have unlimited earning potential. In addition to the cap, there are participation rates and spreads in determining the amount of interest a client receives. Many uncapped crediting strategies have a reduced participation rate, spreads, or both.

In setting expectations, refer to company literature for all the details of how their specific crediting strategy works.

Index annuities are intended to give safety to your clients: giving protection from Market Volatility, and the ability to give lifetime predictable income through their retirement.

SUITABILITY

Suitability is one of the keys in annuity sales in today's market. In recent years, there has been much scrutiny of the products sold on the market, which products are being sold to which clients, and for how much. Education has grown: agents and financial advisors are typically required by each state to complete a mandatory annuity training certification. Each insurance carrier will also require the completion of a product specific annuity training to be done before any sale or solicitation is allowed by an agent.

INCOME RIDERS

While no single product is a perfect fit for every client, Fixed Index Annuities, when sold correctly, can be the answer for many clients. Especially for those who are looking for predictability and growth, without having to worry about downside market volatility.

The climate is ever-evolving- from regulatory changes to product changes. Pinnacle Financial Services is here to partner with you as we navigate the annuity landscape. Case analysis and design, comprehensive suitability evaluation, and finding the right product for your client's goals and desires.

Here at Pinnacle Financial Services, we will give you the tools and insight to make the right recommendations for your clients. Do not find yourself at the wrong end of a client complaint.

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