



FIXED INDEX **ANNUITIES**

COMPLIMENTARY
WHITE PAPER

2019 / 2020

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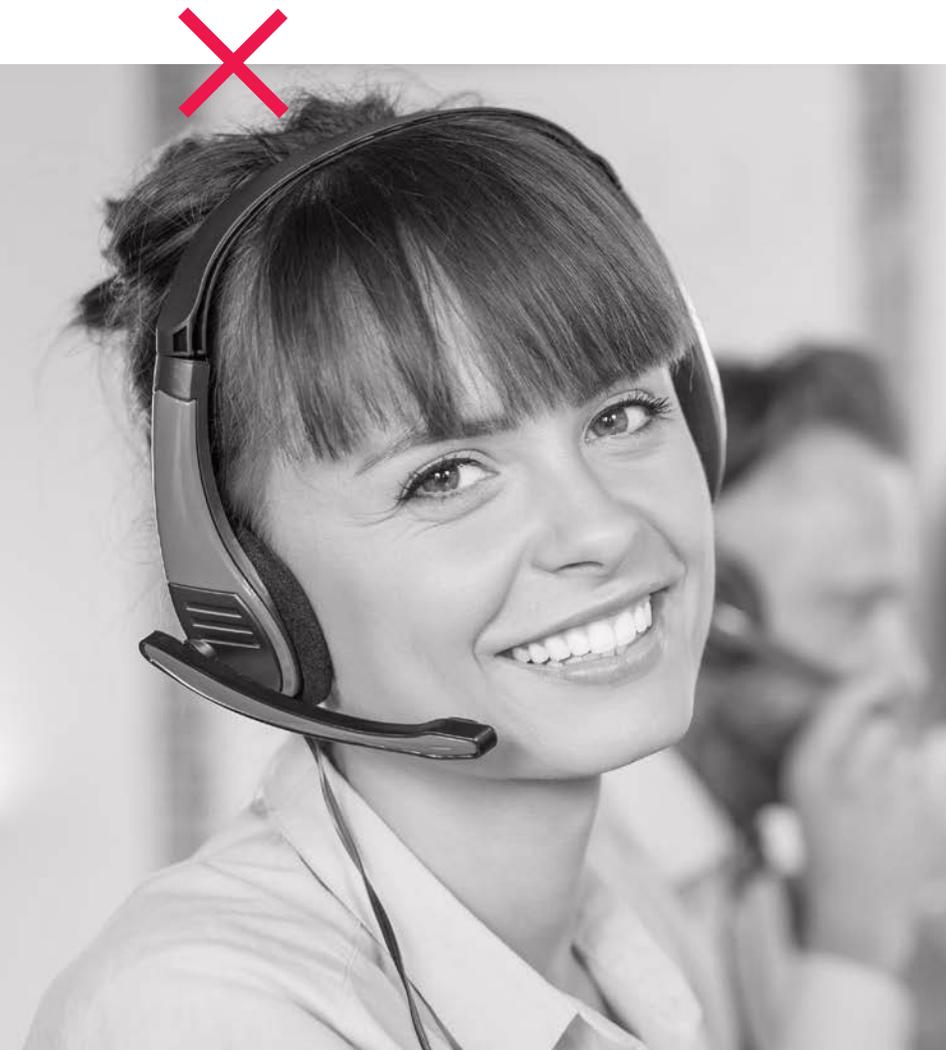
PRODUCER'S GUIDE

In this Edition:

What is a Fixed Annuity?
Reality Check - Income Riders
Growth Without Risk
Suitability in 2020 and Beyond
Conclusion

We offer a variety of product services such as quoting engines, (for Long-Term Care, Annuities, Term Life, Universal Life, and Final Expense,) new business forms, discounted CE and E&O, life underwriting risk assessments, training and certification tools, multiple discounted lead programs, and annuity suitability analysis.

All of Pinnacle's services are for the betterment of our partner agent's sales.



YOUR

PINNACLE TEAM

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

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TABLE OF CONTENTS

04 **WHAT IS A
FIXED INDEX ANNUITY?**
Terms & Definitions you need
to know before making your
next sale.

05 **REALITY CHECK**
WHAT IS AN
INCOME RIDER?
And Income Rider Calculations.

06 **GROWTH
WITHOUT RISK**
Uncapped ≠ Unlimited

07 **SUITABILITY
AND IT'S IMPORTANCE**
Suitability is key in today's
annuity market.

08 **CONCLUSION**
PARTNER WITH PINNACLE
How Pinnacle Financial
Services can help your annuity
business.



If you have any questions while reading this white paper, please reach out to the team at Pinnacle Financial Services. We're always available to assist you, regardless of the question or need. Additionally, you can visit us online at www.pfsinsurance.com where we go into detail on our various products and services.

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

EXAMPLE

ANNUAL POINT-TO-POINT STRATEGY

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.

100% PARTICIPATION/ 5% CAP/ 1% SPREAD

- S&P 500: Beginning Value 1000/ Ending Value 1100
- 10% Gain in the Index
- Because of the 5% CAP and 1% spread the client would get 4% credited to their account.

The company will credit you interest based on a formula tied to a certain "crediting strategy" such as annual point to point, monthly point to point and monthly averaging.

Each of these strategies also include what is known as a CAP, participation rate and spread. Keep in mind that each carrier can vary these strategies so all FIA's will not credit the same amount of interest.

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 (positive or 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.

Before you make your next sale, Let the Annuity Team at Pinnacle Financial Services do a no cost product by product analysis.

REALITY CHECK

INCOME RIDERS

COMPANY A	
Roll-up Percentage	7%
Rider Charge	1%
Payout Percentage	5.45%
Lifetime Payout	\$8,179
Company AM Best	"B+"
Income Rider Bonus	7%
Product Bonus	7%
COMPANY B	
Roll-up Percentage	N/A
Rider Charge	1.2%
Payout Percentage	5.63%
Lifetime Payout	\$7,882
Company AM Best	"A+"
Income Rider Bonus	20%
Product Bonus	0%
COMPANY C	
Roll-up Percentage	10%
Rider Charge	1.05%
Payout Percentage	5%
Lifetime Payout	\$7,750
Company AM Best	"A-"
Income Rider Bonus	5%
Product Bonus	0%

All things are not created equal. This holds true for annuity income riders. What is an 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 % a 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 % used by each carrier, typically based on age of the client at 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 roll-up rate is the lowest actual payout to the client. The company charging the least for the rider is paying out the most. Each of your clients goals and situation are different. Detailed analysis is key. The income rider benefit is optional and there is a charge which varies by carrier.

This charge reduces your clients account value and interest gained. To determine the value of selling an income rider, your clients goals need to be reviewed first. Be aware that many riders offer additional benefits such as guarantee death benefits and nursing home benefits.

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 producers 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 are realistic expectations of an index annuity have not changed. There are caps, participation rates and spreads. One tool for setting expectations is historical back testing using real historical data. While not guarantees, 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. Protection from Market Volatility. 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.

CAUTIONARY TALE

You do not need to go much further than to search the internet for details on the Glen Neasham Case to see the importance of good fact finding and suitability analysis.

On October 23, 2011 Glenn Neasham was found guilty by a 12-person jury of a single count of felony theft, for selling an annuity to an elderly woman. Even though the product was available for sale in the state and the insurance carrier, who was still the #1 FIA carrier by sales in 2013, approved the case the prosecutor still went forward. After 2 years and loss of a thriving insurance practice the case was reversed in appeals.

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.



FINAL CONCLUSION

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

The team at Pinnacle Financial Services is here to partner with you as you navigate the annuity landscape. Case analysis and design, comprehensive suitability evaluation, the right product for your clients 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.



BOB BRZYSKI

Bob Brzyski earned his B.A. in Risk Management, Insurance and Actuarial Science from Temple University in 1995. He joined Pinnacle Financial Services in 2003 after specializing in marketing, training and case design for a fortune 500 insurance carrier working with Annuities, Life Insurance and Long Term Care Planning. Bob was named Vice President in 2012. He and his wife Ann Marie have two children.

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