Index Annuity 101

Understanding Crediting Methods & Growth Potential

3 MARK FINANCIAL

What is an Indexed Annuity?

A type of annuity that earns interest based on a stock market index performance.
Offers principal protection with limited market upside.
Designed for long-term retirement savings.

What are the Key Features of Indexed Annuity?

Market-Linked Growth: Earns interest based on an index like the S&P 500.
Principal Protection: No loss of principal due to market downturns.
Tax-Deferred Growth: Taxes are paid upon withdrawal.
Lifetime Income Options: Can convert into a stream of income.

How do crediting methods work?

Interest is credited based on the annuity's participation in market growth.
Uses different methods to calculate how much of the index's gain is applied.
Crediting strategies can include **Cap Rate, Participation Rate, and Spread/Margin**.

Cap Rate vs. Participation Rate vs. Spread

•**Cap Rate:** The maximum interest credited, even if the index gains more.
•**Participation Rate:** The percentage of the index's gain that is credited..
•**Spread/Margin:** A fee deducted from the index's return before crediting.
•**Example:**

- Index Gain: **10%**
- Cap Rate: **6%** → Credited **6%**
- Participation Rate: **80%** → Credited **8%**
- Spread: **2%** → Credited **8% - 2% = 6%**

Choosing the Right Crediting Method

•**Best for Stable Growth:** Annual Point-to-Point
•**Best for Volatility Capture:** Monthly Sum
•**Best for Smoothing Returns:** Monthly Average
Consider risk tolerance and financial goals.

Pros of Indexed Annuities

Market-linked returns with downside protection
Tax-deferred growth
Guaranteed lifetime income options

Cons of Indexed Annuities

Limited upside due to caps and participation rates
Surrender charges for early withdrawals
Complexity in crediting methods

Indexed annuities offer growth potential with protection.
Choosing the right crediting method impacts returns.

3 Mark Financial - 1600 Highway 6, Suite 400, Sugar Land, TX 77478 - 281-269-2371
3MarkAnnuities@3mark.com

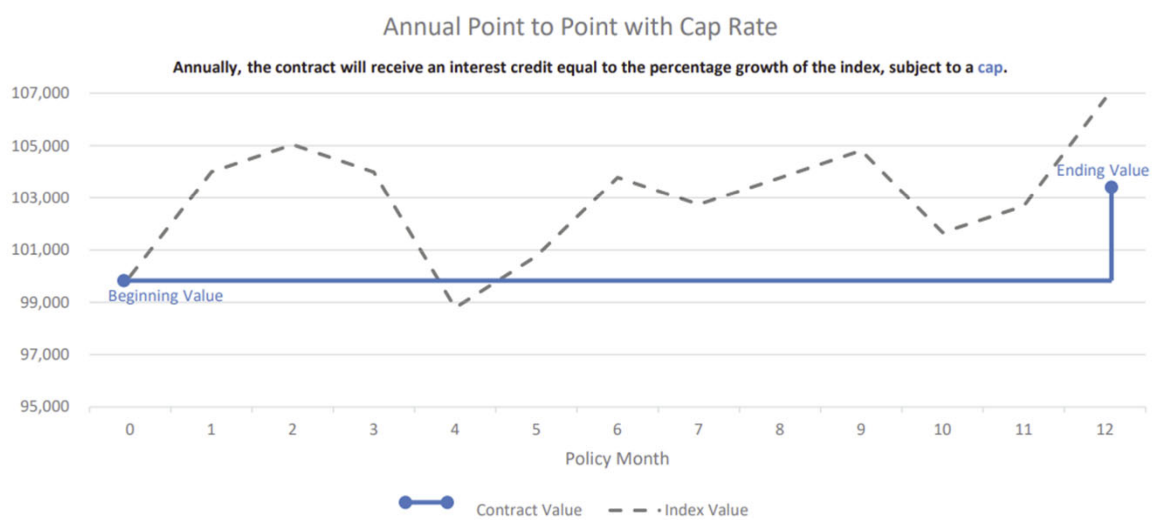
For Insurance Professional Use Only. Not For Distribution to the Public.

Understanding Crediting Methods & Growth Potential

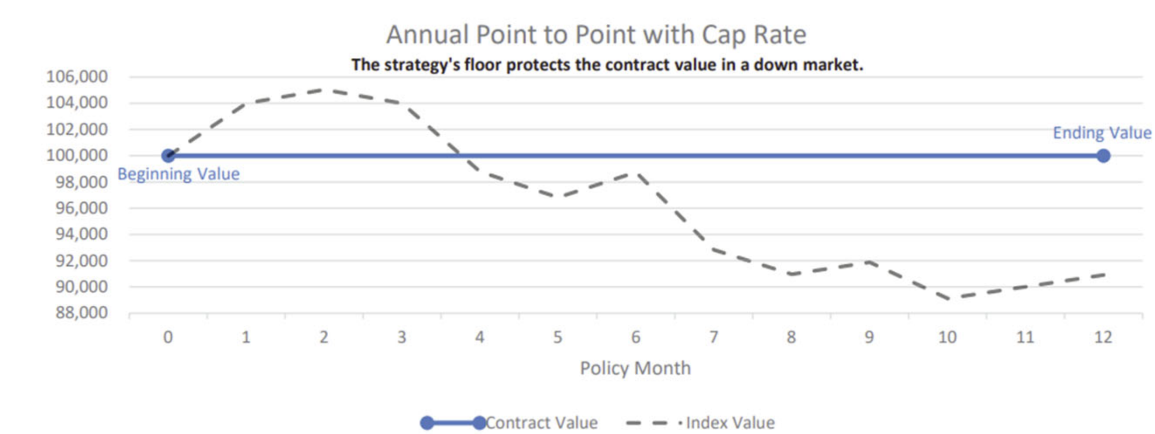
Annual Point-to-Point with Cap Crediting
Measures index value at the start and end of the contract year.
Example:
- Start Value: 100,000 | End Value: 107,000 (+7%)
- **If Cap Rate is 4%**, credited interest = **4%**
- **If Participation Rate is 80%**, credited interest = **5.6%**

Best for steady, long-term growth expectations.

Here is an example of how this crediting strategy works in a positive net growth environment…



Here is an example of how this crediting strategy works in a negative net environment…



3 Mark Financial - 1600 Highway 6, Suite 400, Sugar Land, TX 77478 - 281-269-2371
3MarkAnnuities@3mark.com

For Insurance Professional Use Only. Not For Distribution to the Public.

Annual Point-to-Point with Participation Rate Crediting

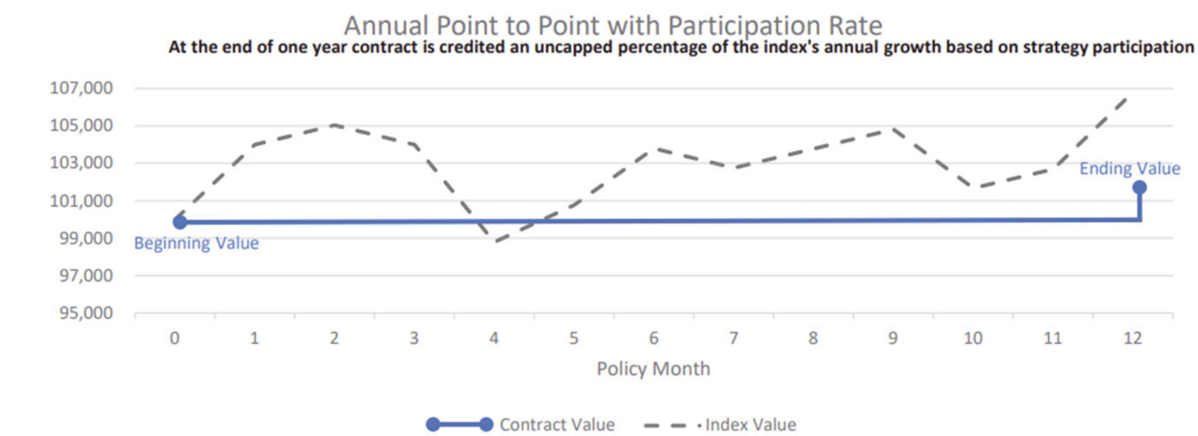
Measures index value at the start and end of the contract year.

•**Example:**

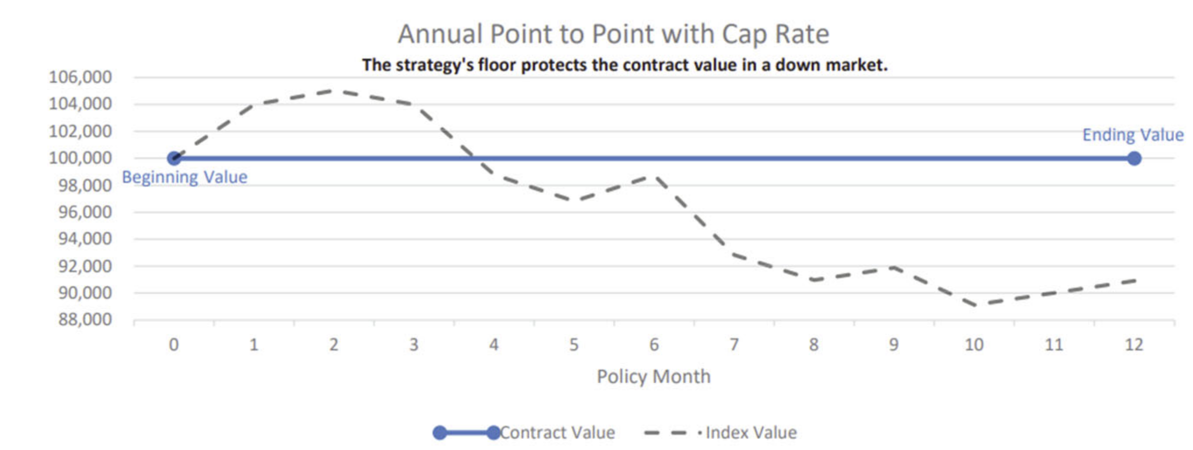
- Start Value: 100,000 | End Value: 106,000 (+6%)
- **If Participation Rate is 35%**, credited interest = **2.10%**

•Best for steady, long-term growth expectations.

Here is an example of how this crediting strategy works in a positive net growth environment…



Here is an example of how this crediting strategy works in a negative net environment…



Monthly Sum Crediting

Tracks monthly index changes and sums up monthly returns.

Here's how the S&P 500 crediting works with a monthly cap of **2.15%**:

1. If the S&P 500 increases in a given month, the gain is capped at **2.15%**.
2. If the S&P 500 decreases, the full loss is applied (no floor).
3. The final credited sum is the total of each month's capped or actual return. **8.95%**

Can provide higher gains in upward-trending markets but is more volatile

	S&P 500 Monthly Returns	Capped Returns Monthly Cap 2.5%
January	3.5	2.15
February	-2	-2
March	1.8	1.8
April	2.7	2.15
May	-1.5	-1.5
June	4	2.15
July	-3.2	-3.2
August	2.1	2.1
September	1.5	1.5
October	-0.5	-0.5
November	3	2.15
December	2.4	2.15
	Amount Credited for Year	**8.95%**

Monthly Average with Cap Crediting

Averages index values at the end of each month.

•**Example:**

- (Sum of 12 end-of-month index values) / 12
- Compared to the starting index value for the year.
- If index rises **12%**, with **11% Cap**, credited interest = **11%**
- Smoother performance over time.