Index Annuity 101

Understanding Crediting Methods & Growth Potential

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.

Key Features of Indexed Annuities

- **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 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**.

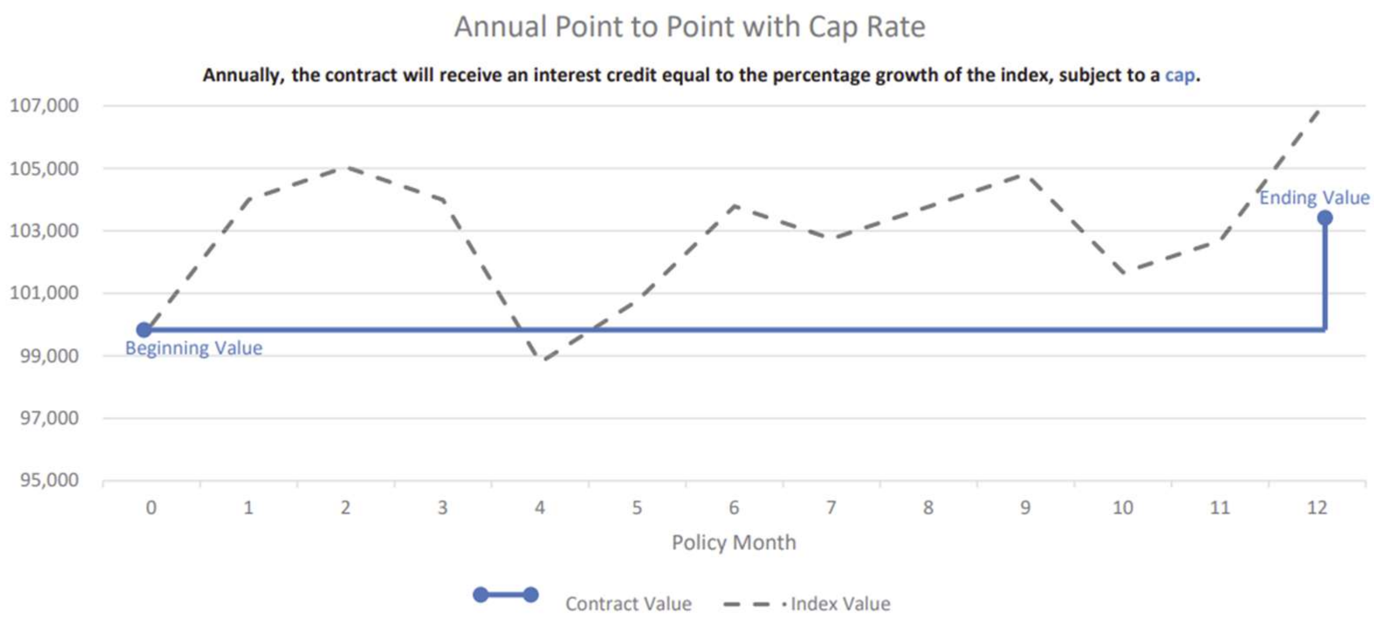
Annual Point-to Point with Cap Crediting

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.

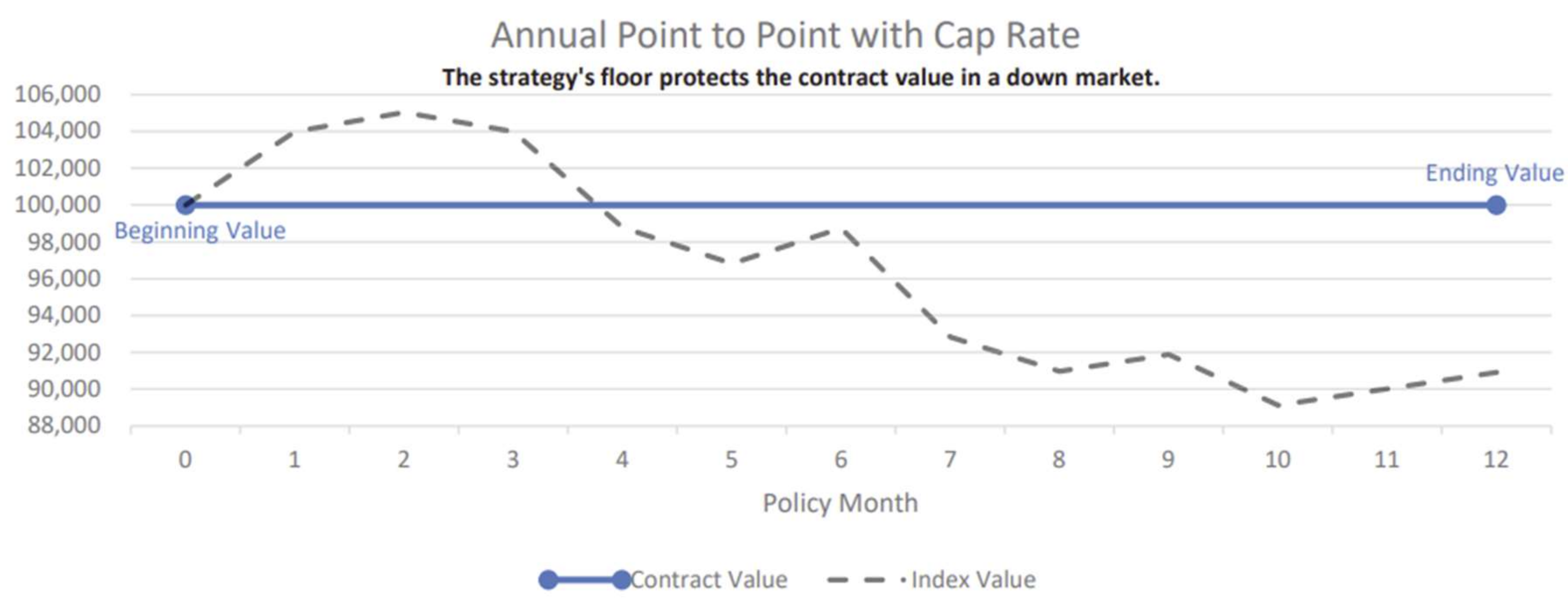
Annual Point-to Point with Cap Crediting

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



Annual Point-to Point with Cap Crediting

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



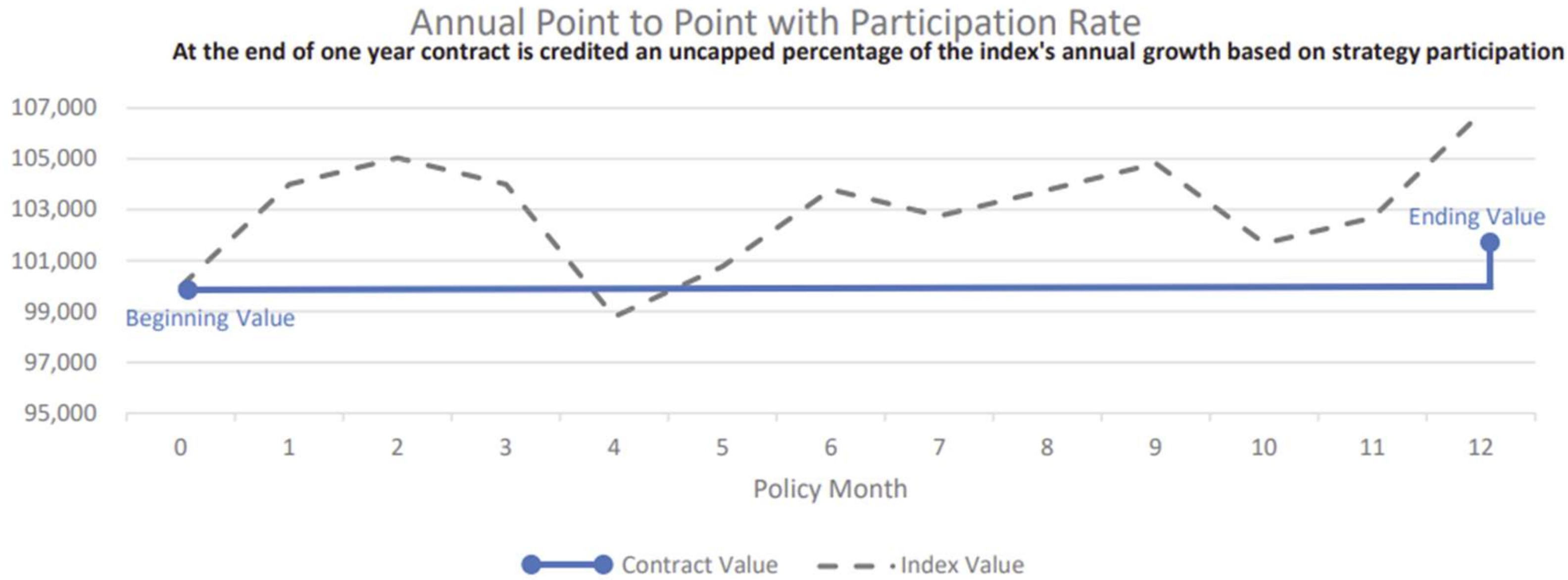
Annual Point-to Point with Participation Rate Crediting

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.

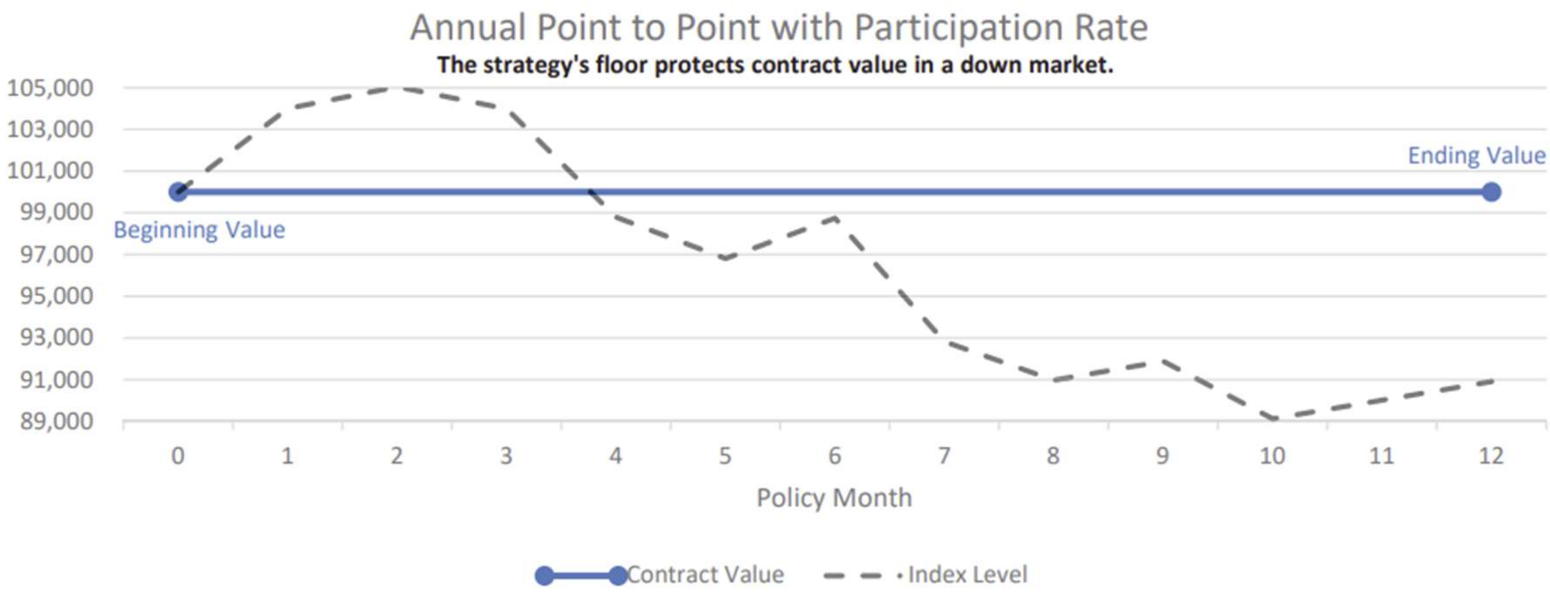
Annual Point-to Point with Participation Rate Crediting

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



Annual Point-to Point with Participation Rate Crediting

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%**

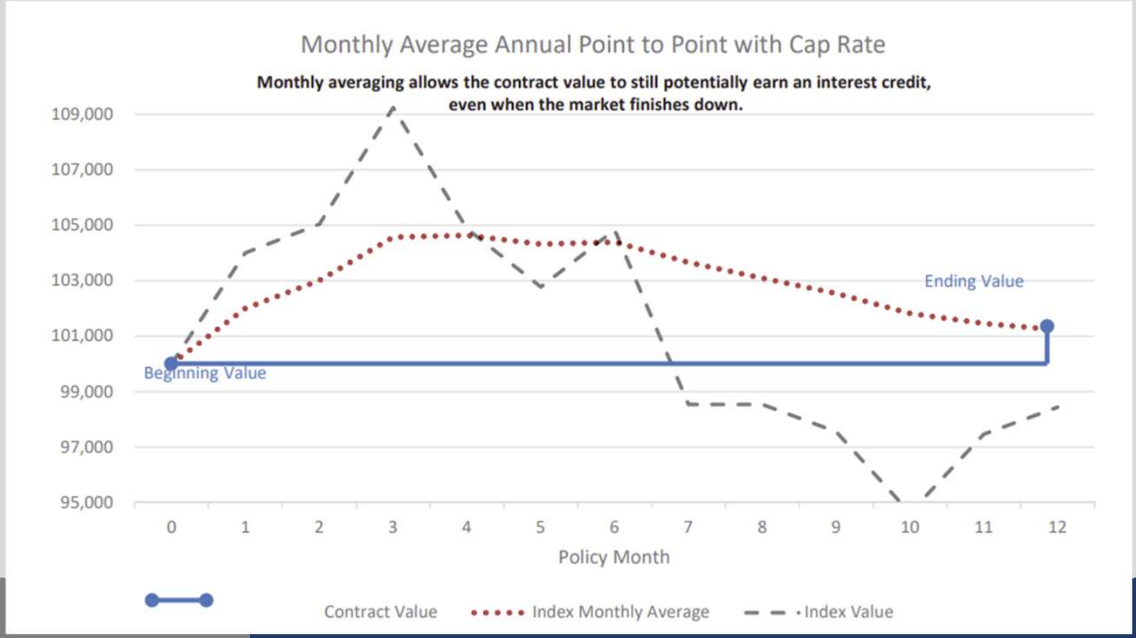
- Can provide higher gains in upward-trending markets but is more volatile

	S&P 500 Mthly Returns	Capped Returns Monthly Cap 2.15%
Jan	3.5	2.15
Feb	-2	-2
Mar	1.8	1.8
April	2.7	2.15
May	-1.5	-1.5
Jun	4	2.15
Jul	-3.2	-3.2
Aug	2.1	2.1
Sept	1.5	1.5
Oct	-0.5	-0.5
Nov	3	2.15
Dec	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.



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 & Cons of Indexed Annuties

✅ **Pros:**

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

❌ **Cons:**

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

Conclusion

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

Questions???

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