



About Fixed-Indexed Annuities

What are Fixed-Indexed Annuities?

A fixed-indexed annuity is a fixed annuity, wither immediate or deferred, that earns interest or provides benefits that are linked to an external equity reference or an equity index. The value of the index might be tied to a stock or other equity index. One of the most commonly used indices is Standard & Poor's 500 Composite Stock Price Index (the S&P 500)¹, which is an equity index. The value of any index varies from day to day and is not predictable. When you buy a fixed-indexed annuity you own an insurance contract. You are not buying shares of any stock or index.

How are they different from other fixed annuities?

A fixed-indexed annuity is different from other fixed annuities because of the way it credits interest to your annuity's value. Some fixed annuities only credit interest calculated at a rate set in the contract. Other fixed annuities also credit interest at rates set from time to time by the insurance company. Fixed-indexed annuities credit interest using a formula based on changes in the index to which the annuity is linked. The formula decides how the additional interest you get and when you get it depends on the features of your particular annuity.

Your fixed-indexed annuity, like other fixed annuities also promises to pay a minimum interest rate. The rate that will be applied will not be less than this minimum guaranteed rate even if the index-linked interest rate is lower. The value of your annuity also will not drop below a guaranteed minimum. The guaranteed value is the minimum amount available during a term for withdrawals, as well as for some annuitizations and death benefits. The insurance company will adjust the value of the annuity at the end of each term to reflect any index increases.

What are some Fixed-Index annuity contract features?

Two features that have the greatest effect on the amount of additional interest that may be credited to a fixed-indexed annuity are the indexing method and the participation rate. It is important to understand the features and how they work together. The following describes some other fixed-indexed annuity features that affect the index-linked formula.

INDEXING METHOD

The indexing method means the approach used to measure the amount of change, if any, in the index. Some of the most common indexing methods include annual reset, high-water mark, and point-to-point.



TERM

The index term is the period over which index-linked interest is calculated; the interest is credited to your annuity at the end of a term. Terms are generally from one to ten years, with six or seven years being most common. Some annuities offer single terms while others offer multiple, consecutive terms. If your annuity has multiple terms, there will usually be a window at the end of each term, typically 30 days, during which you may withdraw your money without penalty. For installment premium annuities, the payment of each premium may begin a new term for that premium.

PARTICIPATION RATE

The participation rate decides how much of the increase in the index will be used to calculate index-linked interest. A company may set a different participation rate for newly issued annuities as often as each day. Therefore, the initial participation rate in your annuity will depend on when it is issued by the company. The company usually guarantees the participation rate for a specific period. When that period is over, the company sets a new participation rate for the next period. Some annuities guarantee that the participation rate will never be set lower than a specified minimum or higher than a specified maximum.

CAP RATE OR CAP

Some annuities may put an upper limit, or cap, on the index-linked interest rate. This is the maximum rate of interest the annuity will earn.

FLOOR ON INDEX-LINKED INTEREST

The floor is the minimum index-linked interest rate you will earn. The most common floor is 0%. A 0% floor assures that even if the index decrease in value, the index-linked interest that you will earn will be zero and not negative. As in the case of a cap, not all annuities have a stated floor on index-linked interest rates. But in all cases, your fixed annuity will have a minimum guaranteed value.

AVERAGING

In some annuities, the average of an index's value is used rather than the actual of the index on a specified date. The index averaging may occur at the beginning, the end, or throughout the entire term of the annuity.

INTEREST COMPOUNDING

Some annuities pay simple interest during an index term. That means index-linked interest is added to your additional premium amount but does not compound during the term. Others pay compound interest during a term, which means that index-linked interest that has already been credited also earns interest in the future. In either case, however, the interest earned in one term is usually compounded in the next.

MARGIN/SPREAD

In some annuities, the index-linked interest rate is computed by subtracting a specific percentage from any calculated change in the index. This percentage, sometimes referred to as the "margin" or "spread," might be instead of, or in addition to, a participation rate.



VESTING

Some annuities credit none of the index-linked interest or only part of it, if you take out all your money before the end of the term. The percentage that is vested, or credited, generally increases as the term comes closer to its end and is always 100% at the end of the term.