

The Equity-Indexed Annuity

A Long Term Vehicle for Savings

WEALTH2K, INC.



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Understanding the Indexed Annuity

When it comes to thinking about our retirement savings, most people would probably agree that today's economic conditions present challenges. With the economy uncertain, with interest rates relatively low, and with memories of stock market volatility and losses still fresh in our minds, it's no surprise that appropriately managing our savings is of real concern.

Interest rates on some savings vehicles provide little in the way of either current income or growth potential. Seniors who want to see their money grow more quickly are sometimes faced with taking on the risk in the hope of achieving a higher yield.

In the search for greater profit, investing in stocks or mutual funds may be unappealing to those who may have fled investments in order to stem losses. When stocks are going up, people are happy. But when stock market losses and volatility reemerge, far too many of us fail to demonstrate the staying power required to enjoy the gains stocks may provide.

This is why getting it right with our savings dollars is so important. If our savings portfolio is properly structured, the likelihood of our being able to stay with our investments longer may be increased.

This means seeking a balanced approach to our savings, selecting savings vehicles that offer varying degrees of liquidity versus long-term interest accumulation potential. Plus the ability to turn savings into guaranteed retirement income in the future.

Retirement income guarantees are subject to the claims paying ability of the issuing insurance company and the terms and conditions of the contract

Everyone should observe the common sense approach of diversification in their investment and savings choices. Each of us should also have a portion of our savings in highly liquid vehicles such as money market accounts or three to six month CDs.

CD's are FDIC insured up to \$100,000, retirement accounts up to \$250,000, and offer a fixed rate of return. They do not necessarily protect against a rising cost of living. The FDIC insurance on CD's applies in the case of bank insolvency, but does not protect market value. Other investments are not insured and their principal and yield may fluctuate with market conditions.

An investment in a money market the fund is not FDIC insured or guaranteed by any other government agency. Although the fund seeks to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in the fund.

But there's also a place for long-term, tax advantaged savings vehicles.

One such vehicle offers interest earnings potential linked to a stock index, but reduces the investment risk associated with investing. It's called an Equity Indexed Annuity, sometimes known as a fixed indexed annuity or FIA.

This annuity is an alternative with appeal to Americans who understand the long-term benefits of investing in stocks but are uncomfortable with the short term losses and volatility that are an inevitable part of investing.

An indexed annuity should not be viewed as taking the place of investments, and purchasing one cannot be thought of as being comparable to investing. The reason is that indexed annuities are long-term savings vehicles. They cannot duplicate the upside potential investing may offer.

Most Equity-Indexed Annuities are not required to be registered under the Securities Act of 1933 and therefore are not considered to be securities or investment vehicles.

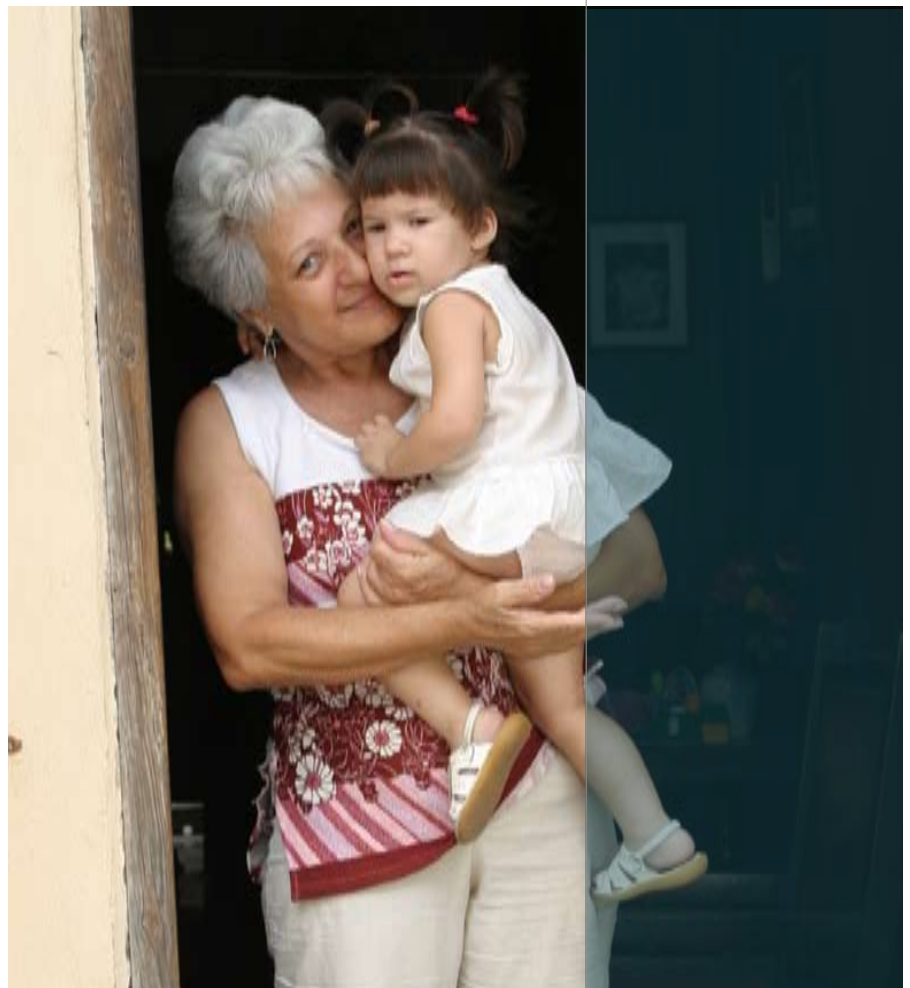
Indexed annuities also require a significant commitment of time and a willingness to sacrifice liquidity. In general they have longer terms which may run to ten years, or more. And purchasers of indexed annuities must realize that they can lose money if they are unwilling to hold the annuity to the end of its term. This is because insurance companies which issue indexed annuities typically impose surrender penalties that can eat into the original premium if

the annuity is not held for the full term. These surrender penalties can be as high as ten percent, or in some cases even more. A careful analysis of your liquidity needs is critical when considering the purchase of an indexed annuity.

Withdrawals in excess of the Surrender Charge-free withdrawal amount will be subject to a declining Surrender Charge during the initial term only. Withdrawals will be subject to income tax and may be subject to a 10% IRS penalty tax if taken prior to age 59½. Early withdrawals will reduce earnings. Some features may not be available in some states.

Savers who are willing to hold indexed annuities for their full term, or longer, may benefit from the combination of downside protection and upside interest earnings potential which lie at the heart of an indexed annuity's appeal.

Yet, there is no assurance that any indexed annuity will accumulate interest earnings beyond the minimum amount guaranteed by contract. The truth is, if the annuity's underlying stock index doesn't increase then the annuity's value won't grow.



The history of Indexed Annuities

Let's examine the background of indexed annuities to understand why they have grown so popular over the past decade.

An indexed annuity is a relatively recent modernization in the design of fixed annuities.

Purchased by Americans for decades, traditional fixed annuities have helped millions of seniors safeguard their savings, enjoy interest growth and create retirement income. Traditionally, fixed annuities have credited reasonably competitive rates of interest. But like many savings vehicles, the interest rates offered by fixed annuities are tied to the general level of interest rates in our economy.

In searching for a way to generate even greater interest earnings potential, a new form of fixed annuity emerged in 1995. It was similar to other fixed annuities in that it offered underlying guarantees, but it associated its interest earnings potential to

the performance of a particular stock market index. This was accomplished by linking potential interest earnings to the performance of a stock index, initially the S&P 500 Composite Stock Index, or, S&P 500®.

The S&P 500 Index is a market capitalization weighted index of 500 of the largest U.S. companies (without dividends). It is unmanaged and investors cannot invest directly in it.

All indexed annuities utilize an index such as the S&P 500 or NASDAQ composite index to create the potential for interest earnings based upon positive returns in the index. Back in 1995, indexed annuities increased in popularity with savers. As you might imagine, some indexed annuities generated significant interest crediting to the annuity account value as the performance of stocks surged.

NASDAQ Composite Index is an unmanaged index of all stocks traded on the NASDAQ over-the-counter market.



Protecting against Risk

But, as we know, stocks reversed direction starting in March of 2000. Many investors in stocks and mutual funds suffered losses. This market downturn caused many savers to take a look closely at indexed annuities and, in part, fueled their popularity.

Indexed annuities help to insulate their owners from investment risk. When stock index performance is negative, most indexed annuity contract designs will protect the interest already accumulated. In this case you will not make money but neither will you lose.

All guarantees are backed by the claims-paying ability of the issuing insurance company and could be subject to limitations.

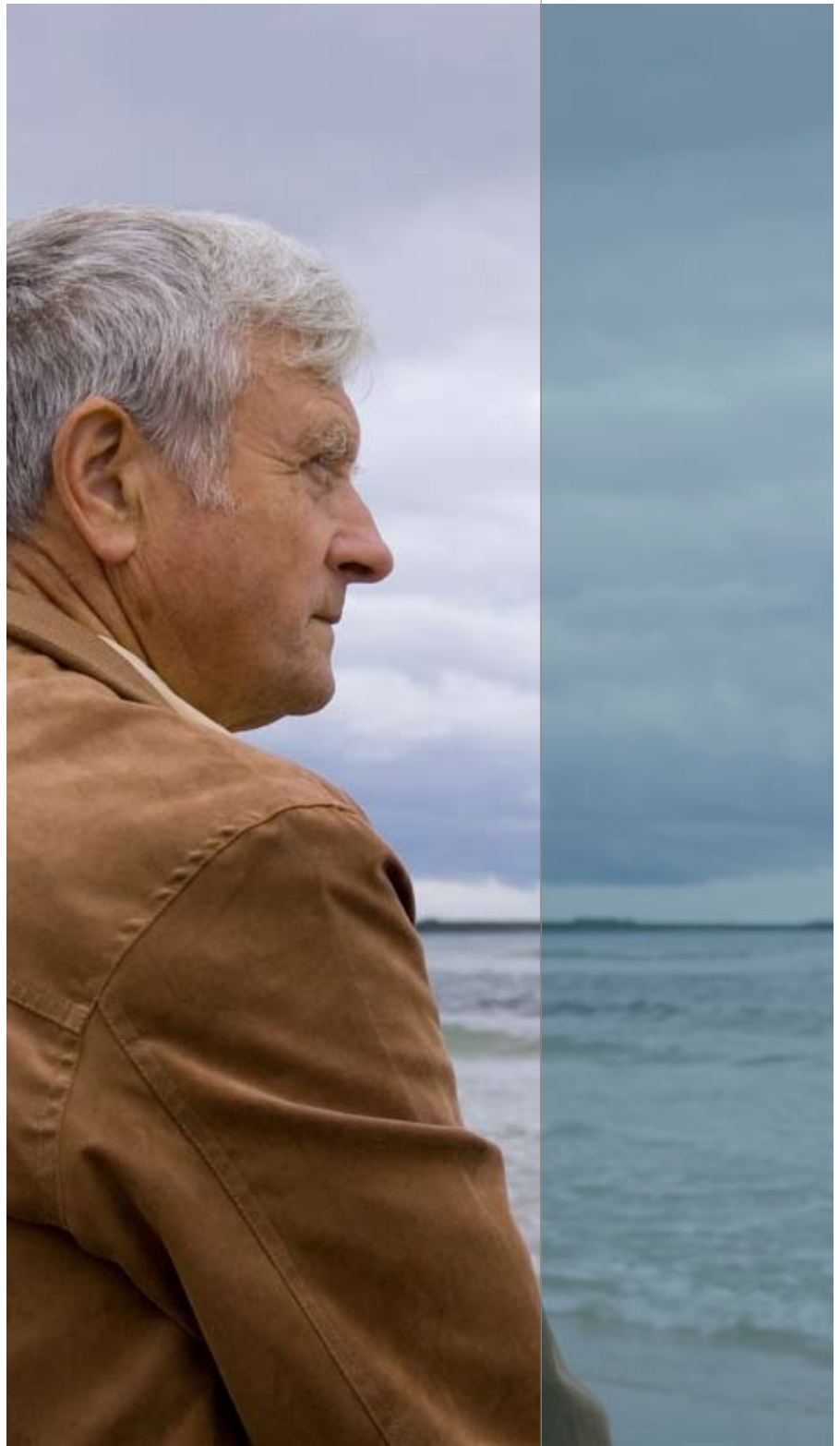
This protection against investment loss is one of the most significant benefits indexed annuities offer.

That said, protection isn't free. It comes at the cost of lost liquidity as well as the lost opportunity to potentially earn higher returns elsewhere. But for people who want a greater degree of protection, the indexed annuity may fill a very real need.

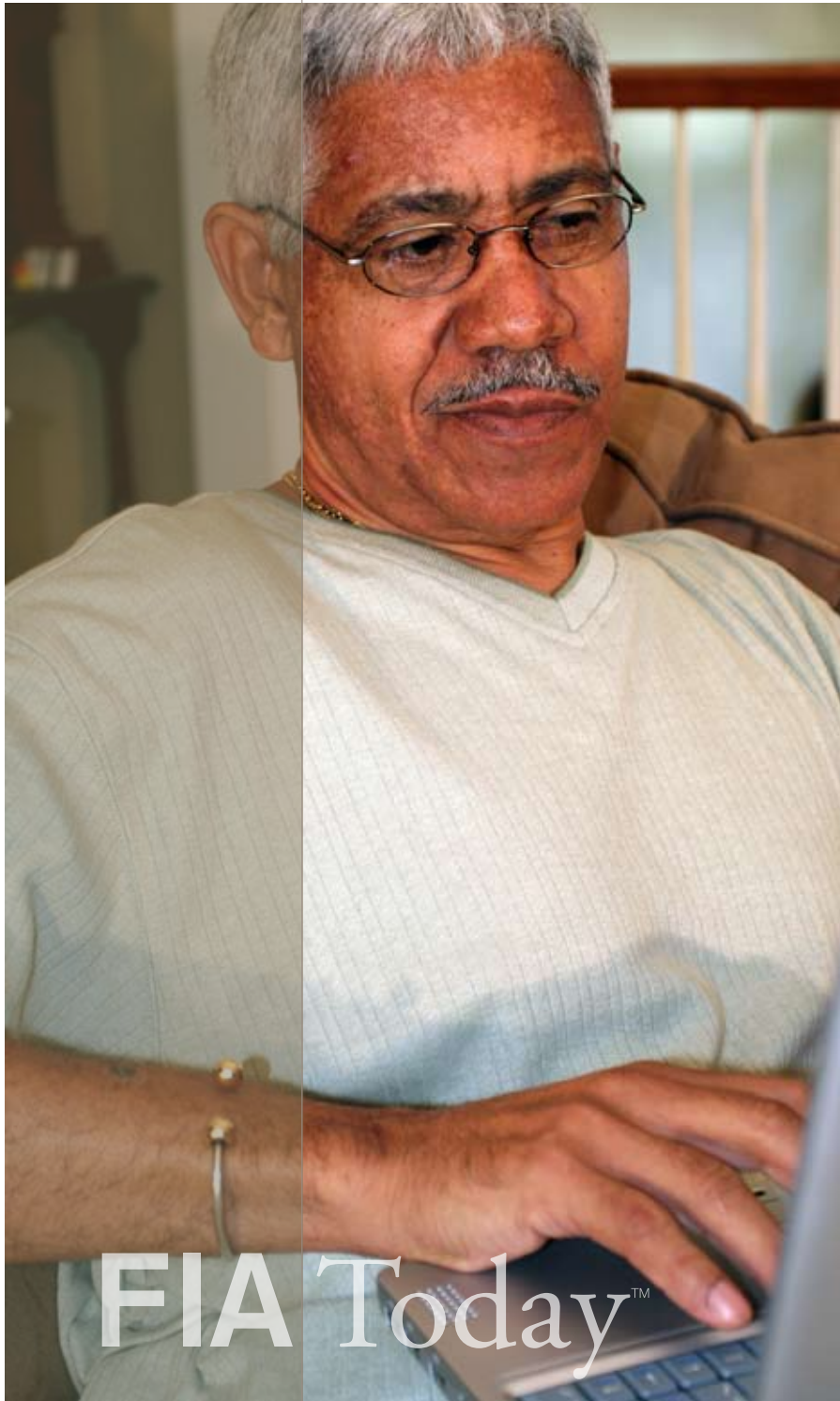
Calculating interest earnings can be quite complicated, and you'll want a qualified financial professional to advise you on which indexed annuity best suits your needs. Factors such as minimum guarantees, participation rates, interest caps, spreads, averaging and resetting will affect the interest earnings potential in an indexed annuity.

Approaches to crediting interest earnings differ widely from one annuity to another. Whichever annuity is chosen, and whatever method is used, no one should expect an indexed annuity to credit earnings equal to the potential growth in its associated stock index.

What's essential, however, is that indexed annuities can offer you growth potential that may exceed other safe money alternatives while still providing a guaranteed minimum interest rate on your savings.



Guaranteed Minimum Interest Earnings



While some guarantee more, and some less, typical indexed annuities provide for a minimum interest rate of between one-and-one half percent and three-percent credited on 90% of the original premium. This interest growth is guaranteed whether or not the performance of the associated stock index is positive or negative.

All guarantees are subject to the claims-paying ability of the issuing insurance company.

To illustrate minimum interest growth, let's look at an example of an indexed annuity with a ten-year term and a minimum interest rate of 3% credited to 90 percent of the original premium. This is equivalent to a 1.92% rate of return over the 10 year period.

We'll assume that over the ten-year term there is no growth in the underlying stock index over the course of this ten year period.

Even though stocks in this example failed to perform, the indexed annuity, when held to the end of its ten-year term, would guarantee interest growth of twenty-one-percent. This means that if you purchased an indexed annuity with an initial premium of \$100,000, you would be guaranteed to have not less than \$121,000 after ten years. Of course if stock performance was positive, you may have more interest. Perhaps much more.

Example based on 3% minimum interest rate credited on 90% of the original single premium, compounded over the ten-year term. This is a hypothetical illustration and is not intended to reflect the performance of any particular investment. Investing involves risk and you may incur a profit or a loss.

The significance of this combination of downside protection and upside potential can be important to savers who are seeking a degree of protection consistent with realistic growth expectations.

Critical Questions for Savers

Today, older Americans should be asking themselves some critical questions regarding their savings:

First, “How can I position my savings to achieve greater interest earnings potential without taking on investment risk?”

Second, “Would I benefit from a long-term savings vehicle that safely links interest earnings to the long term performance of a stock index?”

Third, “How will I protect my savings if interest rates decrease in the future?”

And finally, “Am I comfortable with committing to a strategy for ten years or more in return for benefits I consider important?”

These questions recognize critical challenges for savers which indexed annuities may help meet. As a place to make your savings do more, an indexed annuity may offer benefits other savings vehicles not offered in other savings vehicles.

An Indexed Annuity is an annuity contract issued by an insurance company. Indexed annuities are subject to lengthy holding periods and surrender charges. There is a possibility of loss of principal if the annuity is not held to the end of its term due to surrender penalties and, or, fees. Minimum interest rate guarantees on indexed annuities vary widely and are subject to the claims paying ability of the issuing insurance company. In addition, interest crediting formulas also vary widely and are complex. Indexed annuities are not designed to reflect the performance of the underlying stock index.

Withdrawals of all or part of the value in your annuity before the end of the term of the contract may result in withdrawal or surrender charges and/or a reduction in the interest rate credited to the annuity including loss of indexed interest. Earnings are taxable as ordinary income when withdrawn and if taken before age 59½ may be subject to a 10% federal tax penalty.

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