Fixed Indexed Annuities 101

Pars, Caps, Spreads & Index *Fees*

FORTRESS BROKERAGE

Are you familiar with the different crediting methods that insurance companies use for their index segments?

Cap Rate

The cap rate in an annuity refers to the upper limit put on the return over a certain time period.

Example #1: If the stock index gained 15% from one potin to the next and the index segment includes a cap rate of 7%, the the earning would be 7% (the annuitant hit the cap in this example).

Example #2: if the stock index gained 3% from one point to the next and the index segment includes a cap rate of 7%, then the earning would be 3%

Participation Rate

The participation rate in an annuity refers to the percentage of the index's return an insurance company credit to the annuity.

Example: If the stock index gained 20% from one point to the next and the index segment includes a participation rate of 80%, then the earning would be 16% (20% * 80%).

Spread Rate

The spread rate in an annuity refers to the percentage of the index that the insurance keeps. The amount over and above the spread earned on the index is credited back to the contract.

Example: If the stock index gained 7% from one point to the next and the index segment includes a spread of 4%, the the earning would be 3% (7% - 4%).

Index Fees:

Some index segments are being offered which include a fee, and in return the insurance company typically provides a higher cap, par, or spread. These fees are taken at the beginning of the year, so if a death should occur before the index credits the fee could result in a reduced account value. Some may wish to pay to earn a potential better credit, but then should also be aware of the risk.