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OFFERING CLIENTS A GROWTH, SAFETY, AND INCOME ALTERNATIVE -ALL IN ONE

Clients who are heading into retirement can often have a myriad of financial concerns. For instance, at this stage in life, while they are vying for added growth in their portfolio, the protection of principal is also a key consideration.

While equities can offer the opportunity for higher returns, these financial vehicles are also fraught with additional risk. However, opting for “safer” options like bonds and CDs can also come with significant drawbacks - namely their low returns, which typically don’t even come close to meeting, much less beating, inflation.

On top of the worries about how to invest their money right now, pre-retirees also know that without a solid plan in place, they run the risk of depleting their assets in the future. This, in turn, can leave them with few, if any, positive alternatives.

INTRODUCING CLIENTS TO THE FIXED INDEX ANNUITY SOLUTION

Given the primary issues that most people who are planning for retirement are now facing, one financial vehicle that has become a mainstay today is the fixed index annuity, or FIA. In fact, fixed index annuities can actually fill in a number of “gaps,” including the:

- Opportunity for growth
- Protection of Principal, and
- Providing of an ongoing income stream

Unlike a regular fixed annuity, fixed index annuities obtain their return in large part based on the performance of an underlying market index, such as the S&P 500 or the DJIA. Over time, when the index that is being tracked performs well, the annuity’s account is credited with a positive return - usually up to a set maximum, or “cap.”

Alternatively, if the underlying index suffers a negative return in a given year, the annuity does not lose value, but rather it is just simply credited with a 0%. So, while there is no growth credited in that year, there is also no loss - even if the actual index has a double-digit negative performance.

Because there are no losses to make up for, when the index performs in the positive going forward, returns will continue to build, without having to first make up for prior years' losses in the account.

Many FIAs will also offer a fixed account component, where investors may choose to place a portion of their funds. Should interest rates rise down the road, fixed index annuities can become even more attractive, given their ability to combine both fixed and market-linked returns (yet without the risk of loss).

Based on recent studies, Roger Ibbotson has determined that fixed indexed annuities have the potential to outperform bonds, as well as to smooth out the return pattern in a portfolio - even in a highly volatile market environment.¹ This has made fixed index annuities a good choice for a wide range of different investors.

FIA HYPOTHETICAL NET RETURN (1927 - 2016)

	Large Cap Stocks	Long Term Government Bonds	Fixed Index Annuity
Annualized Return	9.92%	5.32%	5.81%
Standard Deviation	19.99%	9.97%	10.01%
Minimum Annualized 3-Year Return	-27.00%	-2.32%	0.00%
Maximum Annualized 3-Year Return	30.76%	23.30%	27.56%

Source: 2017 SBBI Yearbook, Roger G. Ibbotson, Duff & Phelps; Zebra Capital; AnnGen Development, LLC

PROVIDING CLIENTS WITH AN INCOME THEY CANNOT OUTLIVE

With longer life expectancy today, one of the primary concerns on the minds of retirees and pre-retirees is outliving their income. This, too, is an issue that can be solved using a fixed index annuity.

As with other types of annuities, the fixed index annuity typically offers a variety of income choices, including a lifetime income option where an annuitant will continue to receive a stream of incoming cash flow for the remainder of his or her lifetime - no matter how long that may be.

There may also be an option to add a joint annuitant, such as a spouse, who can count on income for the rest of their life, too. In addition, some fixed index annuities offer the option of purchasing income riders that provide added guarantees. The ability to increase income over time may also be included, depending on the particular annuity.

Due to the long list of benefits they can offer, fixed index annuities have become a desirable alternative for those who are planning financially for the future. Because all FIAs are not exactly the same, though, consumers will often rely on the advice of insurance and financial professionals to help them find the one that best suits their needs.

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