Equity Indexed Annuities and the New Guaranteed Income Benefit Riders

The Wealth Preservation Institute

378 River Run Dr.

St. Joseph, MI 49085

269-216-9978

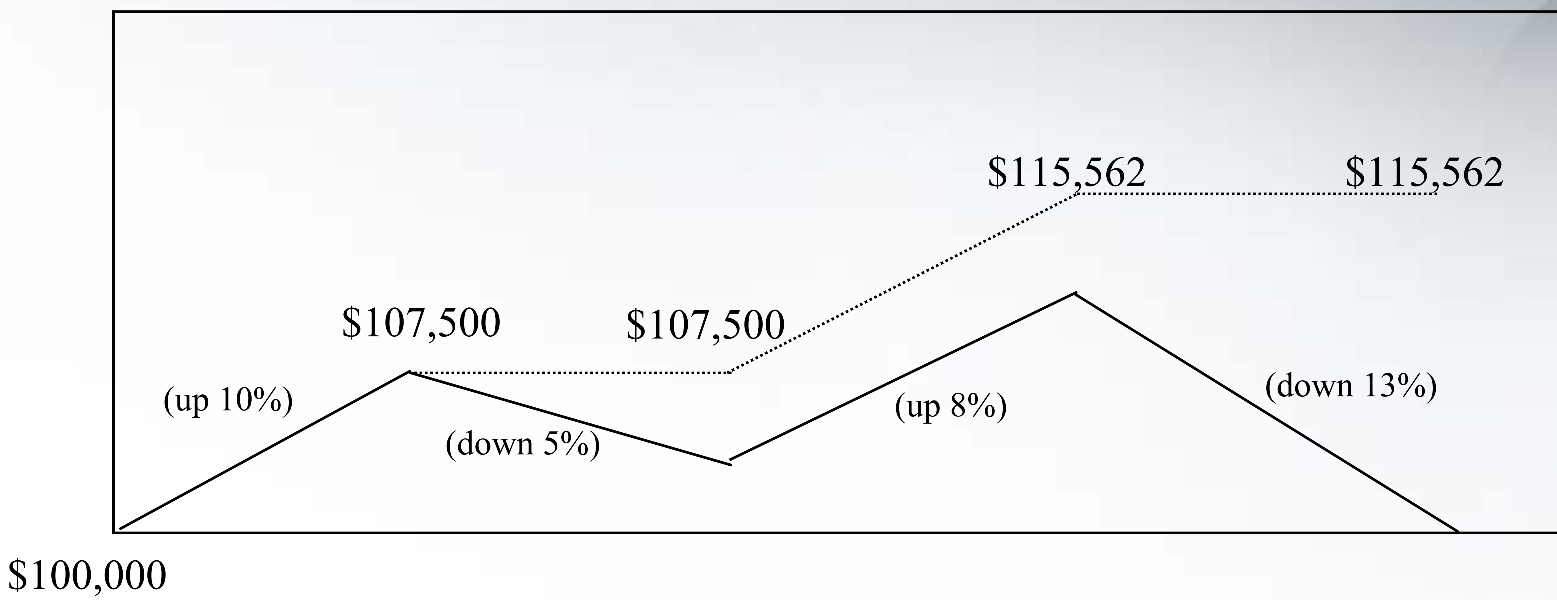
www.thewpi.org

Equity Indexed Annuities (EIAs)

- EIAs are all the rage these days (for good reason).
- If you told your clients that if they would be happy with an investment that returned 4-7% a year over the last 10 years with NO downside in the stock market, would they like it?
- EIAs are fixed annuities (so there is a minimum guaranteed return) with their growth pegged to the a measuring index (usually the S&P 500).
- EIAs are a terrific alternative for clients looking to protect their money from downturns in the stock market while providing good potential for upside growth.
- How the growth is calculated varies widely.

Equity Index Annuity

Annual Reset Feature



Annuity cap = 7.5%

Expanding the EIA Market

- EIAs, as a general statement, are sold as an **accumulation vehicle** with principal protection.
- As our population continued to get older, clients have moved from the **accumulation phase** of their lives to the **payout phase** of their life.
- EIAs, until now, have not been tweaked to make them look like an attractive investment when it comes to the **payout phase**.
- However, due to needs and market forces, EIAs have added <u>**guaranteed income benefit riders**</u>.

Guaranteed Income Benefit Riders

- There are a few companies which offer GIBRs on their EIAs.
- Amerus/Indy Life, American National and Sun Life are the ones I'm familiar with.
- Each one has some difference to them that will be explained in the upcoming slides.

What is a GIB Rider?

- Simply put, a GIB rider is one that is added to the EIA (with a cost to it) where it “guarantees” an income stream for the life of the client.
- The income is base on account value and a guaranteed income benefit of a certain %.
- The number may vary by company, but an example is a
- 5% income benefit at age 0-69
- 6% income benefit at ages 70-79
- 7% income benefit at ages 80+
- It the client had $100,000 in an annuity and took an income benefit at 5%, the income would be $5,000 annual for the life of the client.

How much does a GIB cost?

- The going cost seems to be around .4% of the annual returns.
- So if the S&P 500 as credited in the EIA is 7%, the client is credited with 6.6%
- What happens if the S&P 500 is flat or negative?
  - The .4% fee is not charged and is carried over to the next positive year.
  - So if the S&P was negative this year and positive next year with a return of 7%, the actual return would be 6.2%.

Example

With rider

Year Purchased	Index Change	Annuity Value	Attained Age
1	6.50%	$106,100.00	59
2	7%	$112,572.10	60
3	2.95%	$115,442.69	61
4	2.46%	$117,820.81	62
5	4.50%	$122,651.46	63

Without Rider

Year Purchased	Index Change	Annuity Value	Attained Age
1	6.50%	$106,500.00	59
2	7%	$113,422.50	60
3	2.95%	$116,768.46	61
4	2.46%	$119,640.97	62
5	4.50%	**$125,024.81**	63

So what was accumulated the cost?

- The example is $100,000 invested with a 4.58% average rate of return.
- $2,373 after five years.
- What about after 10 years?
  - $5,863
- What about after 15 years?
  - $10,862
- What about after 20 years?
  - $17,886

What if the return is higher?
Not much difference with a 5.7% vs 4.6%

$2476 vs. $2,373

<u>With rider</u>

	Year Purchased	Index Change	Annuity Value	Attained Age
$100,000	1	7.50%	$107,100.00	59
$107,100.00	2	3%	$109,884.60	60
$109,884.60	3	6.00%	$116,038.14	61
$116,038.14	4	5.00%	$121,375.89	62
$121,375.89	5	7.00%	$129,386.70	63

<u>Without Rider</u>

	Year Purchased	Index Change	Annuity Value	Attained Age
$100,000	1	7.50%	$107,500.00	59
$107,500.00	2	3%	$110,725.00	60
$110,725.00	3	6.00%	$117,368.50	61
$117,368.50	4	5.00%	$123,236.93	62
$123,236.93	5	7.00%	$131,863.51	63

What about the income benefit?

- In our 1st example, the income benefit for a 63 year old would be based off the $122,651.46 at the end of the 5th year.
- That would give the client a guaranteed lifetime income of 5% of that value every year.
- $6,132.

What if the S&P does better than the 5% guaranteed rate in the example?

- Good question.
- Then the client's guaranteed income goes up.
- For example, if the S&P goes up the next year at 6.5% (the guarantee is 5%).
- Then in our example the annuity balance would be $123,627 which would bump the client's guaranteed income up to $6,181.

Torturing the numbers

- I tabled this GIB rider out and found it to be very interesting.
- What I found was that touting that the income benefit can rise sounds really neat, but only works IF the S&P 500 rises the first few years after the rider kicks in and payment start.
- I tabled it out where I had the returns equal:
- 6.5%, 6.5%, 2.95%, 2.46%, 4.5%, 6.5%.
- After the 3rd year with a 2.95% return, the balance in the EIA never got high enough to raise the GIB again.
- Throw in a negative year the next year after starting the GIB and you can bank on never getting higher than the start rate.

Can a client still take withdrawals?

- Sure and this is a big selling point over SPIAs.
- Unlike a Single Premium Immediate Annuity (SPIA), the client can call the company for a withdrawal.
- When that happens, the GIB will be recalculated based on the new value of the EIA.
- So, if in year 2 after the balance went up to $123,627, if the client took out a $2,000 withdrawal, the new income benefit would be $6,081 vs. the initial $6,132.

Return of Premium Riders

- Some products have a ROP rider.
- This one is really interesting.
- The client will receive upon surrender of the contract (usually death), the original premium paid, minus any premium tax deducted at issue, and less any withdrawals taken.
- So if the contract payment was $100,000, the client will have $100,000 upon surrender or death (even if the client has activated the GIB).
- There is an additional cost to this rider usually through a spread fee and potentially through lower caps.

Is a ROP a good deal?

- I had fun tabling this one out.
- When I tabled out the 5% GIB rider for a client who activates at age 64, where I assumed only an average rate of return of 4.58%, it took until age 77 to dip below the initial $100,000 that the client put in the EIA. That's 18 years before there would be a benefit to the rider.*
- If you ran the numbers for a client who starts taking the benefit at age 70, the age is 78 but the year the benefit is helpful is year 14*.
- It would seem to me that this is a good rider if you are trying to pass maximum wealth to the heir and you plan to live a long time.

Enhanced DB rider

- Some companies have an Enhanced death benefit rider.
- Issue age 0-69 increased the DB by 45%
- 70-74 by 25%
- 75-80 by 20%
- 80+ by 15%.
- The % is based on the annuity value. The explanation of the calculation of the value is mind bendingly difficult and I’m not going to try and explain it in this webinar.
- For a PDF of ANICO’s explanation, e-mail me and I’ll forward it.

Sun Life's Product

- Sun Life has a little bit of a different EIA with the GIB.
- No cap, monthly average and an 82% participation rate.
- Once the GIB is activated, the participation rate goes down to 72%.
- The main difference once the rider is activated is the ability to NOT take the money.
- The client can leave the GIB with the company and let it accumulate (with NO GROWTH).

Continued

- I asked the lady I talked with at Sun Life to explain why the GIB not taken does not grow even in a fixed account and she did not know why there was no growth on that.
- So clients don’t have to take the income benefit, but they get no growth on it.
- It makes no sense to me. I’d rather take the money home and have it in a money market if I didn’t use it.
- The GIB will come once it is activated.

Summary on EIA and GIBs

- It is my opinion that GIBs are now coming out because many people are worried about the payout phase of their retirement nest eggs.
- EIAs didn’t deal with that issue and some of the variable annuities are getting traction with these riders.
- I think they are fine for people if the ride will help them sleep at night.
- As for the finances and costs, if the client thinks the S&P 500 with the EIA will average less than the guaranteed rate, then buy the rider.
- The cost is only .4% on most products.
- Otherwise, the client can simply take out withdrawals every year and be in the same or better place as they would be with the rider without the .4% cost.

Questions

info@thewpi.org

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Overview for the Professional Designation: CWPP™ (Certified Wealth Preservation Planner)

The Wealth Preservation Institute

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What do Advisors want?

- To earn more money?
- To have more knowledge than other advisors?
- To provide better advice to clients on multiple topics?
- To be more credible than other advisors?
- A team of advisors for support and back office when dealing with “advanced” planning.
- The ability to market to CPA, Attorneys and physicians through continuing education credit.
- Are these of interest to you?
  - If so you are a candidate to become an CAPP™ or CWPP™

The WPI and CWPP™/CAPP™

- What is the Wealth Preservation Institute (WPI)?
  - The **only** educational entity in the country devoted to provide education on **“advanced” planning (**asset protection, tax and estate planning)
  - The **only** entity in the country focusing on topics that apply mainly to the **high income/net worth client**.
  - Certifying entity for the CWPP™ designation.
- The CWPP™ course is a 24 hour certification program which can be taken all online or in person.
- The Certified Asset Protection Planner designation is for those simply want to deal with AP (18 hours).

Are you should learn “Asset Protection”

- Why learn asset protection?
  - 99% of your current and future clients are not asset protected.
  - Most clients with wealth, once made aware of this fact, will want help.
  - Once you learn the topic you can help.
  - You are **not** talking “product” with a client and therefore will not be seen as pitching product.
  - Of all the topics you would deal with, asset protection is best **client gathering tool**.

Topics

- What topics are covered in the CWPP™ course?
- **Asset protection (3 hours)**

  -Domestic

  -Offshore
- **Deferred Compensation (4 hours)**

  -WealthBuilder® Annuity; Traditional NQDC and the Leveraged Bonus Plan®

  -Qualified plans/412(i) plans ("carve-out" planning)

  -ESOPs

  -IRAs
- **Business Planning (6 hours)**

  -Account Receivables (A/R) Leveraging (done the right way)

  -VEBAs and 419A(f)(6) Plans

  -Section 79 Plans

  -Closely Held Insurance Companies

  -Corporate Structure

Continued

- **Estate Planning (8 hours)**
  -Basic
  -“Advanced”
  - Life Insurance
  -Qualified Pension Insurance Partnership®
    (Mitigating the 75% Tax Trap)
  -Charitable planning
  -Long Term Care Insurance
- **Personal Finance (4 hours)**
  -Annuities
  -Life Settlements
  -1% CFA Mortgages (Equity Harvesting the “right” way)
  -Reverse Mortgages
  -Private Annuity Trust

Marketing

- The WPI helps is certified advisors market in several very unique ways.
- 1) The ability to become an instant author through a 340+ page “**ghost book**.”
- The WPI will allow CWPP™ advisors to give CPE continuing education courses on a local level to CPAs and accountants.
- Ability to give CME seminars to physicians.

Continued

- The WPI has a number of **articles** that CWPP™ advisors can use to place in local medical, accounting, legal and other business journals.
- The WPI also has dozens of PowerPoint presentations CWPP™ or CAPP™ advisors can use to present topics to either client or other advisors. (what a time saver).

Marketing continued

- **Ghost Web-Site** for those who want a web-site which tells your clients about your special knowledge.
- www.thewpi.org/template
- **E-newsletters** The WPI creates for you to send out to your clients.
- **E-newsletter blasting system** so you can drip on your client's with Educational newsletters.
  - This system is setup to track who opens your newsletters and how many times they open them.
  - Can you imagine calling a client and telling them that you noticed they opened the last e-newsletter 5 times and you wondered if you could answer any questions for them.

Should you become a CWPP™?

- YES. IF you are looking to learn several new topics which:
  - can help high income/net worth clients;
  - can help position you as the client's trusted advisor and team leader;
  - are very insurance and annuity friendly.
- If you are looking to become better educated on topics you currently deal with.
- If you would like keep updated on law changes, new concepts and have access to PowerPoint presentations, articles and the ability to have your own "Ghost" book and ghost web-site and e-mail blasting system.

How to sign up.

- If you would like to sign up to become a CWPP™ and/or CAPP™ advisor, you can do so by clicking on the appropriate tabs on the left front bottom part of the web-site under Product Categories
- You can take the course entirely online or in person.
- You can **<u>get started with a $500 deposit</u>** which will get you access to over 640 pages of CWPP™ course material and the tests.

Questions

Please contact The WPI at 269-216-9978 or e-mail at info@thewpi.org