Investing with “Principal Protection”

The use of Indexed Annuities

If we only knew!

- 5 year historic review of the S&P 500
- 14.71% (2003)
- -22.09% (2002)
- -11.88% (2001)
- -9.10% (2000)
- 21.04% (1999)

- The average rate of return over the five year window was -1.45%.

Equity vs. Fixed

- When are rates going **UP???**
- I could put my $$$ in CDs.
- I could put my $$$ in Fixed Annuities.

CDs	Traditional Fixed Annuity
1 Yr CD 2.16%	3.5%- 4%
5 Yr CD 3.5%	Tax-Deferred
<u>Taxable</u> gain each year	

What is an
Indexed Annuity?

- Indexed Annuities have Two Key Parts.
- One Part is **POTENTIAL**
- One part is **PROTECTION**

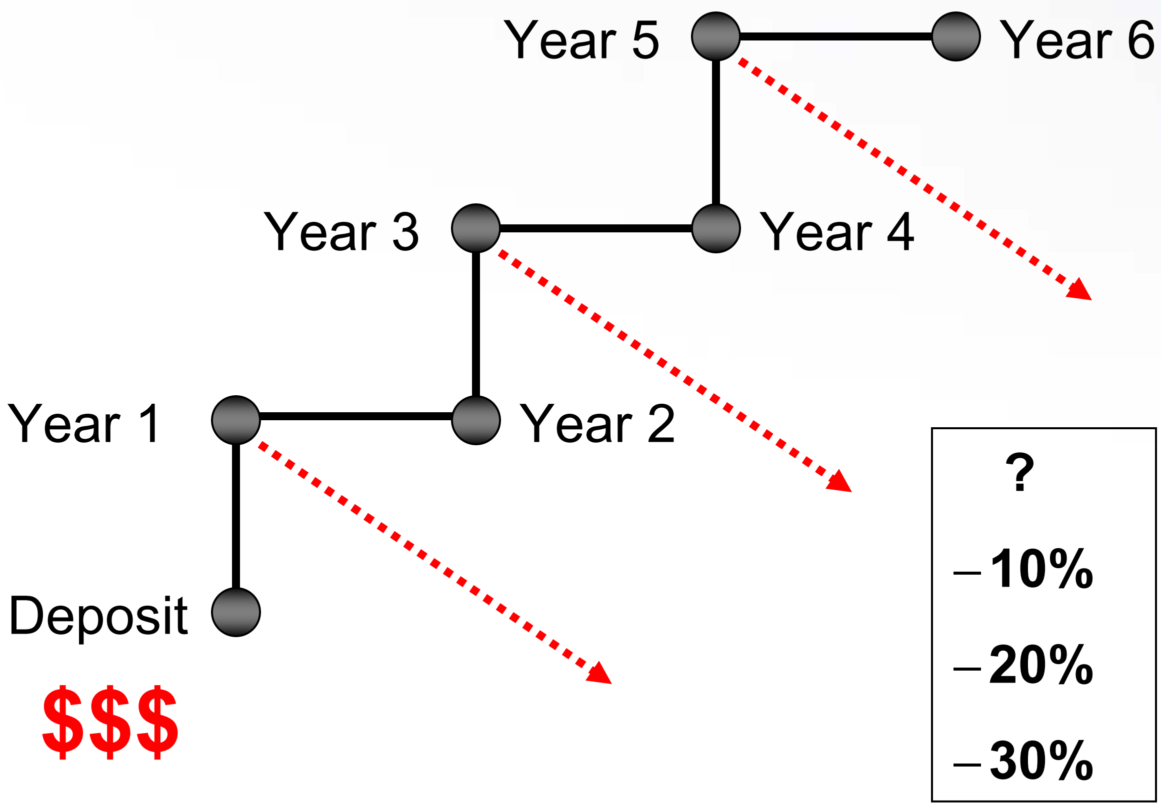
- The **Index Account** is **POTENTIAL**
- The **Contractual Guarantee's** are **PROTECTION**

Common Indexes Used

- ***S&P 500*** – This index includes a representative sample of leading companies in leading industries. This is the most popular index.
- ***Dow Jones Industrial Average*** – 30 widely held stocks representing about a fourth of the value listed on the NYSE.
- ***NASDAQ-100*** – Represents largest NASDAQ companies from 4 major industry groups. Telecommunications, Retail, Computers and Biotechnology.

Equity Index Annuity

- I Will Be Retiring Soon…What next !
- The Stairway to Financial Peace of Mind



How Does Money Grow?

	$100,000	$100,000
	Invested in S&P	Invested in EIA
Year	A	B
1	14.71%	12%
2	-22.09%	0
3	-11.88%	0
4	-9.10%	0
5	21.04%	9%
Total	$86,648.64	$122,080

1999-2003 S&P 500 Performance

How Does Money Grow?

	$100,000	$100,000
	Invested in S&P	Invested in EIA
Year	A	B
1	$114,710	$112,000
2	$89,370.56	$112,000
3	$78,753.34	$112,000
4	$71,586.78	$112,000
5	$86,648.64	$122,080

ZERO is the HERO

How Does Money Grow?

Year	Investments	Indexed Annuities	CDs
1	14.71%	12%	3.50%*
2	-22.09%	0%	3.50%*
3	-11.88%	0%	3.50%*
4	-9.10%	0%	3.50%*
5	21.04%	9%	3.50%*

*Taxable returns each year.

Tic-Tac-Toe!!!!

~~2 - 4 %~~		Upside Potential
~~CD~~	EIA	~~Securities~~
Security		~~100% Risk~~

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Caps

- Most EIAs have caps.
- EIAs give guarantees and for that the client has to live with caps.
- For example, an annual point to point annuity might have a cap of 8%. If the S&P 500 returns 10% the crediting would only give the client 8%.
- Some have monthly caps of approximately 3%.

Participation Rates

- Some EIAs use participation rates to limit the returns.
- For example, an EIAs might have NO cap, but 70% participation in the measuring index.
- So, if the S&P 500 was up 10%, the client would receive a return of 7%.
- Many advisor prefer this method because there is no cap. It can work well if the participation rate is high enough.

Changing Caps and Participation Rates

- To make things even more complicated, both the caps and participation rates can change.
- Some companies guarantee 100% participation but then have their guaranteed cap very low.
- Some companies guarantee NO caps but very low participation rates.
- The companies always head to make sure that if things don’t go as planned the companies can change the contract (usually annually) to protect their interest.
- It is key for client to use an advisor who understands all the moving parts of these types of annuities.

Crediting Methods

- Annual point to point
  - The value of the annuity is captured every 12 months on the anniversary date of the funding of the annuity.
  - If $100,000 was deposited on Jan. 1, 2005 and the index return is 10% on Jan 1, 2006, the balance would be $110,000.
  - That gain is locked in and can never be less.
- Point to point buckets
  - Some companies have 3-5-7-10 years point to point crediting methods.
  - The money goes up and down with the index without locking until the end of the period.
  - Most of these have “high water marks” and favorable caps.

Continued

- The high water mark concept comes into play when the annuity does not lock on an annual basis.
- If the cap is say 10 years, the market could tank in year 7 and the client would be given a value at the high water mark for protection.
- Monthly Point to Point
  - This is the new one out there that has everyone intrigued.
  - It is not the easiest to explain, but when tabled out between 1994 and 2004, it would have with one company returned 8.2%

Two-Tier Annuities (non-walk away)

- Simply put, the two-tier annuity has two possible outcomes depending upon how the owner takes distribution at the end of the surrender period, i.e., when the annuity's term ends.

- If a lump sum withdrawal or annuitization of less than a specified number of years is taken, the owner is credited with a lower earning rate than if the proceeds are annuitized for at least the number of years specified in the contract.

- Additionally, if the annuity paid a premium or interest rate bonus at the beginning, it will most likely be forfeited unless the proceeds are annuitized for the stipulated minimum number of years.

- It is vitally important to understand how these work so you do not purchase a product that is not going to fulfill your needs.

How to Buy Indexed Annuities

- Using money you currently have in CDs, Bank Accounts and Brokerage Accounts.
- Using Money in your 401k/Profit Sharing/DB Plans/412i DB plans.
- The Maximizer
- Using the WealthBuilder Annuity.

If you would like help determining if an EIA is right for you and which EIA best fits your situation, please contact our office?