Equity Indexed Annuities and the New Guaranteed Income Benefit Riders

Copyright 2006

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 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

$100,000 (up 10%)

$107,500 (down 5%)

$107,500 (up 8%)

$115,562 (down 13%)

$115,562

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 guaranteed income benefit riders.
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+
• If 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

<table>
<thead>
<tr>
<th>Attained Age</th>
<th>Without Rider</th>
<th>Year Purchased</th>
<th>Index Change</th>
<th>Annuity Value</th>
<th>Attained Age</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>With rider</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>59</td>
<td>$122,651.46</td>
<td>1</td>
<td>6.50%</td>
<td>$106,100.00</td>
<td>59</td>
</tr>
<tr>
<td>60</td>
<td>$117,820.81</td>
<td>2</td>
<td>7%</td>
<td>$112,572.10</td>
<td>60</td>
</tr>
<tr>
<td>61</td>
<td>$115,442.69</td>
<td>3</td>
<td>2.95%</td>
<td>$115,442.69</td>
<td>61</td>
</tr>
<tr>
<td>62</td>
<td>$117,820.81</td>
<td>4</td>
<td>2.46%</td>
<td>$117,820.81</td>
<td>62</td>
</tr>
<tr>
<td>63</td>
<td>$122,651.46</td>
<td>5</td>
<td>4.50%</td>
<td>$122,651.46</td>
<td>63</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Attained Age</th>
<th>Without Rider</th>
<th>Year Purchased</th>
<th>Index Change</th>
<th>Annuity Value</th>
<th>Attained Age</th>
</tr>
</thead>
<tbody>
<tr>
<td>59</td>
<td>$125,024.81</td>
<td>1</td>
<td>6.50%</td>
<td>$106,100.00</td>
<td>59</td>
</tr>
<tr>
<td>60</td>
<td>$113,422.50</td>
<td>2</td>
<td>7%</td>
<td>$113,422.50</td>
<td>60</td>
</tr>
<tr>
<td>61</td>
<td>$116,768.46</td>
<td>3</td>
<td>2.95%</td>
<td>$116,768.46</td>
<td>61</td>
</tr>
<tr>
<td>62</td>
<td>$119,640.97</td>
<td>4</td>
<td>2.46%</td>
<td>$119,640.97</td>
<td>62</td>
</tr>
<tr>
<td>63</td>
<td>$125,024.81</td>
<td>5</td>
<td>4.50%</td>
<td>$125,024.81</td>
<td>63</td>
</tr>
</tbody>
</table>
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

<table>
<thead>
<tr>
<th>Year Purchased</th>
<th>Index Change</th>
<th>Annuity Value</th>
<th>Attained Age</th>
</tr>
</thead>
<tbody>
<tr>
<td>$100,000</td>
<td>7.50%</td>
<td>$107,100.00</td>
<td>59</td>
</tr>
<tr>
<td>$107,100.00</td>
<td>3%</td>
<td>$109,884.60</td>
<td>60</td>
</tr>
<tr>
<td>$109,884.60</td>
<td>6.00%</td>
<td>$116,038.14</td>
<td>61</td>
</tr>
<tr>
<td>$116,038.14</td>
<td>5.00%</td>
<td>$121,375.89</td>
<td>62</td>
</tr>
<tr>
<td>$121,375.89</td>
<td>7.00%</td>
<td>$129,386.70</td>
<td>63</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year Purchased</th>
<th>Index Change</th>
<th>Annuity Value</th>
<th>Attained Age</th>
</tr>
</thead>
<tbody>
<tr>
<td>$100,000</td>
<td>7.50%</td>
<td>$107,500.00</td>
<td>59</td>
</tr>
<tr>
<td>$107,500.00</td>
<td>3%</td>
<td>$110,725.00</td>
<td>60</td>
</tr>
<tr>
<td>$110,725.00</td>
<td>6.00%</td>
<td>$117,368.50</td>
<td>61</td>
</tr>
<tr>
<td>$117,368.50</td>
<td>5.00%</td>
<td>$123,236.93</td>
<td>62</td>
</tr>
<tr>
<td>$123,236.93</td>
<td>7.00%</td>
<td>$131,863.51</td>
<td>63</td>
</tr>
</tbody>
</table>
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 bendlingly 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).
• 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
269-216-9978
Overview for the Professional Designation: CWPP™
(Certified Wealth Preservation Planner)

The Wealth Preservation Institute
378 River Run Dr.
St. Joseph, MI 49085
269-216-9978
www.thewpi.org
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.
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](http://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 get started with a $500 deposit 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