



Indexed Annuities: What Does It All Mean?

Indexing Method

The indexing method means the approach used to measure the amount of change, if any, in the index. Some of the most common indexing methods include averaging, high-water mark, and point-to-point.

Term

The index term is the period during which index-linked interest is calculated; the interest is credited to your annuity at the end of the term. Terms are generally from one to 10 years, with six or seven years being most common. Some annuities offer single terms while others offer multiple, consecutive terms. If an annuity has multiple terms, there will usually be a window at the end of each term (typically 30 days) when you may withdraw your money without penalty. For installment premium annuities, the payment of each premium may begin a new term for that premium.

Participation Rate

The participation rate determines how much of the increase in the index will be used to calculate index-linked interest. For example, if the calculated change in the index is 9% and the participation rate is 70%, the index-linked interest rate will be 6.3% ($9\% \times 70\% = 6.3\%$). A company may change the participation rate for newly issued annuities as often as each day. Therefore, the initial participation rate is for a specific period (from one year to the entire term). When that period is over, the company sets a new participation rate for the next period. Some annuities guarantee* that the participation rate will never be set lower than a specified minimum or higher than a specified maximum. Not all annuities have a participation rate that fluctuates.

Cap Rate

Some annuities may place an upper limit, or cap, on the index-linked interest rate. This is the maximum rate of interest the annuity will earn. In the example above, if the contract has a 6% cap rate, 6%, not 6.3%, would be credited. Not all annuities have a cap rate.

Floor on Index-Linked Interest

The floor is the minimum index-linked interest rate that can be credited. The most common floor is 0%. A 0% floor assures even if the index decreases in value, the index-linked interest credited will be zero and not negative. As in the case of a cap, not all annuities have a stated floor or index-linked interest rates. But in all cases, fixed annuities will have a minimum guaranteed value calculated separately from the index-linked value.

* Subject to the claims paying ability of the issuing insurer and to the terms and conditions of the annuity contract at time of issue.



Averaging

In some annuities, the average of an index's value is used rather than the actual value of the index on a specified date. The index averaging may occur at the beginning, the end, or throughout the entire term of the annuity.

Interest Compounding

Some annuities pay simple interest during an index term, which means index-linked interest is added to the original premium amount, but does not compound during the term. Others pay compound interest during a term, which means that index-linked interest that has already been credited also earns interest in the future.

Margin/Spread

In some annuities, the index-linked interest rate is computed by subtracting a specific percentage from any calculated change in the index. This percentage, sometimes referred to as the "margin" or "spread" might be used instead of, or in addition to, a participation rate. For example, if the calculated change in the index is 10%, the annuity might specify that 2.25% will be subtracted from the rate to determine the interest rate credited. Here, the rate would be 7.75% ($10\% - 2.25\% = 7.75\%$). In this example, the company subtracts the percentage only if the change in the index produces a positive interest rate.

Vesting

Some annuities credit none of the index-linked interest, or only part of it, if money is removed before the end of the term. The percentage that is vested, or credited, generally increases as the term comes close to its end and is always 100% at the end of the term.

So...what does it all mean? **Now you know!**

Contact your insurance professional for additional information about Fixed Index Annuities.



These materials are provided for educational purposes only and do not constitute the solicitation of an insurance product to the public. For use with non registered products only. Products and programs offered through Tellus are issued by various insurance companies and may not be available in all states. Policy terms, conditions and limitations will apply. Not all applicants will qualify for coverage. You can obtain more information about insurance products by contacting your insurance agent. Tellus makes no representation regarding the suitability of a particular insurance product to your needs.



Insurance products are offered through Tellus Brokerage Connections, AR license #100107713, a subsidiary of Truist Insurance Holdings, Inc. and are not a deposit, not FDIC insured, not guaranteed by the bank, not insured by any federal government agency and may be subject to investment risk. Tellus Brokerage Connections and its representatives do not offer legal or tax advice. Please consult your individual tax or legal professional regarding your personal situation. 0121 SOLC21-8341-A 0622 IIC

© 2021 Tellus Brokerage Connections