Indexed Annuities 101:
What You Don’t Know May Hurt You

Presented by
Beacon Financial, Inc.
Types of Annuities

- Fixed
- Variable
- Immediate (SPIA)
- Index
Traditional Fixed Annuities

- For an initial period, the insurance company guarantees a preset rate of interest, based on the annuity purchased.

- After initial period, the insurance company guarantees a minimum rate of return.

- Offers a guaranteed stream of income during annuitization.
Variable Annuities

◆ Permit investments in a series of underlying sub-accounts that are similar to mutual funds.
◆ Account value will fluctuate as a result of the performance of the sub-accounts.
◆ Insured takes on investment risk.
◆ Investment in stock market
Variable Annuities (continued)

- Have Mortality & Expense costs and sub-account management fees that average 2.3%
- Some VAs offer enhanced living and death benefit guarantee riders for additional cost
- Must have Securities Licensee
Immediate Annuities (SPIA)

◆ Convert a lump sum of money to a guaranteed income stream

◆ Insured determines how payments will be received (monthly, quarterly, semi-annually or annually).

◆ Insured also determines how long payments will last (for a specific period of time or payments for life).
Fixed Index Annuities

◆ Are Fixed Annuities
◆ Regulated as an Insurance Product – Not a security yet?(151 A all but gone)
◆ Provide a minimum guaranteed surrender value
◆ Offer additional interest crediting linked to the movement of an external index.
◆ Offer similar protection as other Fixed Annuity Products
Product Design: Not the same as crediting method

There are many variations of the following methods:

- Annual Reset (Ratchet)
- Point to Point
- Averaging
- Participation Rate
- High Water Mark
Product Design

◆ Annual Reset (Ratchet):

– Index-linked interest, if any, is determined each year by comparing the index value at the end of the contract year with the index value at the start of the contract year.

– Interest is credited each year at the end of the term.
Annual Reset Example

Why it works

Start 1st Year
S&P 1000

End Year 2
S&P 550

Start Year 2
S&P 500

<table>
<thead>
<tr>
<th>Year</th>
<th>Index Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0%</td>
</tr>
<tr>
<td>2</td>
<td>10%</td>
</tr>
</tbody>
</table>

FOR AGENT USE ONLY

©2012 Beacon Financial Inc. All Rights Reserved.
Product Design

◆ Point to Point

– Index-linked interest, if any, is based on the difference between the index values at the end of the term and the start of the term. Interest is credited at end of term.

– Basic Example:

➢ Point to point product linked to the S&P 500.
➢ Starting Value : 800 Ending Value : 880
➢ Interest Credited: 10%
Product Design

◆ Averaging:

– Index-linked interest, if any, is based on the average of an index’s value on the monthly, daily or annual contract dates.

– The index averaging may occur at the beginning, the end or throughout the entire term of the annuity.
Product Design

◆ Participation Rate

- A portion of index change is credited to your total account value.
- Basic Example: 50% participation
  - Point to point product linked to the S&P 500.
  - Starting Value: 800 Ending Value: 880
  - Interest Credited: 10% X 50% (Participation Rate) = 5%
High Water Mark (within LT point to point):

- Interest is decided by looking at the index value at various points during the term, usually the annual anniversaries of the date the annuity was purchased.

- Interest is based on the difference between the highest index value and value at the start of the term. Credited at the end of the term.
Index Annuities:

Crediting Method (not product design)

◆ Cap: Maximum that can be credited to annuity during any crediting period.

◆ Spread (Margin/Fee): Charge deducted from index gain prior to credit paid to annuity.

◆ Participation Rate: Percentage of index gain credited to annuity.

◆ Averaging
Crediting Method
Cap Example:

◆ Annual point to point product with a 10% cap and 100% participation that is using the S&P 500 index.

➢ S&P gains 18.74%
   – Annuity is credited with 10%

➢ S&P gains 4.53%
   – Annuity is credited with 4.53%

➢ S&P loses 14.52%
   – Annuity is credited 0%
Crediting Method

Spread Example:

◆ Annual point to point product with a 3% spread.

- S&P gains 18.74%
  - Annuity is credited with 15.74%

- S&P gains 4.53%
  - Annuity is credited with 1.53%

- S&P loses 14.52%
  - Annuity is credited 0%
Crediting Method Participation Example:

- Annual point to point product with a 70% participation that is using the S&P 500 index.

- S&P gains 18.74%
  - Annuity is credited with 13.12%

- S&P gains 4.53%
  - Annuity is credited with 3.17%

- S&P loses 14.52%
  - Annuity is credited 0%
Where Would You Be Today?
$100,000 Invested December 31, 1999 - December 31, 2010

<table>
<thead>
<tr>
<th>Year</th>
<th>S &amp; P 500</th>
<th>Index Annuity (Floating Cap)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Annual % Gain / (Loss)</td>
<td>Value of Account</td>
</tr>
<tr>
<td>2000</td>
<td>(10.14%)</td>
<td>($89,860)</td>
</tr>
<tr>
<td>2001</td>
<td>(13.04%)</td>
<td>($78,142)</td>
</tr>
<tr>
<td>2002</td>
<td>(23.37%)</td>
<td>($59,880)</td>
</tr>
<tr>
<td>2003</td>
<td>26.38%</td>
<td>($75,677)</td>
</tr>
<tr>
<td>2004</td>
<td>8.99%</td>
<td>($82,480)</td>
</tr>
<tr>
<td>2005</td>
<td>3.00%</td>
<td>($84,955)</td>
</tr>
<tr>
<td>2006</td>
<td>13.62%</td>
<td>($96,525)</td>
</tr>
<tr>
<td>2007</td>
<td>3.53%</td>
<td>($99,933)</td>
</tr>
<tr>
<td>2008</td>
<td>(38.49%)</td>
<td>($61,469)</td>
</tr>
<tr>
<td>2009</td>
<td>23.45%</td>
<td>($75,883)</td>
</tr>
<tr>
<td>2010</td>
<td>12.78%</td>
<td>($85,581)</td>
</tr>
</tbody>
</table>

Average 13.11% 5%

FOR AGENT USE ONLY
In America, we tend to

Buy High and Sell Low

Greed

Fear

Source: www.bigcharts.com

©2012 Beacon Financial Inc. All Rights Reserved.
Returns for the 20 years, 1986-2005

Source: Dalbar Inc. Quantitative Analysis of Investor Behavior, 2006
Dalbar, Inc.
Dec 31, 1988 to Dec 31, 2010

◆ S&P 500 8.2%
◆ Equity Funds 3.17%
◆ Equity M.F. investor 1.87% (Asset Allocation 1.67%)
◆ Inflation 2.89%
◆ Dollar Cost Averaging 2.70%

◆ New trend recommended to financial advisors
  (Purpose Based Asset Management)

FOR AGENT USE ONLY
©2012 Beacon Financial Inc. All Rights Reserved.
Guarantees

- Separate calculation from index interest credited
- Client will receive greater of the two values
- 3% Guarantee on 90% of premium common

Example: Clients initially invests $100,000
Index linked gains are 0%, 0%, 5%, 7%

<table>
<thead>
<tr>
<th>Guaranteed Value</th>
<th>Index Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year 1 $90,000 + 3% = $92,700</td>
<td>$100,000 + 0% = $100,000</td>
</tr>
<tr>
<td>Year 2 $92,700 + 3% = $95,481</td>
<td>$100,000 + 0% = $100,000</td>
</tr>
<tr>
<td>Year 3 $95,481 + 3% = $98,345</td>
<td>$100,000 + 5% = $105,000</td>
</tr>
<tr>
<td>Year 4 $98,345 + 3% = $101,296</td>
<td>$105,000 + 7% = $112,350</td>
</tr>
</tbody>
</table>
Income for Life Rider

◆ Most annuities have a rider that can be added to provide a guaranteed income for life without annuitization and without giving up control.

◆ Some offer a guaranteed rate of growth until the client starts their income for life.

◆ However, the client is limited on what they can take out.
Demographic Trends

◆ 70,000 people were age 100 or over in 2000
  ➢ **DOUBLE** from 1990

◆ 35 Million people are over the age of 65
  ➢ **1 in 12** Americans

◆ The probability of living to 85 after reaching age 65:
  ➢ Males 53%
  ➢ Females 65.3%

◆ **78 Million** “baby boomers” are approaching retirement age
  ➢ **3 Million** are predicted to live to age 100 and beyond

◆ 30% of the U.S. population will be age 55+ by 2025

Source: 2000 U.S. Census
Additional Information

◆ $31.4 Billion in FIA sales in 2010
◆ $25.3 Billion in FIA sales in 2008
◆ $14 Billion in FIA sales 2003
◆ Only 12% of licensed agents have ever sold an INDEX ANNUITY!

Data Sources: LIMRA, NAVA, Annuityspecs.com Dalbar Inc
Pop Quiz
Over a 10-year period ending Dec 31, 2010, the total change in the S&P 500 index was

A. Up over 25%.
B. Up over 8%.
C. Down over 8%
D. Down over 25%.
Answer:

The correct answer is c.

- The S&P 500 closed at 1446.9 at the end of Dec 1999 and finished ten years later at 1333.27, a decline of 9.2%.
A 100,000 in annual reset index annuities over the same 10-year period through Dec 2010 credited actual annualized returns of

A. Between $100,000 to $112,649.
B. Between $136,857 to $171,818.
C. Between $171,819 to $214,359.
D. Over $214,359.
The correct answer is B.

**Between 136,857 to 171,818**

Reporting carriers credited annualized returns ranging from a little over 4% to a little under 7% for the period.
If an index annuity has a maximum cap on interest credited at 8%, and the index goes up more than 8%, who gets to keep the additional return?

A. The annuity owner  
B. The insurance company  
C. The insurance agent  
D. None of the above

Slide 32
Answer:

The correct answer is D, none of the above.

◆ The seller of the index-link (option) to the insurance carrier retains all of the upside that is not purchased. If the index increased, say 20%, the index-link seller would pay 8% to the carrier and keep the rest.
Annual Reset Example

Why it works

Start 1st Year

S&P 1000

End Year 2

S&P 500

S&P 500

Start Year 2

<table>
<thead>
<tr>
<th>Year</th>
<th>Index Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0%</td>
</tr>
<tr>
<td>2</td>
<td>10%</td>
</tr>
</tbody>
</table>

FOR AGENT USE ONLY

©2012 Beacon Financial Inc. All Rights Reserved.
Where Would You Be Today?
$100,000 Invested December 31, 1999 - December 31, 2010

<table>
<thead>
<tr>
<th>Year</th>
<th>S &amp; P 500</th>
<th>Index Annuity (Floating Cap)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Annual % Gain / (Loss)</td>
<td>Value of Account</td>
</tr>
<tr>
<td>2000</td>
<td>(10.14%)</td>
<td>($89,860)</td>
</tr>
<tr>
<td>2001</td>
<td>(13.04%)</td>
<td>($78,142)</td>
</tr>
<tr>
<td>2002</td>
<td>(23.37%)</td>
<td>($59,880)</td>
</tr>
<tr>
<td>2003</td>
<td>26.38%</td>
<td>($75,677)</td>
</tr>
<tr>
<td>2004</td>
<td>8.99%</td>
<td>($82,480)</td>
</tr>
<tr>
<td>2005</td>
<td>3.00%</td>
<td>($84,955)</td>
</tr>
<tr>
<td>2006</td>
<td>13.62%</td>
<td>($96,525)</td>
</tr>
<tr>
<td>2007</td>
<td>3.53%</td>
<td>($99,933)</td>
</tr>
<tr>
<td>2008</td>
<td>(38.49%)</td>
<td>($61,469)</td>
</tr>
<tr>
<td>2009</td>
<td>23.45%</td>
<td>($75,883)</td>
</tr>
<tr>
<td>2010</td>
<td>12.78%</td>
<td>($85,581)</td>
</tr>
</tbody>
</table>

Average 13.11% 5%
We can help light the way to your success.

(800) 440-5460
(801) 397-3030
www.beaconsuccess.com

FOR AGENT USE ONLY
©2012 Beacon Financial Inc. All Rights Reserved.
Client Presentation

Investments
Potential
- Mutual Fund
- Bonds
- Variable Ann Stocks

Protection
- CD’s
- Fixed Ann
- T-Bill’s

Savings

FOR AGENT USE ONLY
©2012 Beacon Financial Inc. All Rights Reserved.