FIXED ANNUITY

Frequently Asked Questions and Common Terminology

The enclosed provides a few answers to questions frequently asked by consumers and definitions for some commonly used annuity terms.

You can find much more information including calculators, articles, videos and more at www.FixedAnnuityFacts.org.

Frequently Asked Questions

How Do I Buy a Fixed Annuity?

Not surprisingly, there is a lot of information about annuities available on the Internet or at your library. But when it comes time to actually buy an annuity, you will want to talk with a licensed insurance agent.

Every annuity carrier sells its products through insurance agents. Even if you see a website that seems to sell annuities "direct to the consumer," the reality is that the owner of the website is an insurance agent.

If you want to comparison shop, it makes sense to talk with several insurance agents. You may also want to make sure that at least one of these agents is an independent agent who represents many different insurance companies. A trusted agent who specializes in fixed annuities can make the shopping process very easy for you.

Agents are typically compensated by the annuity carrier by commission. That means there are margins built into the product pricing to cover the cost of that commission. Keep in mind, however, that commissions are not negotiable, and it is illegal in almost every state for the agent to offer you a piece of the commission. Additionally, even if a carrier were to offer to sell you an annuity directly, the annuity has the same product pricing as if a commission was paid.

So, it only makes sense to take advantage of the service that a great annuity agent will provide to you.

Are There Any Fees on a Fixed Indexed Annuity?

The only items on a fixed indexed annuity that could be considered fees are the surrender charges and income rider fees. As you will see, surrender charges can be avoided, and income riders are optional.

From what you have read so far, you understand that the surrender charges merely enforce the time commitment that is the foundation for the carrier to provide you with all of the positive benefits of a fixed indexed annuity – the safety, growth potential, tax advantages, income guarantees, and beneficiary planning advantages. As long as you take no withdrawals in excess of the penalty-free partial withdrawal amounts available during the surrender charge period, you can completely avoid the surrender charge. Thus, as long as you abide by the time commitment, you pay no surrender charge whatsoever.

You also understand the rationale for the index caps. They are not fees. Rather, they are simply limits on the amount of index-based interest that can be credited to the annuity, and the reason they exist is because since you have zero exposure to market loss in a year that the market index declines, it is reasonable to assume that you will not participate in 100% of the upside. If the index increase for

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any given period is less than the cap rate, then the cap rate has no effect on the interest credit for that period.

Income riders often have fees associated with them, usually no more than 0.75% of your contract value annually. If you select an income rider, the carrier provides you with a minimum guaranteed income that you cannot outlive. Income riders are optional, so if you feel the value you will derive is not as great as the fee associated with the rider, simply choose not to include an income rider on your annuity.

Notice that fixed indexed annuities have no percent of premium loads, management fees, or contract administration fees. If you avoid the surrender charge and do not select an income rider, you will own your annuity and pay no fees whatsoever.

How Do I Know a Fixed Annuity is Safe Since It's Not FDIC Insured?

FDIC insurance does not extend to annuities, and that is very much a concern to some consumers. We understand your concern, but it is important for you to remember that FDIC insurance is not free. The interest rate your bank can offer you is probably lower than the interest rate you could find on an annuity.

In fact, when you consider the twin ravages of inflation and income taxes, you actually lose purchasing power most years that you have your money FDIC insured.

So, when you realize that fixed annuities give you a better chance to maintain and even grow your purchasing power, the question is, "What protections do they provide?" You will see that these protections are very strong, indeed, because all fixed annuities offer four very valuable layers of protection.

They are issued by insurance carriers that back the annuities with a pool of assets called "reserves" that are mandated and monitored by state insurance regulators.

These insurance carriers are obligated to use all of their general assets to protect annuity values from the effects of any adverse financial conditions.

These insurance carriers provide annuity owners with written, verifiable, contractual guarantees that the money you put into an annuity is protected from loss, other than perhaps a penalty for early withdrawal.

If you have any problem with your annuity carrier, you can contact your state's insurance department, which has jurisdiction over the carrier.

Thus, if you are looking for strong protections of safety along with better interest rates than you are finding elsewhere, consider annuities.

What Happens to a Fixed Annuity Contract at Death?

Generally, when you buy an annuity, you name a beneficiary or a group of beneficiaries. Beneficiaries are simply the people to whom the carrier should pay the value of your annuity at your death.

If you should die while you own the annuity, one of your beneficiaries or the executor of your estate will supply the annuity carrier with a copy of your death certificate. The annuity carrier will pay out the annuity's value according to the death benefit provisions of your annuity contract. Typically, if you name one or more beneficiaries, the money goes quickly to your beneficiaries after your death.

It is said that the only certain things in life are death and taxes, and annuities are no exception. It is not unusual, at the time of your death, for there to be money in your annuity that has never been taxed. Typically, your beneficiaries will be required to pay income tax on any previously-untaxed annuity proceeds that they receive. But don't worry – they won't turn down the money!

Terminology

Annuity – An annuity is a contract issued by an insurance company that often serves as a type of savings plan used by individuals looking for long term growth and protection of assets that will likely be needed within retirement.

Beneficiary – A beneficiary is the person designated to receive payments due upon the death of the annuity owner or the annuitant themselves.

Cap – The maximum interest rate that will be credited to the annuity for the year or period. The Cap usually refers to the maximum interest credited after applying the participation rate or yield spread. If the index methodology showed a 20% increase, the participation rate was 60% and the maximum interest cap was 10%, the contract would credit 10% interest. A few annuities use a maximum gain cap instead of a maximum interest cap with the

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participation rate or yield spread applied to the lesser of the gain or the cap. If the index methodology showed a 20% increase, the participation rate was 60% and the maximum gain cap was 10%, the contract would credit 6% interest.

Crediting Method – The formula(s) used to determine the excess interest that is credited above the minimum interest guarantee.

Free Withdrawals – Withdrawals that are free of surrender charges.

Index – The underlying external benchmark upon which the crediting of excess interest is based; a measure of the prices of a group of securities.

Minimum Guaranteed Return (Minimum Interest Rate) – Fixed indexed annuities typically provide a minimum guaranteed return over the life of the contract. At the time that the owner chooses to terminate the contract, the cash surrender value is compared to a second value calculated using the minimum guaranteed return, and the higher of the two values is paid to the annuity owner.

Premium Bonus – A premium bonus is additional money that is credited to the accumulation account of an annuity policy under certain conditions.

Surrender Charge – A charge imposed for withdrawing funds or terminating an annuity contract prematurely. There is no industry standard for surrender charges, that is, each annuity product has its own unique surrender charge schedule. The charge is usually expressed as a percentage of the amount withdrawn prematurely from the contract. The percentage tends to decline over time, ultimately becoming zero.

Find more FAQs, Glossary of Terms, Calculators, Articles, Videos and more at www.FixedAnnuityFacts.org.

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2012_1231_CUST_FAQTerminology1.1