When Should You Recommend

by Kris Kattmann

In today's climate of economic uncertainty, clients are looking to insurance products with less risk, but with growth potential. People are living longer, facing increasing costs, and addressing new challenges every day. Also, the concept of traditional retirement is dwindling. Fixed indexed annuities can help retirees address today's economic challenges by offering greater potential for growth than what a traditional fixed asset can offer as well as protection from market downturns.

Why Choose a Fixed Indexed Annuity?

As with traditional fixed-rate annuities, fixed indexed annuities (FIA) are intended for retirement and other long-term financial needs. FIAs are designed for people who have enough cash or other liquid assets to cover living expenses and unexpected emergencies, such as medical expenses. FIAs offer many of the same features and benefits as fixed-rate and variable annuities including tax-deferred accumulation of interest, a death benefit prior to beginning income payments, and a choice of income payment options including an income that cannot be outlived.

Providers calculate the indexed interest gained on FIAs based on a strategy that's linked to a particular published index, such

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as Standard & Poor's 500, for example. Clients receive gains during a rising market, subject to participation rates, caps, or spreads. The account value is guaranteed never to decrease in times of market downturns. While the index value may decrease, the indexed interest rate is guaranteed not to be less than zero. This means clients will not need to rebound from a poor index performance before they can benefit from positive index performance during subsequent indexed terms.

Tax deferral can help clients who choose an FIA as a retirement vehicle. Tax-deferred annuities allow higher growth potential than do taxable solutions. The assets earn interest and will not affect the tax bill until they are withdrawn. Keep in mind that withdrawals are subject to income tax and they may be subject to federal penalty tax.

FIAs offer clients flexibility by giving them a choice of indexed interest accounts. They can also change account allocations when the indexed interest is credited for the prior period. So, clients can move in and out of the various interest accounts, fixed and indexed, at the end of each indexed term based on their current needs or expectations. For example, a client who received zero for an indexed term and was worried that the S&P may not recover for a while, could reallocate assets into the fixed account. The client would know exactly what interest rate would be credited for the next year.

FIAs offer flexibility when it comes to generating an income from the account value. Distribution options include systematic withdrawals and annuitization. Both options allow for payments to be made annually, semiannually, quarterly, or monthly based on the client's needs. Annuitization provides a steady stream of income that the client cannot outlive. Note that withdrawals may be subject to a market value adjustment. Also, with some providers, the amounts withdrawn before the end of a term may not receive any indexed interest. ❑

Kris Kattmann is VP & Associate Actuary for Lincoln Financial Group. Lincoln Financial Group is the marketing name for Lincoln National Corporation and its affiliates.

Tips for Advisors on Selecting FIA Solutions:

Consider the following tips when recommending FIAs to your clients:

- **Safety** – Look at carriers and investigate the company's financial strength. Company ratings are an independent indicator of financial strength.
- **Crediting rate history** – Consider the carrier's crediting rate history of on similar products before deciding on a carrier. Be careful of a high first-year rate that is followed by below market renewal rates.
- **Length of the surrender charge** – Does that FIA solution have a surrender-charge period with a reasonable length? Would the client have to lock up their money for an excessive length of time? Look for products that will waive surrender charges in the event of terminal illness, nursing-home confinement, or annuitization.
- **Level of surrender charge** – Be aware of the amount of the surrender charge. A client may have no intention of getting the funds before the end of the surrender charge period, but their circumstances can change. It's important to know what the charges will be if the client needs to withdraw funds or end the contract early.
- **Liquidity features and income benefits** – Many FIAs offer liquidity features including free partial withdrawals and income benefits such as guaranteed lifetime withdrawal benefits (GLWB). A GLWB rider offers peace of mind. A minimum income level is guaranteed for the client's lifetime regardless of the performance of the index. Since a GLWB rider usually has a fee, you should understand whether it is based on the income value or the account value. A fee that's based on the income value becomes a larger percentage of the value once income starts. If there are fees, they may exceed interest credited, resulting in a loss of principal. Compare income factors among products and not just roll-up percentages. The carrier's safety and financial strength is also important because lifetime income can be a long guarantee.
- **Thresholds** – Is there an amount above which the client gets an enhanced rate? Many products offer higher credited rates or bonus rates for premiums above a threshold such as $100,000 of premium, for example. Make sure you know what happens if the client withdraws money taking the value below the threshold.
- **Limitations.** Be aware of any limitations of the FIA features such as a bonus that is recaptured if the client withdraws funds prior to a certain date. Also, be aware of any penalties that come from those limitations.
- **Beware of something that is too good to be true.** If it seems too good to be true for clients, it probably is!

FIAs can offer growth potential, wealth preservation through locked in interest earnings, protection from losses, income options, and death-benefit protection. By following the tips suggested above, your clients will be better served and you will enjoy the added referrals that come from higher client satisfaction. ❑

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