USING THE "PRE-PAID" FEATURES OF FIXED ANNUITIES TO CREATE A SALES OPPORTUNITY AND MAXIMIZE GAIN

By: Jeff Affronti

Opportunity exists in all market environments if one knows where to look. Opportunity knocks when there are large swings in interest rates, market indexes or in life expectancy. Fixed annuities that allow clients to reallocate, bail out, withdraw penalty free, renew or have market value adjustments are worth a review during volatile times. The clients are paying for these features whether they use them or not. The carriers set the cost of the policy features when they are created and they can really add up!

Features such as the 10% free withdrawal, full death benefit, nursing home and other waivers all have an internal cost that reduces the initial and renewal rates. The contract also obligates the insurance company to keep these provisions for as long as the policy is in force, no matter how market conditions change. Clients can take advantage of this fact! Below are some fixed annuity policy features and how large changes in markets can spawn opportunity to maximize client yields.

- **Free Withdrawal Provisions -** Most commonly seen as a 10% annual withdrawal, this feature often goes unused on accumulation based products such as MYGA's and

FIA's. However, close evaluation of an in-force contract and review of current market rates may open up an opportunity to maximize a clients guarantees and potential growth. Below are some examples of where it may beneficial to clients.

FIA Crediting Rates - If a client has a cap of 4.00%, and the beginning S&P is 2100, they may look at moving if they can get a higher cap and the S&P is 5% - 20% lower than 2100. Since the client's money would likely be sitting idle for the remainder of the policy year, this may give them a better shot at earning on the premium than staying put!

MYGA Crediting Rates - As interest rates rise it will be easy to calculate the increased earnings a client can receive if they just do some slight adjustments during the term of a policy. Just because a client purchased a MYGA for 3.00% for 7 years does not mean that is the most they can get on the premium they have placed.

If a client has $1,000,000 premium in the 3.00% for 7 year MYGA, the premium will grow to $1,229,874 guaranteed in 7 years. However, after year 3 a new 4 year MYGA comes out and has a rate of 3.50% for 4 years. The clients current annuity has an accumulation value of $1,092,727 of which $109,272 is free to withdraw/transfer. If the client moves the free portion to the 4 year annuity the results would be as below:

$109,272 @ 3.5% for 4 Years = $125,392
$983,455 continues at 3.00% for 4 years = $1,106,888

Total in 7 years = $1,232,280 an additional $2,406 from just that one time move and only 0.50% adjustment in rate. The new 7 year effective yield moves up to 3.03%. Agents makes a new commission as well. It is good to try to match off surrender duration, but not necessary, as long as the new contract is reasonably close to the initial product. With qualified funds this is easier, non-qualified funds would need to be a partial 1035 exchange and not all carriers allow this. Additionally, with a partial 1035 the clients must follow certain rules and not make withdrawals for 180 days.

- **Reallocation of Fixed Index Annuity (FIA) Crediting Strategies** An annual review of a client's FIA is important as caps, spreads and fixed rates can change drastically. Moving from one strategy to another based on the level of the index can offer a great benefit. If the market happens to be down substantially, a switch to an uncapped or caps that can exceed 20% would have the potential to out perform a low annual cap or fixed rate strategy. If the market is at an all time high at the anniversary date, a fixed rate or a combination of fixed rate and averaging may out preform an uncapped strategy with spread. Be creative, do some math and the client may just do better.

- **Bail-Out Provisions** The ability to leave a contract during the surrender period with all gains and no charges is offered through the bail-out provision. If the interest rate in a SPDA or cap rate for an FIA drops below a predetermined amount the policy owner has a right to exit. This is very useful as a review of current market rates will make the choice to move clear and suitable. Most carriers, in my experience, do not drop below these bail out rates so it is a pretty good indicator of what to expect. Sometimes, we can find bail-out cap rates that are higher than initial rates with other carriers! Be sure to shop all product features when looking for a fixed annuity, not just the sizzling talking points!

- **Renewals** Time flies, and before you know it the fixed annuity policy placed will be up for renewal or out of surrender. This is an important time as some policies will automatically renew surrender charges at lower than new money interest rates. Be sure to understand end of term options and adjust accordingly. If there is no automatic renewal, be sure the interest crediting rate is competitive. Some carriers will allow clients to get the new money rate if they just renew for a new surrender term. Renewal periods often equal new sales and help the client increase yield!

Being proactive annually and when large market corrections occur can help you and your clients make some additional positive gains!

Jeff Affronti

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