The Simplest Indexed Annuity Crediting Methods

FIA Crediting Methods CD Minded Clients Can Simply Understand.
Offer Potential Without Risk To Conservative Clients.

By: Jeff Affronti—November 15, 2017

Fixed Indexed Annuities (FIAs) with simple crediting methods can offer clients an alternative to institutional fixed rate and CD returns. Three FIA market linked crediting method strategies that I have found to be very simple to understand are the Annual Point to Point Cap, the Simple or Performance Triggered and the Uncapped Participation Rate strategy. All methods must annually reset and annually lock-in any gains. The traditional fixed annuity buyer is more of a conservative/banking minded person and not really a stock market/investment risk taker. So, these crediting methods combined with the basic premise of, if the index goes up, policy increases, if the index goes down, no gains are lost.

The Simple or Performance Triggered With Annual Cap - This method is by far the simplest. Starting with a set index grow cap, if the policy's Index if even or up at all, the client would receive interest based on 100% of the cap. For instance, if a product has a cap of 5.00% an Index starting point of 1000.00 and an ending of point of 1000.00 or higher, the full 5.00% cap would be credited. Very easy to gauge, by simply knowing the Index's start point a client can check if they are likely to see a gain in a given policy year.

The Annual Point to Point Participation Rate With No Cap - This method, in its simplest form will return a set percentage of the policy's Index with no other moving parts, such as spreads and caps. For example, if a policy's Index has a starting point of 1000 and an ending point 1100 (a 10% gain), with a 55% participation rate the client would earn 5.50% on the policy year. Obviously, the higher participation rate the better the returns. Check policy minimum participation rates and max spreads and ask if a history is available. That's where the client is most exposed.

The Annual Resetting Point to Point Cap - This method measures the Index from a set start point and if positive, interest is credited annually up to a set cap. For instance, if a products policy's Index starting point is 1000.00 and the ending point is 1050.00 a 5.00% gain has been made. If the product had a cap of 4.00% the client would have received 4.00%, if the cap was 6.00% the client would have seen a 5.00% gain. Since the interest credit is related to movements in the Index, a client could gauge where they are in relationship to the starting index number at any point in the contract year. Of course no increase can be guaranteed until the end of the contract year when they would be locked in. Once interest credits are made, they are protected. Neither the initial premium or any credited interest can be reduced due to future movements in the Index. Policies can vary in slight ways, agents should be aware of these small details. For instance, a policy's starting index date is not necessarily the same as the policy date, the carrier may have certain days they set index crediting points. The minimum guarantee should guarantee an increase of at least 100% @ 1.00% per surrender charge year, not all do this anymore. A bail-out or high minimum cap would be an advantage and offer additional protection to the clients potential yield.

So, how much of the above seemed simple to you? For a lot of agents and clients, that do not often use FIA's, even these most simple crediting methods may be confusing. Many moving parts that can change annually make FIA's the most complicated fixed annuities. Most the the new crediting method designs are far more complicated then the ones above and some are even protected from being fully investigated under the term "proprietary product". As you venture out into the FIA world be sure you know all the ins and outs of the product before you meet with the client. An agent may not present strongly if a client asks a product specific question the agent cannot answer confidently. Training includes learning about the product features from the contract and other approved materials. Running sample illustrations is a great way to learn about the products guarantees, surrender terms and charges and historical performance. Understanding the product and how it illustrates will show through in a positive way during a client presentation/meeting.

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