The *FSD* Journal

A Marketing Publication Designed for the Financial Planning Professional

April 1998 Volume 1 Issue 7

Equity Index Annuities Still Lead in Sales

Sales of equity indexed annuities (EIAs) have continued to explode. I have spoken to a great many agents about the concept, products, carriers and policy provisions. Recently an agent commented, when I asked why he wasn't selling EIAs, that his clients found the products confusing. This is true of some products which use a daily average multiplied by a participation factor which is then subject to a cap on the total or annual earnings. Wow, even I can't follow that one!

I mentioned to him that Safeco's product took the annual S&P return less 3.85%. That's it. No caps, no participation factor, no look back provisions, etc. He liked that he could understand and explain it simply. Within 2 days he had his first sale.

I spend a great deal of my day speaking with agents about EIAs. What an exciting product and concept. "Market returns without market risks." If the agent fully understands EIAs, he can get himself excited and his clients excited.

What features are most important? This is a common question. I believe the EIA product must do (or not do) certain things. Perhaps the most important feature is the annual lock in and annual reset. This means that once a gain is credited at the end of the year (calendar or policy) it is protected (locked in). The annual reset feature is just as important. It means that when the index goes down in a given year, the index starting point for next year is reset at that lower number. For example; if the S&P started a year at 1000, but went down 20% to 800 you would have no gain, no loss in that year.

The next year would now start at 800. So if the index went from 800 to 960 (a 20% gain), the client would earn 16.15% on his principal. So the S&P is actually lower than when the client invested 2 years ago, yet the client is up over 16%. Not a bad deal!

Another important feature is the lack of a cap on earnings. Some products limit the upside. I don't like this feature because you give up the big gain years. Products with caps gave up as much as 17% of yield in 1997 (10% vs. 27%).

We at FSD recommend products which have an annual reset, annual lock in with no cap on earnings. Deciding which of the products is the best can only be done in hindsight or based on a future projection of the S&P.

PLEASE TURN TO ***Equity,*** PAGE 2.

FSD Financial Services • 5530 Corbin Avenue • Suite 300 • Tarzana, CA 91356

(800) 373-9697 • (818) 881-6970 • (Fax) 881-6973

Equity, CONT. FROM COVER

High Water Products and Point to Point Product Warning

In both these types of products, negative returns will greatly impact results. In the point to point there is a direct return of past gains when the S&P goes down. In theory, 5 years worth of gains can be wiped out with one good correction. Also, from the clients perspective, he doesn't know what the earnings are until the end of the term. With the high water mark method, losses to the S&P need to be recovered before further gains will be credited. A good size correction may mean the client is better off to surrender, take the charge and start over somewhere else.

For these reasons we like an annual lock in of gains with an annual reset of the S&P. ■

Bob Affronti
President

S&P 500 and SAFEKEY Index Historical Examples

Year	SAFEKEY Index Interest Rate*	S&P 500 Annual Performance**
1997	27.16	31.01
1996	16.41	20.26
1995	30.26	34.11
1994	0	-1.54
1993	3.21	7.06
1992	.61	4.46
1991	22.46	26.31
1990	0	-6.56
1989	23.40	27.25
1988	8.55	12.40
1987	0	2.03
1986	10.77	14.62
1985	22.48	26.33
1984	0	1.40
1983	13.42	17.27
1982	10.91	14.76
1981	0	-9.73
1980	21.92	25.77

* For any year, the SAFEKEY Index interest rate equals the S&P 500 performance less the margin 3.85%

** The S&P 500 Annual Performance based on calender year.

Immediate Annuities

Call us for a SPIA quote

Special Features on SPIA's

Issue ages to age 100

Top Commissions
(ask about our large case bonus program)

Life with a Cash Refund
(refunds any remaining principal in a single lump sum)

Life with an Installment Refund
(refunds any remaining principal in monthly installments)

Cost of Living Adjustment
(increases payouts each year by 3% to 10%)

3-50 Year Period Certain
(guarantees annuity payouts from 3 to 50 years)

Deferred Start Immediates
(guarantees annuity payouts with start dates from 1 to 25 years from now)

Age-Rated Immediate Annuities
(if your client is, for eg. 70, and in poor health, he may be considered as a 78 year old, thus increasing his payout)

For One-Stop SPIA Shopping Call
(800) 373 -9697

FSD ON-LINE
http://home.earthlink.net/~fsdfinancial
fsdfinancial@earthlink.net