The FSD Journal
Fixed Annuities
A monthly guide for insurance agents reviewing fixed annuity product quality & performance

August | Quality ◆ Integrity ◆ Expertise | 2004

Do your clients think rates are going up? Well why not GUARANTEE IT!

ING USA Multi-Builder Guaranteed Increasing Rate Annuity

Year 1 is 4.15% Year 2 is 4.30% Year 3 is 4.45% 000
Year 4 is 4.60% Year 5 is 4.75% Year 6 - 10 is 4.90%

Commission 4.50% (0-75) & 3.37% (76-85)

Full Death Benefit and Waivers - 10 Year Surrender - Interest Withdrawals In 30 Days

If your client makes a deposit of $100,000 you can guarantee them:

$112,202.00	After 3 Years	- Physicians Life
$118,098.00	After 4 Years	- Physicians Life
$121,958.00	After 5 Years	- The Standard Ins
$129,480.00	After 6 Years	- The Standard Ins
$133,823.00	After 7 Years	- ING USA
$142,755.00	After 8 Years	- ING USA
$151,840.00	After 9 Years	- ING USA
$161,344.00	After 10 Years	- ING USA

New York Has An EIA

Finally An Equity Indexed Annuity Approved In NEW YORK

Easy to understand 8 year annual reset
NO SPREAD - NO AVERAGING
100% Participation Rate
7.00% Cap ($100K+)
6.50% Cap ($5K - 100K+)
1.50% Credited On Down Years

Guaranteed to increase by at least 1.5% each and every year no matter how the S&P 500 performs over the period or how much was credited in the prior year.

4.25% COMMISSION

4.00% Commission with a 0.25% bonus on all cases through 12/15/2004 (ages 0-76)

In this month's issue:

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The *Annuity Review*

A variety of sales ideas, product discussions/comparisons and miscellaneous thoughts

A WORD ABOUT BONUS RATES

Recently, with the decline in fixed annuity rates, I have received many calls regarding products with large first year bonuses. My response to agents looking for big bonus products is beware! Let's examine what a "bonus" is and where it comes from. I spent over 20 years working for insurance companies. I was National Annuity Director for a major carrier and did quite a bit of product design and building. When a fixed annuity product is built, certain expenses get amortized over the length of the initial surrender term. For example, a 5% commission paid on a 10-year surrender product will reduce the credited rate by .50% per year. Basically the client pays the commission by having the gross rate reduced to cover the cost. When a company pays an upfront bonus we must ask where does that bonus come from. If a company pays a 5% bonus on a 10-year surrender product the credited rates must be reduced by .50% per year to cover the cost of the bonus. Well, if it has to be paid back is it really a bonus? Not in my mind. It is actually an advance of future interest. Consider that insurance companies work on about .50% annual profit on a fixed annuity. I recently heard from a customer being offered a 10% bonus. Presented as a way to offset her surrender charge on the existing annuity, the rep was offering a product from a company, which FSD does not represent (by our choice). I asked the rep why his company was giving up 20 years worth of profits (10% divided by .50%). He assured me that they weren't. However, when pressed he couldn't tell me where that "bonus" money was coming from. After some prodding he did admit that the customer would receive a lower credited renewal yield to offset the "bonus". So how is that a bonus? The point is that agents should understand the dynamics of a product building and pricing. A bonus today may result in a very unhappy client when the renewal rates are well below market expectations on behalf of a client. You can explain that the renewal rate is lousy because the client got that first year bonus – clients tend to forget that or expected it was a free bonus. Remember – clients pay all commissions and clients pay all bonuses. Give me a call if you want to discuss a specific product or company. We are here to help.

Bob Affronti
President