Fixed Index Annuity Fact Sheet

Fixed Index Annuity (FIA)

(Formerly called Equity Index Annuity): A tax-deferred insurance product that provides market upside, while protecting principal from market losses. Assets are allocated into indices that are designed to replicate market performance. These indices are typically accompanied with cap rates, spreads, or participation rates.

The Market[1]

In 2019, fixed annuities—including Fixed Index Annuities—represented 58% of the total annuity market. Although fixed annuity sales dropped in the fourth quarter (down 18% to $30.8 billion), robust sales in the first half of 2019 boosted annual fixed annuity sales to $139.8 billion, up 5% from 2018. Total FIA sales for 2019 reached $73.5 billion, an increase of 6% from the previous year. FIA sales have increased 11 of the past 12 years (2007 - 2019).

Investors are often sold these products as a means of "getting market growth with complete principal protection" with the ability to add guaranteed lifetime income through a rider.

How FIAs Work

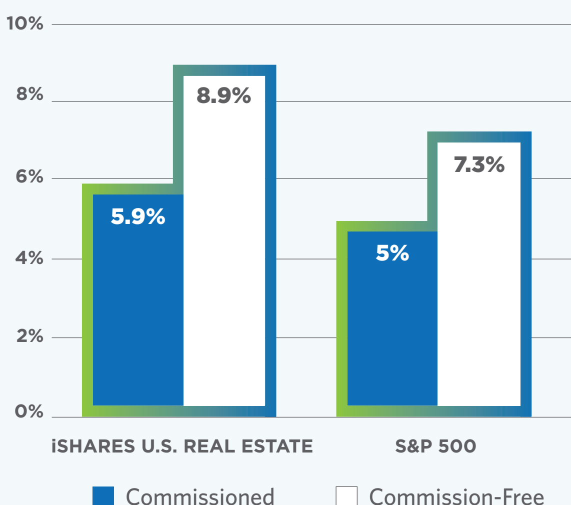
In a fixed Index annuity, client premiums are allocated to indices that are designed to replicate market performance. The S&P 500 and Russell 2000 are common index options for investments. Many FIA products also contain custom indices that are designed as 60/40 exposure or managed volatility. It is important to understand that these indices are NOT the equivalent of investing in an index fund or ETF. Through these indices, client premiums are invested in fixed income instruments through the carrier's general account. The yield is then used to buy derivatives to hedge the portfolio. This combined investment allows the carrier to produce a return that mimics the returns of the index while providing principal protection for the client's premium. This is similar to investing in a collared option strategy. Due to the investment durations required to deliver the product benefits, most FIAs have surrender periods. This is similar to other investments that require a duration and may come with an early withdrawal or liquidity penalty.

Along with the downside protection, like with a collared option strategy, upside on the investment is also limited. These limits generally come in three forms: 1) participation rates, where client receives a % of the return the index delivers, or, 2) cap rates, which cap client's return within the index, or, 3) spread fees, which are essentially an expense ratio equivalent of a fund.

Problems with Commissioned FIAs

Commissioned vs. Commission-Free Cap Rate Comparison*

(Annual Point-to-Point with Cap)



COMMISSIONED FIAS

- High commissions keep cap rates or participation rates low thereby reducing growth potential.
- Carriers often use different rates for "new money" vs "renewals", meaning the cap or participation rates clients received when they opened the policy may be lowered after the first year.
- Long (10-15 years) and expensive surrender periods are often found in traditional FIAs.
- Sold to clients as equity replacements even though assets are not invested in the market.

COMMISSION-FREE FIAS

- The elimination of commissions results in cap rates and participation rates that are generally significantly higher than commissioned products.
- DPL works only with carriers with track records of consistent cap and participation rates.
- Surrender periods are reasonable and surrender penalties are aligned with investment costs.
- FIAs are positioned as fixed income replacements, not equity replacements, setting proper performance expectations for advisors and clients.

**Income Protector 7-year and American Custom 10-year rate sheets*

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Fixed Index Annuities (FIAs)
Advisor Insights

Fixed Index Annuities: DPL's View [These measures are created within the context of insurance products.]

How to Think About Commission-Free FIAs

One advantage of utilizing FIAs is to leverage the scale of insurance carriers to deliver strong pricing in a packaged product, making it comparatively easy to implement, while also getting guaranteed downside market protection from the carrier.

Many FIAs offer optional guaranteed lifetime income riders for an additional cost. While guaranteed income options from FIAs are generally a bit lower than can be achieved through single premium immediate annuities (SPIAs), they generally have greater liquidity and flexibility.

When your client needs:

PRINCIPAL PROTECTION: With the principal protection from market risk provided by FIAs, they should be considered for clients nearing or in retirement to help mitigate sequence of returns risk.

FIXED INCOME: FIAs can be used as a fixed income allocation for a portion of client portfolios. They provide sequence of returns protection for those entering or in retirement, with a higher rate of return than current bond yields.[2]

GUARANTEED LIFETIME INCOME: FIAs can be used to generate guaranteed lifetime income with allocation flexibility and liquidity[3] (beyond the surrender period).

To learn more about our Commission-Free fixed index annuities, call 888.327.0049 and speak to a DPL Consultant.

[1] Secure Retirement Institute Fourth Quarter U.S. Annuity Sales Survey, (4/2020)

[2] Current Treasury Yields, (7/2020) vs. current average of DPL 7-Year FIA interest rates (2.8%) (7/2020).

[3] FIAs may be subject to surrender charges, market value adjustment, and taxation for early withdrawals

Fixed Index annuities are contracts purchased from a life insurance company that are designed for long-term retirement goals.

While the interest rate credited to an Index account is linked to the performance of an underlying index, premium payments made to a fixed index annuity are never directly invested in the stock market.

All guarantees are based on the financial strength and claims-paying ability of the issuing insurance company.

The purchase of an annuity within a retirement plan that already provides tax deferral under sections of the Internal Revenue Code results in no additional tax benefits. An annuity should be used to fund a qualified plan based upon the annuity's features other than tax deferral. All annuity features, risks, limitations, and costs should be considered prior to recommending the purchase of an annuity within a tax-qualified retirement plan.

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