Index Annuities

Product Positioning Guide

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THE LEADERS GROUP

Target Client Profile

Target age: 55-75

Three generic client scenarios take Scott down the path of an index annuity solution:

1. Require a portion of their money they don't want market risk,
2. Require more potential than accessible in current bank account, CD rates, savings rates and require access to money that is above and beyond their emergency fund, or
3. Require income at some point in the future and a guarantee about the amount available through the lifespan of the client and/or spouse

Value Proposition

Protects principal from market risk.

When I first meet with a potential client, I like to determine if they are a prospect for a fixed index annuity or if they are best served by other products such as a mutual fund, RILA, etc. Like all financial professionals, I start with a fact finder. I make sure we discuss risk tolerance – talking about time horizon, when are they retiring, do they have enough income without generating withdrawal from their accounts, income needs, and more. Additionally, we review their specific goals and objectives. In many instances, clients express a main goal to not outlive their money. For other clients, their main goal is to leave a legacy that can be passed on to someone or some organization. And yet other clients might express goals like dreams to travel or buy a vacation home and the like. Whatever the case may be, clients simply may have other financial priorities that make an index annuity a poor fit for them. We will do that "big picture" to see where they are right now and what they are trying to do in the future.

I look at the index annuity if there is a portion of funds that the client is unwilling to expose to risk. Once the client has shared this information, my next goal is to make sure this money is an addition to an overall strategy to maintain proper liquidity, to avoid being needed for emergency funds or earmarked for short-term goals like a vacation home in two years or the car purchase to occur the next year, or whatever the case may be. I really want to make sure that we are staying in the proper lane from that standpoint. If the benefits of the index annuity fit what the client is trying to accomplish, I will make sure I am looking at the purpose of the index annuity. We need to identify if the goal is to protect just the principal from market risk, where they are hoping to have some upside possibility of earning interest over time. So instead of the benefit being upside potential, it's thought of low risk or interest-earning possibilities. The second scenario I would suggest an index annuity is if they need lifetime income. I will also make sure I discuss with people that an index annuity is not a good tool for money if the client goal is to earn 6% - 8% or more – then that rules out an index annuity. If the client wants that type of earnings potential, they have to be in the market, they have to take the risk, or we can talk about the RILA product or whatever the case may be. An index annuity is a good fit for somebody that says, "This is money that I don't want to lose anything from market risk. So, if the market goes down 20%, I am comfortable knowing that I didn't lose anything, and a zero year doesn't scare me." The index annuity is for the client that hopes to have the chance to earn 3%-4% in a year if the cap and crediting method allow for that to happen.

The main goal of an index annuity is to protect principal from market loss. I will share with the client a chart that shows S&P 500 performance over the last 20 years and compare that to an illustration of how an index annuity would have performed over that same time frame. When comparing these illustrations, I point to the downside of the index annuity. If there is a year the S&P 500 went up dramatically, I show how the S&P 500 has a lot more potential and then I show the client getting a much smaller amount of interest earned in the index annuity account. The advantage of staying in the market, you have a lot more potential. The downside of an index annuity is that you are not getting all the returns of the index, in fact, you are not getting anywhere near all the returns. Then, I will show a point on the chart where the market tanked, here is where the value of the index annuity comes in. The value is for the portion of money that we don't have the stomach for loss, the time horizon, or comfort to ride the downside; a zero return looks pretty good when we are dealing with a falling market.

If income is needed, I want to make sure that they understand how the income base concept works. The last thing that I want for a client is to come to me and work with me and have an incorrect expectation of what that income base is. I have met people in the past that have had these riders on an annuity and they were confident when they called me and confident when they came in that those income base step ups where actually interest that was being credited to their account. When pointing this out, I use a corny approach. I use my fists and one of them I call your "real value" and that is your contract value. The other fist I call your "fake value" and that is your benefit value. The fake value does have a real value. It is not your money that can be taken out of the account, it is just a value used in a calculation to determine the stream of income you will receive for life once you start taking income from your account.

Support Docs

Sales kit material from the carrier. Illustrations to show an income rider.