



## Visualize The Goal

A recent study suggests that people become more risk averse as they visualize what they will do with their money. We usually think about saving in terms of yield. Because financial terms represent abstract concepts – you can't hold a yield in your hands – the study says we tend to be riskier with our money when we think about it only as a way of keeping score and not related to actual needs. However, the study concludes we become more risk averse when we think about the goals that the money is ultimately for.

Consumers and advisers may talk about maximizing the return in an IRA, but the ultimate goal is usually not having the largest IRA on the block, instead it is using those IRA dollars to pay for the mortgage, to cover travel, or perhaps to cover the grandchildren's college. When we think about the IRA in terms of what we want it to accomplish we become more concerned about losing that IRA money – it no longer is an abstract concern but instead a more visceral concern of perhaps being unable to pay the mortgage and losing the house.

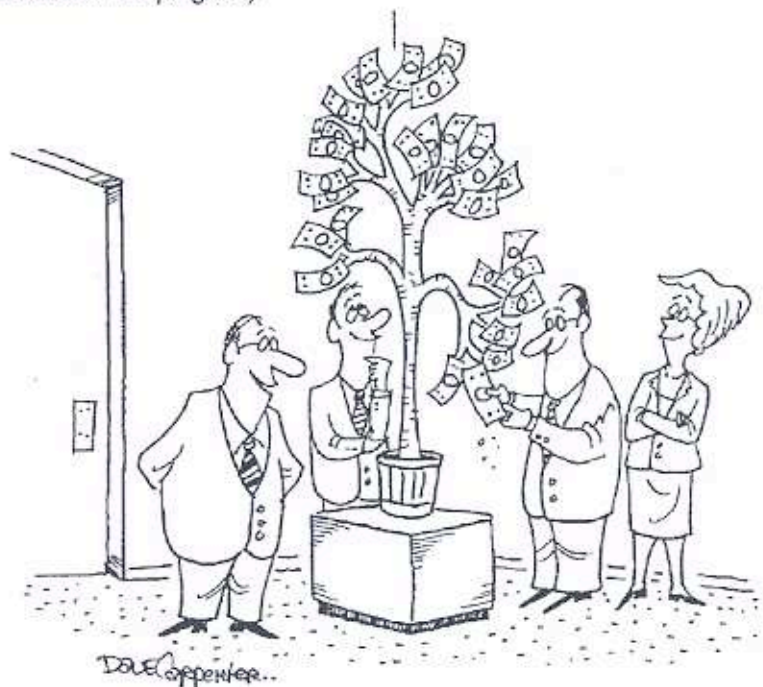
What does this mean for an annuity producer? If the consumer is taking on more risk than they should, getting them to talk about what they intend to do with the money may cause them to reduce their overall risk position, perhaps by buying fixed annuities.

## 5 Year Index Annuity Returns

There were 25 carriers active in the index annuity market in September 2002. Farmers, IDS, SunAmerica and Transamerica marketed term end point designs that have not yet reached the end of their index period and they cannot be included in the study. I asked the remaining 21 carriers for copies of customer statements with customer information whited-out for contracts issued closest to 30 September 2002 for a five year period ending 30 September 2007. Of these carriers only Americo, OMFN and Western United would not provide data on the interest earned by their customers.

End of	S&P 500 End Value	APP	Annual Gain Month Avg	Day Avg
9/2002	815.28			
9/2003	995.97	22.16%	13.41%	13.10%
9/2004	1114.58	11.91%	11.39%	10.82%
9/2005	1228.81	10.25%	6.95%	6.78%
9/2006	1335.85	8.76%	3.82%	3.41%
9/2007	1526.75	14.29%	8.76%	8.56%

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"RED FEELS THAT WITH MATURITY, IT WILL START YIELDING HIGHER DENOMINATIONS."

## 5 Year Index Annuity Returns (continued from page 1)

The next page shows the annualized returns for the 18 companies that responded with details about 22 different products. This is the fifth year I have collected 5-year return data and I deeply appreciate the cooperation and support of the carriers, representing almost 90% of the industry, that were open in sharing what some of their policyowners earned in their index annuities.

### Flaws In My Method

Although the carriers credited a wide range of interest you cannot use this return data to rank carriers or to assume that carrier A is crediting higher interest than carrier B.

- Since different companies have slightly different issue dates the interest periods counted by one carrier may be significantly different than another – if carrier A used the 25<sup>th</sup> as an anniversary date and the market dropped on the 27<sup>th</sup>, before carrier B calculated their interest on the 30<sup>th</sup>, carrier B may still have credited a higher percentage of index-linked interest even though the actual interest was less.
- In addition, since these are actual returns from actual customer statements they are subject to what the policyowner does – if this particular owner decided to move from the index account to the fixed account during a year when the index soared the reported policyowner probably earned less than the average policyowner, but it wasn't the fault of the carrier.
- My methodology doesn't do well with two-year crediting periods – at the present time the AmerUs 2-year method\* reported has an effective 5-year yield, not earned interest rate, of about 8.17%, if the market doesn't fall in the next year the customer will have earned 6.76% for 6 years, but I'm showing 5.74% because that is the value based on the fourth contract year when the last period was locked in.

- I also have a problem with partial years – the ING Secure annuity\*\* has an annualized return of 7.38% but it doesn't fit because the holding is less than five years. I also fall down with term end point designs that have not reached the end of the term – the S&P 500 is up 87% in 5 years and term end point products could well credit significant interest by the end of their 7, 10 or 12 year terms, but I can't show that.
- Finally, the carrier was permitted to pick the product, method and index to submit and to send in results from more than one product if they wish. Because of all this I do not pretend to show a comprehensive or balanced examination of the interest credited by the index annuity industry.

### What Is Important

Index annuities are designed to be competitive with stated-rate annuities and to the best of my knowledge they are demonstrating that competitiveness. Half a dozen products credited annualized interest of 7% to 8% and almost all the rest credited interest in the 5% to 6% range.

### *FIAs credited from 27% to 254% more interest than the average CD over the last 5 years*

The S&P 500 was running at an annualized return rate of 13.4% for the period and the average U.S. stock mutual fund hit 16.1% a year, a strong statement demonstrating that index annuities are not designed to compete against equity investments. However, the index annuities compare very favorably to the 5.0% attained yearly by the average taxable bond fund return, blew the socks off the 3.5% that was earned by a U.S. Savings Bond issued in September 2002, and pole-vaulted over the 2.5% achieved by the average CD over the same 5 years.

Once again, index annuities did what they were supposed to do – be a safe money place with the potential for more interest.

**Annualized Interest Credited For Five Year Period  
Inter 30 September 2002 to 30 September 2007**

Alianz MultiChoice	5.74%	
Allianz FlexDex	7.71%	
American Equity	8.39%	
American Investors	4.97%	
AmerUs Monthly Avg	5.27%	
AmerUs 2 Yr Pt-to-Pt	5.74%	* 8.17%
Conseco	6.01%	
ING Selectra	3.35%	
ING Secure	7.38%	**
Jackson National Elite 90 MCI 5 Yr	7.71%	
Lafayette	5.69%	
Lincoln Benefit Savers Index I	7.50%	
Lincoln Benefit Savers Index III	7.40%	
Lincoln Financial Group	5.44%	
LSW	6.59%	
Midland National/NACOLAH	5.57%	
National Western	3.00%	
RBC	6.99%	
Sun Life KeyIndex 5 Yr	6.19%	
Sun Life MultiPoint 5 Yr	5.02%	
Standard Life of Indiana	6.02%	
Union Central	6.67%	

**Annualized Index Annuity Returns 5 Years Ending 2007**

