
APPENDIX

While all deferred fixed annuities share certain basic characteristics, these contracts can be configured in a number of different ways with respect to both value growth and payout structure. Set forth below are the four primary growth options for deferred fixed annuities.

- **Multi-Year Guarantee**

A multi-year guarantee annuity is a deferred annuity contract that is guaranteed to grow at a specified rate for as long as the contract's surrender period is in effect. This type of contract is popular because the interest rate is known and fixed for the entire surrender period, and the contract can be surrendered without penalty at the expiration of the higher guaranteed rate.

- **Banded Rate**

Banded rate annuities are structured in much the same way as multi-year guarantee annuities, except that, instead of having a single guaranteed rate for the entire surrender period, these contracts guarantee a materially higher interest rate for the first year of the contract (e.g., 8%) and then adjust to a much lower guaranteed rate (e.g., 2%) for the remainder of the surrender period.

- **Equity-Indexed**

An equity-indexed deferred fixed annuity grows relative with the performance of a broad equity index (e.g., the S&P 500 Index). The issuing insurance company guarantees a minimum interest rate on the contract and then pays incremental interest when equity markets perform favorably. Therefore, the investor does not bear downside risk with such contracts, but market upside is capped such that significant upside may be lost.

- **Market Value Adjusted**

Market value-adjusted fixed annuities offer relatively high guaranteed interest rates during their surrender periods but carry additional risk to which other fixed annuities are not subject. If an annuity owner needs to liquidate his or her annuity during the surrender period, the value that he or she receives will not only be reduced by the applicable surrender charge but may also be subject to an additional adjustment based on the movement of interest rates.

CONTRACT RIDERS

Fixed annuity contracts can be customized in a multitude of other ways to meet a number of different needs through the use of riders. Set forth below are a few of the most common riders that can add to the utility of a fixed annuity contract. It is important to bear in mind that riders, while often very useful, typically come at a material cost. Adding riders to a fixed annuity contract typically results in a lower guaranteed interest rate, a lower payout rate, or both. Fixed annuity buyers should fully understand the costs of any riders before entering into a contract.

- **Guaranteed Death Benefit**

If a deferred fixed annuity contract owner dies before he or she begins to receive income payments from the contract, a guaranteed death benefit rider ensures that the contract owner's beneficiaries will receive the contract value.



- **Return of Premium/Refund**

This type of rider protects against untimely death in the early years of the income phase. If, at the time of a contract owner's death, he or she has received less in income payments than was paid into the contract, the contract owner's beneficiaries will receive the difference so that the total of all payments made by the insurance company equals the total contributions made by the contract owner.

- **Long-Term Care**

Long-term care riders are designed to increase income payments should a contract's owner develop a need for long-term healthcare during the income phase.

- **Cost of Living Adjustment**

A cost of living adjustment rider provides for steadily increasing income payments over time in order to try to keep pace with increases in living expenses due to inflation.

PAYOUT OPTIONS

Fixed annuities offer two primary options with respect to how income payments are structured: lifetime payments and fixed period payments.

- **Lifetime**

When a fixed annuity contract owner decides to annuitize his or her contract, he or she may choose to receive income payments for the remainder of his or her life. This type of payment structure completely eliminates longevity risk for the contract owner, as the insurance company is obligated to make payments to the contract owner at regular intervals for the rest of the contract owner's life, no matter how long that may be. Some contracts may even contain provisions that allow income payments to be transferred to a spouse upon the death of the original contract owner, though such provisions result in lower income payments throughout the payment period.

- **Fixed Period**

In contrast to the above payment option, a deferred fixed annuity contract owner may choose to receive a specified number of income payments over a certain period of time that is agreed upon in advance. This type of payment structure typically results in higher periodic payments to the contract owner because of the reduced risk faced by the insurance company. However, it also nullifies one of the most powerful features of annuities, which is the potential elimination of longevity risk for the contract owner.

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