

EQUITY INDEX ANNUITIES

Invest in the stock market without the downside risk

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I was recently on a golf outing with some colleagues from work. Through the first 13 holes my round was going great; I had several pars, mixed in with a few bogeys, but nothing worse. I was beginning to feel confident. The 14th hole was a par 4, with some sand hazards along the left side of the fairway. Outside the sand traps was a vast area of desert rocks. Homes line the left side, on the edge of the desert landscaping, far from my target. I drew the club back, let it gather on the top of my swing, and accelerated at the ball. Boom! I really hit it...really hit it left, way left, over the bunkers, over the desert, onto a roof. I finished the hole with a double bogey-to that point, the worst hole of the day.

The next hole brought other challenges. I hit over the green and found myself on the bottom of a hill, 25 feet below the green, and directly behind a tree. After several shots, my ball found the bottom of the hole-a triple bogey.

In only a few holes my golf score had gone from good to lousy. This experience wasn't new for me. The "ups-and-downs" of a golf round are all too familiar. After a round of golf, I often think "if only I could take out my worst four holes before adding up my score, I'd be a pretty successful golfer". Unfortunately, in golf every hole counts. But when investing, does every year have to count? Is it possible to literally "throw out" the bad years, keeping only the good?

Welcome to the world of Equity Index Annuities (EIA)-where what goes up doesn't have to come down.

An EIA is an insurance contract, issued by an insurance company, linked to a common market index, such as the S&P 500. If the index grows, you're entitled to a portion of that growth-up to the cap rate (or participation rate). If the index declines, you're investment is protected against losses.

Here are some of the key benefits to an Equity Index Annuity:

- **Asset Protection:** The value of your principle investment is fully protected from decline.
- **Equity Market Exposure:** The annuity return is tied to the stock market giving you exposure to stocks without the downside risk.
- **Tax Deferral:** All gains in an annuity are tax deferred meaning there are no taxes paid on gains from year to year.
- **Guaranteed minimum return:** Most index annuities have a minimum guaranteed return-normally around 1-2%. If, during the years you own the annuity, the equity markets never increase in value, your investment will still grow at this guaranteed amount.
- **Simplicity:** The protection and guarantees of these annuities are simple to calculate and easy to understand. Unlike most variable annuities, you are not required to keep the money in the annuity for life to take advantage of the protection and benefits.

As with all financial investments, the risks must also be considered. Some of these risks include:

- **Security of Issuer:** The investment is backed by an insurance company and is only as secure as the issuer itself.
- **Upside returns are capped:** If the market increases at a rate higher than the participation rate, the annuities return for that year will be capped at that participation rate.
- **Lack of liquidity:** Most index annuities allow the owner to take small withdrawals without penalty during the vesting period (often 15% of the invested amount). Withdrawals exceeding this amount may be subject to surrender charges and tax penalties.

Investing in an index annuity may be right for:

- Investors unable or unwilling to experience loss of principle on a portion, or all, of their investment account.
- Those not taking significant withdrawals from the account.
- Investors with a time horizon of 5 years or more
- Those not seeking immediate income from the asset, but looking for a more conservative growth alternative.

In golf, a consistent round of pars will result in a great score. Investing in an index annuity may never provide substantial annual returns, but the ability to keep “only the good holes”, or positive return years, will lead to consistent results with far less volatility along the way.

For more information on Index annuities and how they may fit your needs, please contact an advisor at Watts Gwilliam & Company at 480-889-8998.