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## Senior Income Needs: Making Good EIA Choices

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MCP Premium Software

When proposing an equity-indexed annuity (EIA) for a senior who needs income, which EIA you choose can make all the difference in determining a successful outcome. Assuming that you've already determined a fixed annuity is an appropriate way for your senior client to supplement his retirement income, and you've researched company offerings and found several products you are comfortable with, which EIA credit method do you choose?

Some industry professionals have said that over time, all EIA credit methods will perform "on average" within 0.5 percent of each other. However, this is not what my extensive research shows, and you must consider these results when planning for a senior. A disparity in returns can be exacerbated when the equity-indexed annuity is part of an income-planning scenario. Withdrawals can begin to eat into principal if growth is stunted.

Since EIAs have variable rate returns that range between 0 percent and either a capped or uncapped return based on some credit method strategy (e.g. point to point, monthly averaging or monthly point to point), it is important to evaluate your proposed EIA retirement income plan over a number of different time periods — and market conditions — to test the results. This type of analysis is very simple if you use EIA software or other online tools created for this purpose. If not, you will need to build yourself a comprehensive spreadsheet.

With even the most basic analysis, you will quickly see that where an index credit method is designed to perform well during a bullish market, it is a poor performer during a bearish market. Since you are considering an EIA for a senior with an income need, you are probably assisting the client to prepare for the possibility of rough markets ahead. This also means that you absolutely must test your income-planning scenario over a bearish market.

In my analysis for this article, I have evaluated three popular crediting strategies. Below is a grid of the index credit method attributes.

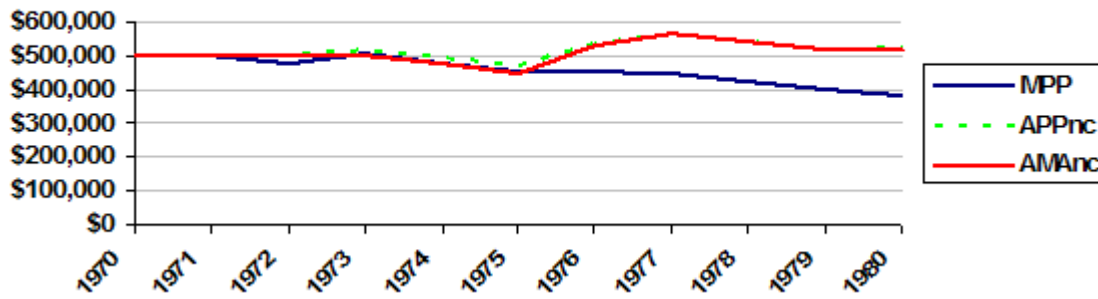
### EIA Index Crediting Methods Used in the Analysis

Profile Name	Index	Credit Method	Participation	Asset Fee	Cap Rate	Reset	Vesting
MPP	SP500	Monthly Point to Point	100%	0%	Monthly/ 2.5%	Annual	No
APPnc	SP500	Annual Point to Point	70%	2%	No Cap	Annual	No
AMAnc	SP500	Monthly Averaging	100%	1.9%	No Cap	Annual	No

The following charts illustrate the hypothetical account values of the retirement income plan scenario below:

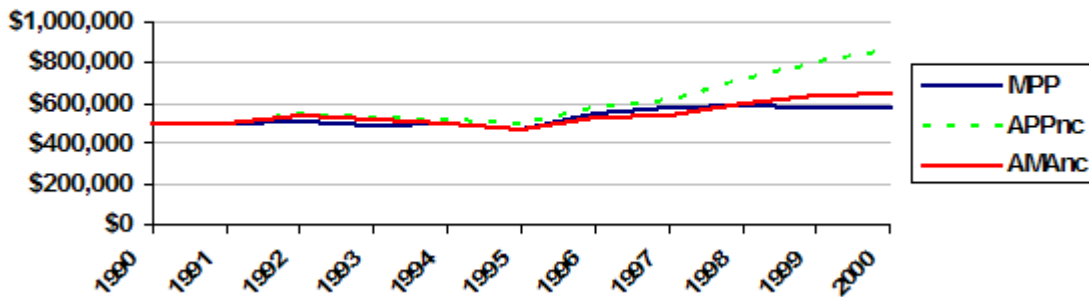
**Initial Account Value: \$500,000**  
**Annual Withdrawals: \$25,000**

### Bear Market



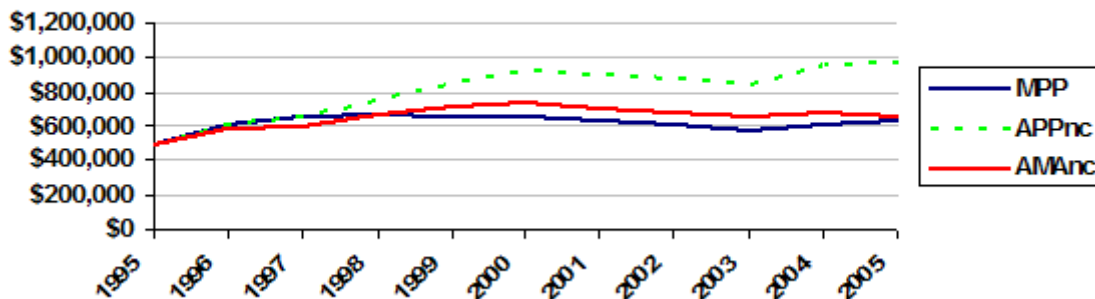
In the bear market period above, both monthly averaging and annual point-to-point methods were able to go the distance and preserve capital while providing income, but the monthly point-to-point methodology was unable to recover from periods of monthly losses and ultimately failed.

### Bull Market



This time, in a bull market period, the monthly point-to-point and monthly averaging methods reduced possible gains but still held up. The uncapped annual point-to-point method (even with reduced participation and a fee) is clearly the better choice under these conditions.

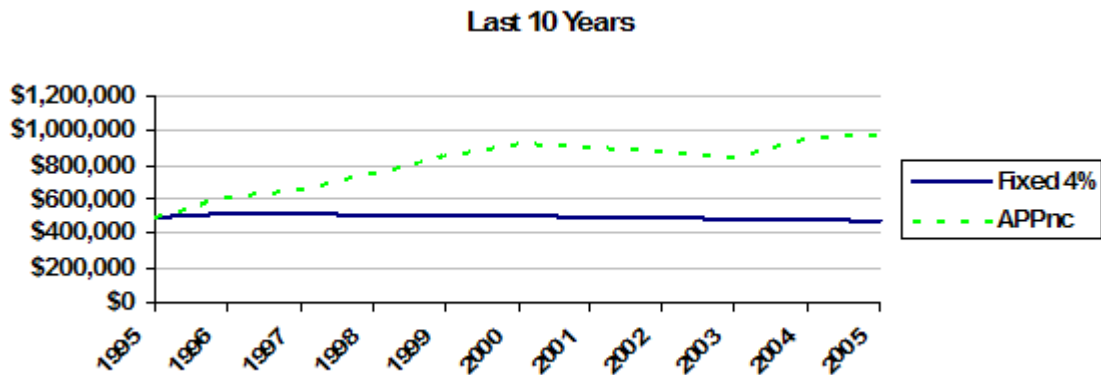
### Last 10 Years



The last 10 years has been a stock market roller coaster. While the monthly point-to-point and monthly averaging methods again meet the income needs in our scenario, the annual point-to-point method performed better, growing to several hundred thousand dollars more than its peers.

As you can see, the outcomes can vary greatly. In all three time periods, the monthly point-to-point index credit method is the lowest performer, the annual reset monthly averaging method comes in second and the annual reset point to point wins out. As I pointed out above, you can see from the charts that the difference can mean hundreds of thousands of dollars to your client.

Seniors always like having a point of reference to put this type of information into perspective. So, let's look at the annual reset point-to-point strategy compared to a fixed 4 percent interest rate product, such as a CD, over the last 10 years.



The CD fixed rate of return just can't create enough income without a loss of principal, while the annual reset point-to-point EIA performance is stellar. The client received relatively the same amount of risk protection, but their income needs and principal protection were better accomplished with this particular EIA crediting method.

In summary, an EIA can be a good tool to use for a senior with a retirement income planning need, but the right EIA can make all the difference to the success (or failure) of your planning. Hopefully I have helped you to see that three different index credit methods can perform very differently, dispelling the myth that all credit methods are alike. Remember that your senior client is depending on you to make good recommendations for their future livelihood. Be sure to always take the time to properly research your product choices.

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