

Quarterly Point to Point EIA

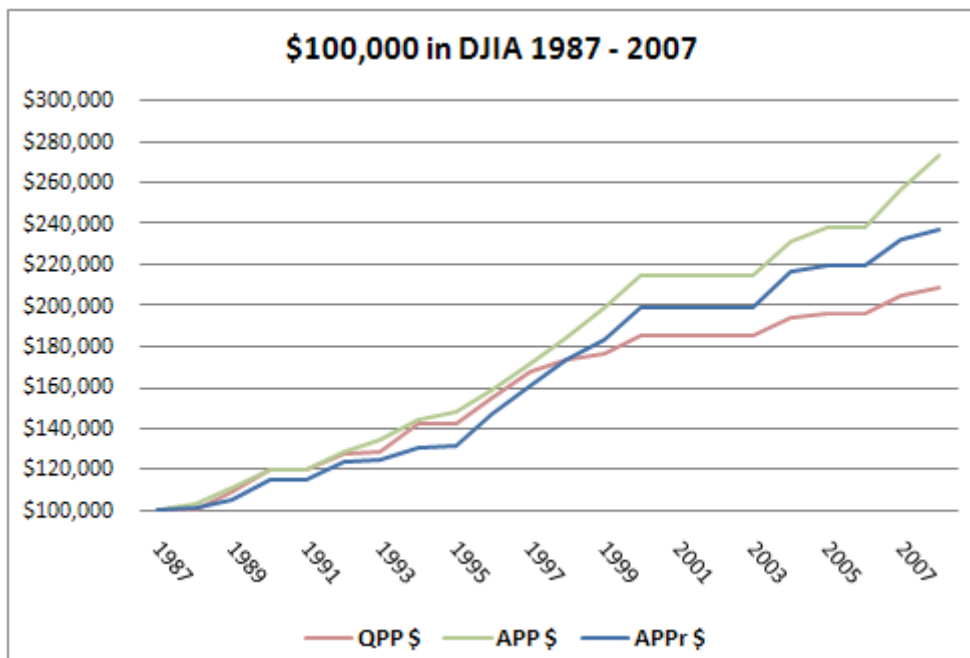
By Dorice Maynard, VP Customer Service & Sales

This unique indexed annuity crediting method is offered only through RBC Insurance in their RBC Choice Series. They are one of the only companies to make the Dow Jones Industrial Average (DJIA) index their mainstay, rather than a side offering. But RBC is the only one so far to create a quarterly point to point credit method; similar to the over used monthly point to point method.

Interesting, certainly. But what does a simple hypothetical analysis of this index crediting method reveal?

I took the DJIA index performance from 1987 – 2007 and three hypothetical \$100,000 EIA investments. For credit methods, I used a currently available annual point to point with a 7.75% cap (APP), an annual point to point with a 35% participation rate (APPr), and of course RBC's quarterly point to point with its current 2.5% cap (QPP).

The ending values tell the story: **\$273,037.46 or 4.90% return for the APP; \$237,019.99 or 4.20% return for the APPr; versus just \$209,003.85 or 3.57% return for the QPP.** Annual growth is illustrated in the chart below.



So what went “wrong” with the potential upside from a quarterly point to point? It is really the same story as with monthly point to point: it’s a sum game. Negative values detract from positive ones. While the method does work well for brief periods (again, just like monthly point to point), over the long haul it comes up short. I will use a sample data table to illustrate this concept for you. While using all 20 years of quarterly data from my study would be too ponderous, taking just the last several years will work well.

DJIA Stock Index & Credit Method quarterly data 2003 – 2007

Year	ActualQTRchg%	ActualAPP	QPPSum	QPPcred	APPcred	APPRcred
01/02/2003	2.00%	-16.76%	-5.15%	0.00%	0.00%	0.00%
04/01/2003	-0.93%					
07/01/2003	2.63%					
10/01/2003	0.77%					
01/02/2004	3.11%	25.30%	4.84%	4.84%	7.75%	8.85%
04/01/2004	-0.25%					
07/01/2004	0.20%					
10/01/2004	-0.92%					
01/03/2005	1.83%	3.17%	0.86%	0.86%	3.17%	1.11%
04/01/2005	-0.73%					
07/01/2005	-0.60%					
10/03/2005	0.77%					
01/03/2006	0.39%	-0.61%	-0.17%	0.00%	0.00%	0.00%
04/03/2006	1.02%					
07/03/2006	0.09%					
10/02/2006	1.36%					
01/03/2007	2.00%	16.25%	4.47%	4.47%	7.75%	5.69%
04/02/2007	-0.27%					
07/02/2007	2.69%					
10/01/2007	1.24%					
01/02/2008	-1.61%	6.44%	1.86%	1.86%	6.44%	2.25%

A bit of explanation may be needed to help interpret the table above:

ActualQTRchg% = The actual DJIA index change from the previous quarter.

ActualAPP = Shows the actual annual performance of the DJIA index.

QPPsum = The annual sum results of a 2.5% quarterly cap being applied (no floor).

The columns labeled “**QPPcred**”, “**APPcred**” and “**APPRcred**” indicate what the EIA credit methods (2.5% QPP, 7.75% APP and 35% par APPr) would have earned each year.

So what’s the lesson here? The quarterly point to point credit method is dependent largely on upward trending stock markets to work, since negative quarters detract from or in some cases completely erase the previous quarter’s gains. I’d have to say advisors should treat this credit method much the same as monthly point to point – use sparingly. There are more consistent credit methods available. If you do choose to use it, set your expectations (and your client’s expectations) appropriately.

**Earlier version of this report used incorrect calculations: an extra quarter of data inadvertently had been added. Overall results and conclusions drawn were not affected.*