A Guide to Fixed Index Annuities

STRAIGHTFORWARD COMPARISON VERSUS POPULAR ALTERNATIVES

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A Guide to Fixed Index Annuities
Straightforward Comparison Versus Popular Alternatives

BILL HARRIS
President, W.V.H., Inc.

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A GUIDE TO FIXED INDEX ANNUITIES
STRAIGHTFORWARD COMPARISON VERSUS
POPULAR ALTERNATIVES

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A Guide to Fixed Index Annuities

Straightforward Comparison Versus Popular Alternatives

Consumers planning for retirement continue to face a constant struggle of where to put their assets. Market volatility has caused concerns and traditional fixed financial vehicles may not offer the growth potential many people seek. Consumers continue to search for the right balance of growth potential and protection from downside market risk.

Fixed Index Annuities can offer higher interest rate potential than Bank Certificates of Deposit (CDs) and Traditional Fixed Annuities since interest is credited based in part on the performance of specific indices. In addition, Fixed Index Annuities can also offer protection from loss of premium due to market downturns or fluctuation when indices decrease. Is a Fixed Index Annuity something you should consider? You might know that answer after you learn what a Fixed Index Annuity is and what a Fixed Index Annuity is not.

What is a Fixed Index Annuity?
A fixed index annuity is a deferred annuity that earns interest based on changes in a market index, which measures how the market or part of the market performs. The interest credited is guaranteed to never be less than zero, even if the market goes down. Fixed Index Annuities are long term insurance products with guarantees backed by the issuing company.

The Fixed Index Annuity is not like a Bank Certificate of Deposit (CD):
Fixed Index Annuities are not FDIC insured nor insured by any other governmental agency. Bank CDs are FDIC insured. On the other hand, Fixed Index Annuity policy owners can receive benefits not found in Bank CDs such as tax-deferred growth accumulation and the option to elect guaranteed lifetime income.

The Fixed Index Annuity is not as liquid as a short term Bank Certificate of Deposit or a Money Market account. Fixed Index Annuities have surrender charge periods which can range from 5-7-10 years or longer so the insurer can invest money on a long-term basis. Generally, the longer the surrender charge period, the higher the interest rate that can be credited to the annuity during the surrender charge period.

In Hypothetical Exhibit 1 titled, “Fixed Index Annuity Versus Bank CD”, we compare what 3 hypothetical scenarios for the time period of 2005 until 2014.

Scenario 1: An individual purchased a $100,000 1-Year. Bank CD and renewed it each year for 10 years.

Scenario 2: An individual purchased a $100,000 5-Year Bank CD and renewed the 5-Year CD at each renewal.

Scenario 3: An individual purchased a Fixed Index Annuity.

While the past is no indication of future performance, the 1-Year Bank CD credited an interest rate higher than the Fixed Index Annuity only in 3 of the 10 years and the 5-Year Bank CD credited an interest rate higher than the Fixed Index Annuity only in 4 of the 10 years between 2005 and 2014.

If we compared the accumulation based on those 3 hypothetical scenarios, the Fixed Index Annuity would have out-accumulated the 1-year Bank CD by 28%, ($151,038 compared to $118,479) and out-accumulated the 5-Year Bank CD by 11% ($151,038 compared to $135,650).

If we deducted the income taxes that would be due each year on the interest from the Bank CD, the accumulation value of the Fixed Index Annuity cited above would be greater since the interest accumulates tax-deferred. Under current law, income taxes are paid when the interest from the annuity is withdrawn or the annuity is surrendered.

Fixed Index Annuity Versus Bank CD
Hypothetical Exhibit 1

Year	Scenario 1: 1-Year CD	Scenario 2: 5-Year CD	Scenario 3: Fixed Index Annuity
2005	3.0%	4.00%	3.00%
2006	3.8%	4.00%	5.55%
2007	3.7%	4.00%	3.53%
2008	2.2%	4.00%	0.00%
2009	2.0%	4.00%	6.20%
2010	1.0%	2.20%	6.05%
2011	0.7%	2.20%	0.00%
2012	0.33%	2.20%	5.60%
2013	0.23%	2.20%	6.30%
2014	0.22%	2.20%	5.55%

Sources: For years 2005-2014, the above chart is based on a line chart created by BankRate.com which showed the national average CD rates for 1-year CD yields and 5-year CD yields. For 2014, interest rates shown are from http://www.bankrate.com

Summary: Individuals near or in retirement like that Fixed Index Annuities can potentially provide greater interest rates than the .28%, and .87% that 1 & 5- year Bank CDs are paying as of February 1st, 2015. (Source: Bankrate.com: National Average). Said differently, $100,000 in a 1- year Bank CD paying .28% interest compounded annually earns $280 of interest during the entire one year term.

The Fixed Index Annuity is Not a Security:
Securities are regulated by FINRA (Financial Industry Regulatory Authority), a non-governmental agency regulating the securities industry which used to be called the National Association of Securities Dealers (NASD). A Fixed Index Annuity is considered an insurance product, not a security.

Fixed Index Annuities offer protection from loss of premium due to market downturn or fluctuation when indices decrease.

In Hypothetical Exhibit 2 titled, "Fixed Index Annuities Versus the Market", we compare a Fixed Index Annuity to S&P 500® between 2001-2014. Please look at the years when S&P decreased 13% in 2001, 23% in 2002, and then 38.49% in 2008.

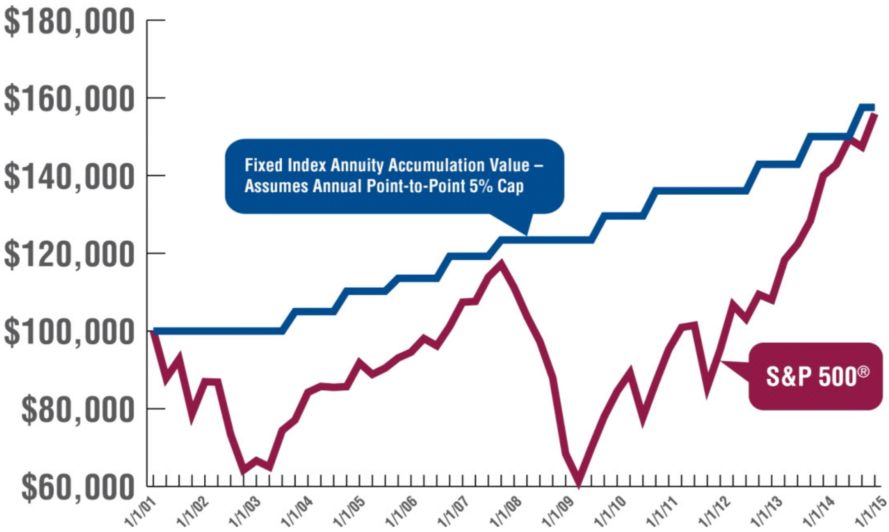
During the years in which the S&P decreased, 2001, 2002, and 2008, The hypothetical Fixed Index Annuity shown was credited a 0% interest rate instead of seeing their retirement account collapse by as much as 38.49% in 2008. In addition, the policy owners of this Fixed Index Annuity saw their previous years' interest locked in and protected from future index decreases.

The end result with many Fixed Index Annuities is that policy owners can have potentially less worry and anxiety, by avoiding risk of loss of premium due to market downturns and fluctuation.

Please look at the years when S & P 500 increased; especially in 2003 & 2009 when S&P 500 increased 25%. During those years, policy owners of that Fixed Index Annuity were credited far less interest. Why? The Fixed Index Annuity is not supposed to outperform or even match the stock market.

Summary: The Fixed Index Annuity is designed to a) protect policy owners from premium losses such as when the Fixed Index Annuity credits a 0% interest rate when the index had a negative change from one year to the next, b) lock in and protect previous years' interest from future index decreases, c) offer higher interest rate potential than Bank Certificates of Deposit and Traditional Fixed Annuities (as shown in the Hypothetical Exhibit 2), d) allow policy owners the option to elect guaranteed monthly income for life, and e) provide a guaranteed minimum value for the life of the policy.

Fixed Index Annuities Versus The Market
Hypothetical Exhibit 2



Sources: http://finance.yahoo.com/

Assumptions: $100,000 initial premium deposit, no withdrawals, 5% Cap, S&P 500® Annual Point-To-Point.

Disclosure: Fixed Index Annuities are not a direct investment in the stock market. They are long term insurance products with guarantees backed by the issuing company. Fixed Index Annuities are not designed to compete with and should not be compared to a security or a direct investment in an Index fund. These results are not an indication that Fixed Index Annuities will outperform the S&P 500®. It is important to understand that the index credits for an FIA will not mirror the applicable index returns. FIAs do not include dividends for the applicable indices. This example should not be viewed as an illustration or a prediction of future performance or future index credited within any of our FIAs.

Problem/Solution

Let's Review. The charts pinpoint two potential problems.

Problem 1 Low Growth Potential of Bank CDs (See Exhibit 1)

Problem 2 Potential Loss of Premium Due to Market Downturns & Fluctuation (See Exhibit 2)

So how do you identify a solution? Could an insurance professional help? Oftentimes, they can help provide potential solutions for the problems consumers may face. Ask about your options when it comes to Fixed Index Annuities, Lifetime Income Riders, and Immediate Annuities.

Fixed Index Annuities can provide greater interest rate potential than Bank CDs as shown on the "Fixed Index Annuity Versus Bank CD" chart. In addition, Fixed Index Annuities can help protect your retirement savings from loss of premium due to market downturns and fluctuation by a) crediting 0% interest when the index decreases and b) locking in and protecting previous years' interest credits from future market downturns or fluctuation as shown on the "Fixed Index Annuities Versus the Market" chart.

And if that were not enough, some Fixed Index Annuities have a Lifetime Income Rider so policy owners can elect, if they wish, to receive lifetime income payments so they never outlive their retirement savings.

The Fixed Index Annuity may not be an appropriate product for all individuals, all of the time. However, it can be a wise choice for individuals when the suitability needs are met.

How Some People Select Strong Insurance Companies:
There are rating services that rate insurance companies according to the insurance company's financial strength and ability to meet its ongoing policy and contract obligations.

A.M. Best is probably the oldest rating agency and the only rating agency that focuses on the insurance industry exclusively.

In Exhibit 3, we have listed below the ten A.M. Best financial strength ratings that A.M Best has given to 1,225 insurance companies in 2014. (Source A.M. Best)

"A++ and A+" (Superior) category is A.M. Best's highest financial strength rating.

"S". (Rating suspended) is their lowest.

All parties should a) evaluate what the other rating services are also saying about the insurance companies they are considering, and b) ask your tax, legal, and other advisors as well to help you select the right insurance company.

Guide To Best's Financial Strength Ratings
Exhibit 3

Rating	Descriptor
A++, A+	Superior
A, A-	Excellent
B++, B+	Good
B, B-	Fair
C++, C+	Marginal
C, C-	Weak
D	Poor
E	Under Regulatory Supervision
F	In Liquidation
S	Suspended

Sources: http://www.ambest.com/ratings/guide.pdf

Ratings Disclosure: A Best's Financial Strength Rating opinion addresses the relative ability of an insurer to meet its ongoing insurance obligations. The ratings are not assigned to specific insurance policies or contracts and do not address any other risk, including, but not limited to, an insurer's claims-payment policies or procedures; the ability of the insurer to dispute or deny claims payment on grounds of misrepresentation or fraud; or any specific liability contractually borne by the policy or contract holder.

A Best's Financial Strength Rating is not a recommendation to purchase, hold or terminate any insurance policy, contract or any other financial obligation issued by an insurer, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser.

In arriving at a rating decision, A.M. Best relies on third-party audited financial data and/or other information provided to it. While this information is believed to be reliable, A.M. Best does not independently verify the accuracy or reliability of the information. For additional details, see A.M. Best's Terms of Use at www.ambest.com

How to Shop for a Fixed Index Annuity

Remember all products in and out of the insurance industry have disadvantages. However, you want to make sure that the advantages appreciably outweigh the disadvantages.

Here are 5 possible questions to ask your Licensed Insurance Professional when considering the purchase of a fixed index annuity.

Questions:

- What limitations does their Fixed Index Annuity have in their annuity contract? (Ask about the cap, margins, participation rate, fees, etc.)

- What features discussed in their brochure are guaranteed and not guaranteed in the Fixed Index Annuity contract?

- What are the surrender charges for each year and how long do the surrender charges last? Is there a market value adjustment? Does the death benefit trigger any surrender charges or other penalties?

- Ask to see how the insurer credits interest on their Fixed Index Annuities. Remember the past is not an indication of future performance.

- Which of the 10 financial strength ratings has A. M. Best given the insurer you are considering? The highest financial strength rating category according to A.M. Best is" A++ and A+" (Superior) and the 10th category is "S" (Rating Suspended) (see Exhibit 3).

Since you have chosen insurance companies to insure your life, health, cars, and homes, it makes sense that you should again turn to a strong insurance company to stand behind your retirement dollars. Please see the section titled "How Some People Select Strong Insurance Companies."

Disclosures:

Fixed Index Annuities are not a direct investment in the stock market. They are long term insurance products with guarantees backed by the issuing company. They provide the potential for interest to be credited based in part on the performance of specific indices, without the risk of loss of premium due to market downturns or fluctuation. They may not be appropriate for all clients.

Annuities are not deposits of, or guaranteed by, any bank and are not insured by the FDIC or any other agency of the US. All guarantees are subject to the financial strength of the issuing insurance company.

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Under current law, annuities grow tax deferred. An annuity is not required for tax deferral in qualified plans. Annuities may be subject to taxation during the income or withdrawal phase.

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"After all, it is your life and some of the decisions you make early on during retirement, surprisingly, can control where you live, with whom you live, and how you live."

— Bill Harris, President, W. V. H., Inc

BILL HARRIS is the president of W.V.H., Inc., a consulting and intellectual services company that has licensed concepts, training tools, and creative media to some of the largest companies in the financial services industry. He has been the founder and president of five other companies that collectively wrote over one billion dollars in premium. Bill has been quoted by Money magazine and the Wall Street Journal, and is one of America's most sought after speakers with over 3,000 engagements.

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