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The 25 Point *Annuity* Checklist ✓

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Annuity **Checklist**

Since the beginning of income planning, annuities have been a centerpiece due to their ability to generate current or future income for beneficiaries. Annuities are the only investment vehicle that can guarantee lifetime income, making it an ideal investment for millions of families that are planning for their future. However, there are many individuals who have purchased annuities in the past that do not have the enhancements that are available on annuities today. With that in mind, this booklet will provide you a unique opportunity to meet with prospects and review their existing annuity. You can provide a valuable service to your clients and prospects by sharing ideas to maximize the benefits of annuities with your knowledge in annuity structuring, reviewing beneficiary designations and income planning. My objective is to give you an effective tool to assist you in increasing your income and service in your marketplace.

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Company

1. What is the AM Best rating of the existing annuity company?

A company rating indicates the financial health at the time of the rating. It is important to select a company with a minimum of an A rating from the insurance industry rating service called AM Best.

2. Has that rating changed at all in the past 3 years?

If the rating of an insurance company changes, it is a sign that something has changed in the management, investment portfolio or company sales, which could have a negative impact in the viability of the company and its future.

3. What is the capital surplus of the existing company?

The capital surplus of a company is an excellent indicator of the financial health of the company. Capital surplus demonstrates a sound investment strategy and effective management.

4. What are the assets of the existing company?

Since annuities provide lifetime income opportunities, it is important that the insurance companies offering annuities are financially solid. Assets are a benchmark of the financial health of a company.

5. How strong is the existing company's investment portfolio?

Every company is required to share with insurance regulators and, if it is a stock company, their shareholders the invested assets of the company. There are stringent rules on where a legal life reserve company can invest their assets. The majority of the assets should be in top rated bonds with some equities and loans in the portfolio as well.

6. What is the the existing company's history?

The company should be well established with a detailed history. Their mission statement can provide the foundation for all company activities.

7. Where is the home office located?

The location of the insurance company can say a lot, especially since every state in the union has its own State Commissioner of Insurance. Many times, domiciled companies are more scrutinized than companies located out of state. Plus, it is important to know where your account is situated.

8. How long has management been in place?

The present management determines the success or failure of the insurance company. Management is made up of the sales, marketing, actuarial, legal and investment departments of the company. There should be competent and accomplished individuals in every area of the company. The tenure of the management is a good indication of the company's stability.

9. Does the existing product have an income rider?

There have been many innovations in annuity product design including income riders. An income rider guarantees a certain rate of return during the accumulation phase of the contract and a distribution percentage upon electing an income stream during the withdrawal phase of the contract.

10. How long is the existing income rider guarantee?

The current fixed rate for the income rider assigned to the contract should be guaranteed for a specified period of time. A lifetime guarantee would be the strongest amendment to the contract.

11. Is the rider income benefit simple or compound interest crediting?

There are many companies that credit interest differently. The most common options are simple and compound crediting on the interest rate. A quick example would be to use a 5% interest rate crediting on a \$100,000.00 annuity for an accumulation period of ten (10) years. With the simple interest rate crediting method, the account value would be worth \$150,000.00 after ten (10) years. Whereas, the 5% compounded rate crediting method the account value would be worth \$162,500.00 after ten (10) years.

12. What is the percentage for distribution in the existing product?

The percentage that is contractually binding needs to be clearly indicated. Many insurance companies have a high interest rate in the accumulation phase and then take it all back during the distribution phase. For example, at age 60 the distribution percentage would be 5%. The distribution percentage increases for older individuals. Many companies allow for joint annuitants with typically lower distribution percentage ranging from .25 to .50 basis points lower than the individual rate tables.

13. What are the participation rates in the existing product?

A participation rate is defined as the amount of the growth of a particular index that is retained by the client. A higher participation rate means an increased likelihood of growth. For example, if the account was linked to the S&P 500 and the index grew 14% with a 60% participation rate, the client would capture a 8.4% rate of return.

14. What are the cap rates in the existing product?

A cap rate is defined as the maximum growth rate of the index that a client will be able to retain in their contract. The cap rate should be disclosed each year to determine the growth potential for the annuity. A higher cap rate means more opportunity for growth. Using the same example as in checklist point 13 and assuming a 6% cap rate, if the account is linked to the S&P 500 and the index grew 14%, the client would earn a 6% rate of return.

15. What are the fixed rate options in the existing product?

If you are reviewing an indexed annuity it is important to explore the fixed rate strategies for the clients. What are the options and renewal rate history for the options?

16. How many interest rate strategies are available in the existing product?

An interest rate strategy is the opportunity to allocate the money in a number of different ways, allowing the client to take advantage of the different cycles in the economy.

17. What index options are available in the existing product?

There should be different index strategies for the clients, such as annual or monthly point to point, monthly averaging, annual cap rate and monthly cap rate.

18. What is the fixed interest rate renewal history?

The renewal history of an insurance company is a glimpse into potential growth; you can tell a lot about the future by looking into the past. Renewal rates are a sign that a company is serious about taking care of their existing client base.

19. Are there any surrender charges in the existing product?

An annuity out of the surrender period is in a good position to be rolled over into a new product with more features. Conversely, if an annuity has high surrender charges, that may prohibit a roll over out of the existing company.

Contract Structure

Contract Structure

20. Is the correct beneficiary listed on the existing contract?

There are three parties to an annuity contract: Owner, Annuitant and Beneficiary. It is important the contract is structured correctly.

21. Who is the present owner on the existing contract?

Identify the owner and understand if the contract is owner driven or annuitant driven. This information is important since it will trigger distribution of the annuity upon the death either the owner or annuitant.

22. Who is listed as the annuitant?

Many people are exchanging their old annuities for a newer, more benefit-oriented contracts. With that in mind, it is critical that in a 1035 tax-free exchange, the contract must be “like to like,” meaning the structure of the contracts must be identical.

23. Is there a contingent beneficiary listed on the existing contract?

Many annuity contracts provide for a contingent beneficiary to be named. Did the client designate a contingent beneficiary?

24. Is the current life insurance company properly licensed to conduct business in the client’s state?

Many life insurance companies are not approved in certain states and may not be aware that insurance agents are marketing products not approved in that state. When this information is uncovered, most insurance companies will take the proper steps to discipline the agent with probation or termination of their appointment with their company.

25. Are there any lawsuits or a large number of complaints filed against the current annuity company?

Look at this objectively because insurance companies have been targeted by some law firms seeking to design a class action lawsuit against a deep pocket company. It is important to contact the State Board of Insurance in the client's state to determine if there are a high number of complaints lodged against a particular insurance company. You should do your due diligence in any arrangement with any investment program that you suggest to your clients.

Conclusions

As you read and review this checklist, keep in mind that you are making the case to your prospect that you are knowledgeable, creditable and ethical in your approach to the planning process.

In addition, you are able, through the series of these checkpoints, to clearly differentiate yourself from your competitors. Each point should be discussed with your prospect so that you understand what they have and how they feel about their current annuity. You can take this opportunity to share your approach.

It is recommended that you reinforce to your prospect that they made a good decision to purchase an annuity, but now it is time to review, update and improve their financial situation.

The magic words are, "Everyone likes to get a second opinion, especially, from someone who has made it their life mission to assist others in designing their income plan."

We wish you the very best in all your endeavors!