

# How to choose an index crediting strategy



Looking to find the right mix of growth potential and protection for their retirement assets, many people choose to add a fixed index annuity (FIA) to their overall portfolio. Part of how FIAs work is having index crediting strategies that are used to calculate interest credits. There is no “best” crediting method or index since each performs differently in various market scenarios, but understanding each option can help you make an educated decision on the crediting strategy that’s most suitable for your needs.

## How does a fixed index annuity credit interest?

When purchasing an FIA, the annuitant has control over how their initial premium is allocated between a fixed account or index accounts and can choose from several crediting methods. Each strategy has its own formula and crediting components, but every crediting method allows the annuity owner to earn interest based in part on the performance of an external market index. Since a FIA is not directly invested in the market, it offers potential for growth, while still providing protection from market downturns.

The following limits have an impact on the amount of interest that may be credited to a fixed index annuity.

- **Participation rates** limit the interest credit to a set percentage of any index gain. For example, if the participation rate is 30% and the index gain is 10%, the interest credit would be 3%.
- **Index cap rates** are upper limits on how much of the index gain can be received. For example, if the cap rate is 5% and the index gain is 10%, the interest credit would be capped at 5%.
- **Index margins** are subtracted from any index gain before an interest credit is received. For example, if the index margin is 2% and the index gain is 10%, the interest credit would be 8%.

## What are the methods for interest crediting?

There are a variety of crediting method options that can be used to calculate interest credits. Here are a few of the most common.

- **Annual Point-to-Point** is calculated by subtracting the beginning index value from the ending index value. The difference is then divided by the beginning index value; this amount is called the percent of index value change. The percentage can either be positive or negative.

This percent of index value change is then subject to either a participation rate, index cap rate, index margin or a combination of any of the three. The resulting final percentage is the interest credit percentage at the contract anniversary.

- **Monthly Point-to-Point** calculates interest credits by determining the change in the index value over a one-month period, subject to a monthly index cap rate, then adding together the 12 monthly index value changes during a contract year. Interest credits, if any, are determined each contract year and are based in part on the index values of the respective indices over that same term. Though the value for a given month could be negative, the final interest credit percentage (the sum of all monthly values) can never be less than zero.
- **Inverse Performance Trigger** is calculated by taking the index values from the beginning of a contract year and comparing them to the index values at the end of the contract year. If the ending index value is equal to or less than the starting index value, the money allocated to this option will be credited interest at the declared performance rate. If the ending index value is greater than the beginning index value, the money allocated to this option will receive a 0% interest credit percentage.

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No matter what interest crediting method is chosen or how the market performs, interest credits can never be less than zero. For example, if the percent of index value change is calculated at 0% or a negative percentage, then a 0% interest credit percentage would be received for that contract year.

## Preparing for retirement

Fixed index annuities can be a valuable retirement income solution that offers safety and guarantees along with the opportunity to help retirement savings grow. As you plan for the future, consider talking to a financial professional to share your retirement vision and explore which options can help you achieve that dream. Since everyone's situation is unique, having an expert on your team can help you combine products, better understand interest crediting strategies, and find the solutions that meet your personal needs and help get you on track to a happy retirement.

## Helping you enjoy a life of living well

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