How Does a Fixed Index Annuity Work?

To understand how Fixed Index Annuities (FIAs) work, you need to know 3 things:

1. **INVESTMENT YIELD** - How much money is the insurance company earning on investments?
2. **SPREAD** - What types of expenses does the insurance company have?
3. **INTEREST CREDIT** - How much is left over?

INVESTMENT YIELD

American Equity invests in a host of financial vehicles. Our bond portfolio is 98% investment grade. Investments include:

- Government bonds
- Corporate bonds
- Mortgages
- Mortgage backed securities
- Municipal bonds
- Treasuries

SPREAD

The amount American Equity keeps in order to run the Company:

- Corporate taxes
- Building costs/Overhead/ Supplies
- Labor
- Gross Dealer Concessions (GDC)
- Shareholder value/ Shareholder Considerations
- Advertising and promotion

INTEREST CREDIT

Investment Yield minus Spread equals the Interest Credits we have for our policyholders. On an indexed annuity, the policyholder receives this benefit in one of two ways:

1. If allocated to the fixed account, this is the return they receive for the contract year.
2. If allocated to an indexed account, we take this money and buy a one year call option from a counterparty. On the contract anniversary, we pass along ALL gains from the call option, subject to caps, par rates and spreads, to the policyholder. If there are no gains from the option, the policyholder does not lose a penny for that contract year.

The True Value of a Fixed Index Annuity	Fixed Index Annuity Features & Answers				
Retirement Concerns & Questions	Protection	Guaranteed Income	Tax-Deferred Growth	Liquidity	May Avoid Probate
What happens when the market goes down?	✔	✔			
Can I maintain my lifestyle?	✔	✔	✔	✔	
Will my money be there when I need it?	✔	✔		✔	
Can I protect my dollars from taxes?	✔		✔		
Will my loved ones be taken care of?	✔	✔	✔	✔	✔

The one who works for you!®

AMERICAN EQUITY INVESTMENT LIFE INSURANCE COMPANY®

Where Do FIAs Fit?

FIAs excel in the preservation phase and distribution phase of the portfolio life cycle. They are very attractive to someone who is looking for a fixed income solution. FIAs can be used in lieu of, or in tandem with, bonds and other conservative products.

Why do FIAs work well in the preservation phase?

- **Pre-retirement** - Protection of hard-earned nest egg.
- **Principal protection** - FIAs protect money from losses due to index volatility.
- **Tax deferral** - Policyholders do not pay taxes until they start receiving funds from their annuity.
- **No fees** - No mortality and expense fees, no management fees, no administration fees. The only fee is an OPTIONAL fee for the Lifetime Income Benefit Rider (LIBR).
- **Annual reset** – Every contract anniversary, interest credited to the policy is locked in and remains safe from index volatility.
- **Compound interest** - Any interest credits to the account are compounded.
- **Minimum guarantees** - FIAs have a minimum guaranteed growth feature.

Why do FIAs work well in the distribution phase?

- **Guaranteed income for life for Policyholder and Spouse** - Either through annuitization or LIBR feature.
- **Increased liquidity for terminal illness and nursing care needs.***
- **Probate avoidance** - In the case of a client's premature death, their beneficiaries have the accumulated funds available to them and may avoid the expense and delay of probate.

The Ideal Fit for FIAs.

A prospect for a FIA is someone who is within 5-10 years of retirement, needs to protect their principal, and is looking for a guaranteed income stream. A typical 60 year old may have a 60/40 split between securities and bonds. As your clients draws nearer to retirement they lose the advantage of time to weather any market corrections. These people want peace of mind knowing that the last 30 or 40 years of saving diligently, can't be lost by one or two bad years in the market.

Guarantees are based on the financial strength and claims paying ability of American Equity, and are not guaranteed by any bank or insured by the FDIC. Neither American Equity Investment Life Insurance Company® nor any of its agents offer legal, investment or tax advice.

*Not Available in MA.

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