Fixed Annuities
overcoming client concerns

Here are some common concerns and ways you can respond regarding fixed annuity products.

CONCERN: I can get a better rate of return from another investment.

ANSWER: Annuities are tax-deferred. When clients take that into account, the net rate of return from an annuity may, in fact, be higher than what a taxable investment provides. This is because clients do not pay taxes on the earnings until they make a withdrawal, thus having the potential to make money faster than with comparable taxable investments.

To find the tax-equivalent yield of a tax-deferred investment, use this equation:

$$\frac{\text{Tax-Deferred Rate of Return}}{(100 - \text{Tax Rate})} = \text{Tax Equivalent Yield}$$

Example:

$$\frac{\text{5\% Tax-Deferred Rate of Return}}{(100 - \text{25\% Tax Rate})} = \text{6.6\% Tax Equivalent Yield}$$

CONCERN: A certificate of deposit is federally insured — annuities are not.

ANSWER: Annuities offered by financially strong insurers also afford investor protection. State laws regulate the insurance business. Insurers must hold reserves to protect money paid in by policy owners. Principal Life consistently receives high ratings from the major ratings firms: Moody's Investor's Service, Standard & Poor's Corporation, A.M. Best Company, and Fitch.[1]

CONCERN: I'm hesitant to lock into a product with a surrender charge period, especially when annuity rates seem so low.

ANSWER: Annuities should be purchased as a long-term investment. However, clients always have access to their free surrender amount without any surrender charges.[2]

Plus, investors do not lock into a long-term rate. The initial rate on many fixed annuities is guaranteed for one year. After that, the rate is reset annually based on various factors, including market conditions.

Principal Financial Group

Historically, Principal Life fixed annuity renewal rates have been very attractive. *For additional information, please refer to the sales idea, An Annuity That Really Pays (RF 932).*

CONCERN: The Federal Reserve has raised interest rates. Why haven't annuity rates increased?

ANSWER: It's actually not an accurate comparison. There are several different types of interest rates, such as short-term rates, long-term rates, etc. The Federal Reserve can more directly influence interest rates that are short-term and are guaranteed for less than six months. These are the types of rates that have been increasing recently.

Long-term interest rates have not been increasing, and these types of rates are what most annuities are tied to. This is because insurance companies are more likely to invest in asset classes like long-term duration bonds and mortgages.

[1] A high rating by a particular firm does not constitute an endorsement of the rated insurer by the ratings firm.

[2] Values withdrawn prior to age 59½ may be subject to a 10% IRS penalty tax.

Annuities are issued by Principal Life Insurance Company, a member of the Principal Financial Group®, Des Moines, IA 50392.
Annuities are not FDIC insured. They may lose value and there is no bank guarantee.

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