Exploring Structured Annuities

Learn how this fast-growing segment delivers market-driven returns with only a portion of the downside risk.

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Stay invested
Get upside potential with less exposure to market fluctuations

Reduce risk
Choose from a range of protection levels

Accumulate efficiently
With tax-deferred growth until money is withdrawn

Annuities in retirement planning

The annuity market is a long-established one, with countless strategies that help address saving and income needs in retirement planning. One challenge faced by many retirees and pre-retirees, regardless of market conditions is:

How to pursue returns necessary to grow retirement assets while reducing exposure to significant market loss?

Structured annuities may help investors faced with this challenge. With increasing variety and flexibility in the marketplace, structured annuities can help strike a personalized balance between risk and reward based on each investor's evolving needs and objectives.

What is a structured annuity?

A structured annuity is a long-term, tax-deferred financial vehicle used primarily for retirement. Its design gives investors the opportunity to earn interest based on the market growth of an index or indices that they select.

Structured annuities offer multiple crediting strategies, allowing investors to choose between how much growth potential and/or downside protection they want. As each crediting period expires, the investor can reallocate to a new type of crediting strategy for a new term. This flexibility can help meet changing financial objectives over the life of the structured annuity.

Structured annuities can also be referred to as registered index-linked annuities, variable-indexed annuities, indexed-variable annuities, or buffered annuities.

The chart below shows how structured annuities compare with other deferred annuity offerings in a risk-return context.

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Getting started with structured annuities

Investors should understand that the level of protection offered in a crediting strategy directly correlates to the level of upside potential available.

- A structured annuity with more downside protection typically offers less upside potential.
- A structured annuity with less downside protection generally offers more upside potential.

Investors will only receive the stated level of protection if they hold the annuity contract until the end of its crediting period.

Investors often start with these three questions to select a crediting strategy:

1. What market exposure is desired? For example:

U.S. equities	International equities	Emerging market equities	Commodities	Real estate

2. What is the desired crediting period? For example:

1 year	3 years	5 years	6 years

3. How much downside protection is sought? For example:

10% buffer	15% buffer	20% buffer	30% buffer

The above graphic is for illustrative purposes, does not represent all of the features available in the structured annuity market, and may include some terms and/or features that are not available in all states performance is not indicative of future results. Future results are not guaranteed.

The table below illustrates how a crediting strategy works assuming an initial investment of $100,000 is made in a structured annuity with the following terms:

Reference index	Crediting period	Cap rate	Buffer
S&P 500 Index ("SPX")	1 year	20%	10%

- **Crediting period:** The duration of time used to calculate gains or losses on the reference index
- **Cap rate:** A provision in a crediting strategy where a contract owner has the opportunity to participate one-to-one in the gains of the selected reference index up to a defined cap rate, over the specified crediting period
- **Buffer:** A type of downside protection that absorbs a fixed percentage of the selected reference index's losses over the specified crediting period

Scenario 1: SPX gain greater than cap rate		Scenario 2: SPX gain less than cap rate		Scenario 3: SPX loss within buffer		Scenario 4: SPX loss greater than buffer	
SPX performance:	30%	SPX performance:	10%	SPX performance:	-5%	SPX performance:	-20%
The result:	20% gain	The result:	10% gain	The result:	0% return	The result:	-10% loss*
Value at renewal:	$120,000	Value at renewal:	$110,000	Value at renewal:	$100,000	Value at renewal:	$90,000

Buffer absorbed the initial decline only

In this example a loss occurs only if the index falls more than 10% over the crediting period. If the index falls more than 10%, losses that exceed 10% are deducted from the account value.

Potential investors

Structured annuities may be appropriate for investors who are in, or approaching, retirement and seeking protection against unexpected market downturns that could negatively affect their financial plan. However, withdrawals or surrender charges during a specified period may be subject to fees and/or penalties and potential investors must be comfortable with putting principal at risk and making a long-term investment.

Key benefits

- Potential for growth by participating in market upside, subject to the limitations of the crediting strategy
- Risk mitigation with a level of partial downside protection
- Tax advantages, as interest credited grows tax-deferred until earnings are distributed

Key considerations

- Structured annuities are complex, long-term investment vehicles and are subject to risk, including the potential loss of principal.
- From term to term, available reference indices, renewal rates for upside features, protection options, and term lengths are all subject to change, at the carrier's discretion.
- Early withdrawals that exceed the free annual withdrawal amount during the surrender charge period may trigger surrender charges, fees, and/or tax penalties, and may be subject to negative adjustments, which could be substantial. Early withdrawals that exceed the free annual withdrawal amount may also be subject to a market valuation adjustment, or MVA, which can reduce the account value or the actual withdrawal amount. For this reason, an investor should be prepared and able to hold an annuity through the full length of the surrender charge period which is typically between 5-10 years.
- Withdrawals and distributions of taxable amounts are subject to ordinary income tax and, if made prior to age 59½, may be subject to an additional 10% federal income tax penalty.
- Performance, payments, and guarantees are backed by the strength and soundness of the issuing insurance company and are subject to their claims-paying ability.

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