Course Introduction

Indexed Insurance Products

What This Course is About

This course is about indexed insurance products, specifically indexed annuities and indexed life insurance policies. It places these products within the array of annuities and life insurance products in the insurance market today. They are also placed in the middle of the risk spectrum for these products: indexed life insurance between fixed universal life and variable universal life, and indexed annuities between fixed and variable annuities. Although indexed universal life and indexed annuities are considered fixed products, interest credited to these products is based on the performance of an external financial index.

Take Note

The index is just a benchmark, a reference point. The owner in no way participates in the performance of the index. The performance of the index is used by the insurance company to derive the interest rate it will credit to the owner.

Distinguishing Features of Indexed Products

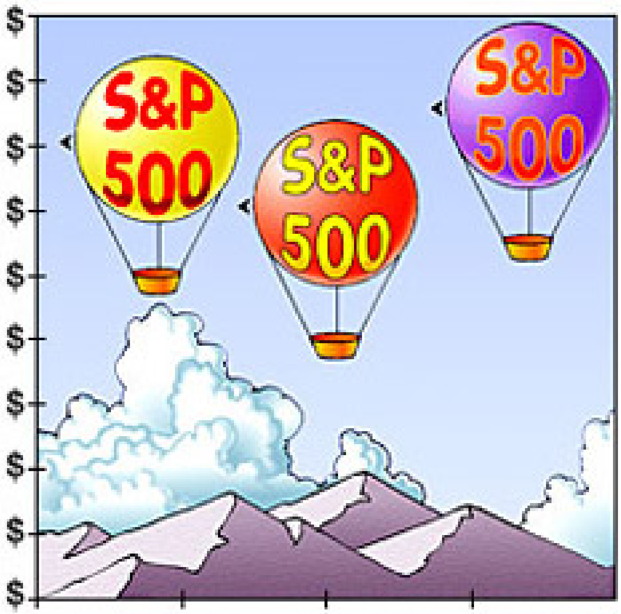
How do indexed insurance products differ from traditional insurance products?

These products offer their owners the opportunity to receive interest based on positive changes in a financial market index, such as the S&P 500 or a bond index. Part or all of the appreciation in benefits in indexed products are determined by reference to independent indexes.

Although the dollar value of benefits can rise and fall based on increases and decreases in the performance of the indexes, the dollar value of benefits cannot fall below specified levels guaranteed by insurers. The dollar value of benefits on an interest determination date cannot be lower than the value of the preceding determination date. This means the dollar value of benefits cannot move downward but only upward relative to the index.

Generally speaking, indexed insurance products also offer the same benefits as nonindexed insurance products, including the traditional insurance guarantees of preservation of principal and minimum rates of interest.

The term indexed insurance products refers to all insurance products for which benefits may increase based on positive changes in a financial market index.



Indexed Products are Complex Products

Although describing the basic concepts of indexed products makes these products seem simple, they are among the most complex insurance products in the marketplace. Why? Because there are a variety of features and options available in designing these products and because of the variety and complexity of methods used to credit interest to these products.

So, as you study this course, keep your clients in mind. Consider how you will educate them concerning these products. Consider how you will determine the suitability of these products in meeting their needs. Also, consider how you will determine their understanding of these products and their ability to manage them.

A Little Background

In the last 25 years or so, in response to an increasingly sophisticated consumer base, an inflationary economy and the perception that life insurance was out of step, the industry created new products with greater market appeal. An impressive lineup of new and innovative insurance products emerged and forever changed the marketing and sale of insurance products.

Indexed insurance products were among these new and complex products, and they are probably the most complex of these products.

This means that great care must be taken in educating clients about these products. On July 17, 2006, the United States Securities and Exchange Commission held its first Senior Summit on how regulators and others can better coordinate efforts to protect older Americans. The Summit released a study called the NASD Investor Education Foundation Fraud Study. It sought to better understand why older consumers fall prey to fraud and contained some surprising findings. The study found, for example, that victims of investment fraud are more financially literate than nonvictims. In addition, fraud victims have higher educations and more income than the general population. They also tend to be optimistic and self-reliant. When making financial decisions, they tend to rely on their own experience and knowledge. What the study concludes is that it is not enough to educate the public about financial products; one must address the psychology of the investor, the demographic and personality indicators.

The Informed Decision

The public must understand the financial products it buys. Only by understanding a financial product can a person make an informed decision, knowing that the product is suitable and that it meets his needs, given his personal and financial situation and goals. A financial product is suitable when there is a match between the person's circumstances and the features of a product. A person's circumstances include age, marital status, children, sources of income, psychological profile, financial experience, assets, tax status, financial needs, and more. Product features include potential growth, risk of loss, liquidity, taxes, and more. To make a suitable fit, insurance agents need to know and educate their clients about their products, and clients must learn and understand those products and the implications of any decision to buy an indexed insurance product.


Expert Advice
Practical Experience
Industry Knowledge
Honesty
Integrity
Good Recom-mendations
Professional Service
Periodic Review
Follow-Up