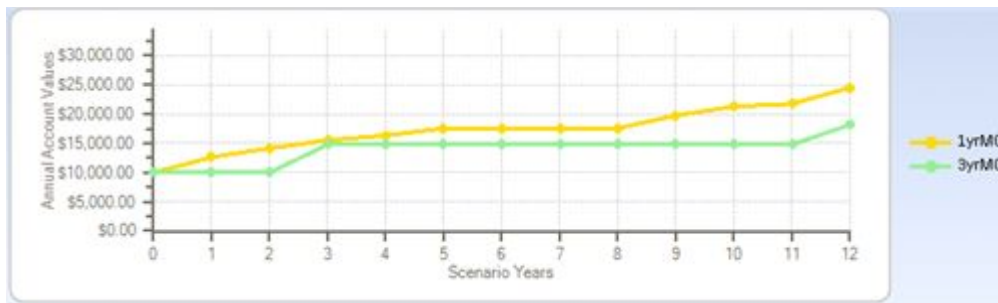


The Difference the Reset Period Makes

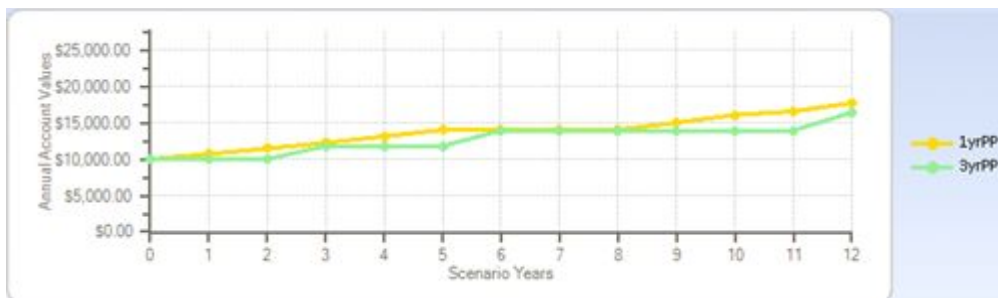
By Dorice Maynard, Software Sales & Customer Service

Index annuity crediting method **reset periods** (the interval at which earned interest is “locked in” and the index point is reset) other than annual have been around for a while, but with the recent appearances of 3 year reset periods from companies like Forethought and Old Mutual, I thought it warranted a review.

Below, I compared a **1-year reset, 3% Monthly Cap** against a **3-year reset, 3.8% Monthly Cap** over the **last 12 years**. Even with the higher cap rate, the lack of annual reset hurts the credit method performance in this case.



I then took a look at a **1-year reset, 7% cap Point to Point** against a **3-year reset, 18% cap Point to Point** over the **last 12 years**. This time, the results were much closer but annual reset still prevailed. Of course, you should review both Monthly Cap and Point to Point over other less favorable time periods, such as the 1970s, for a more complete picture and when presenting them to a client.



The moral here is not to be dazzled by the seemingly higher cap rates. You have to also give consideration to the reset period, anytime it is more than one year. Remember that the index call options are being priced accordingly—so there is likely no superior benefit. Having a hypothetical software tool on hand will help you easily do this type of analysis.

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Premium Producers Group, LLC
P.O. Box 141
Orange, CA 92856