WELLS FARGO Advisors

Fixed indexed annuities

Offering growth potential with downside protection

Investment and Insurance Products are:
- Not Insured by the FDIC or Any Federal Government Agency
- Not a Deposit or Other Obligation of, or Guaranteed by, the Bank or Any Bank Affiliate
- Subject to Investment Risks, Including Possible Loss of the Principal Amount Invested

What is a fixed indexed annuity (FIA)?

A fixed indexed annuity (FIA) is a type of fixed annuity contract that offers the potential for upside growth with downside protection. While traditional fixed annuities provide investors a guaranteed interest rate, fixed indexed annuities have the potential to receive a higher interest rate because the interest amounts are tied to the performance of a selected market index, such as the S&P 500. Indexed annuities have two account type options, a fixed interest account and index strategy accounts that track the performance of a particular index. Depending on the index you choose, there is a cap (upper limit) on the amount of interest you can earn in a given period.

Can I lose money with a fixed indexed annuity?

One of the primary benefits of investing in a fixed indexed annuity is that your initial investment amount, or principal, is protected. Assuming you hold the annuity through the contract's surrender period* and do not make any withdrawals, you are guaranteed to receive at least your principal at the end of the contract's term, even if the selected index declines every year. Fixed indexed annuity products available at Wells Fargo Advisors have surrender periods ranging from five to eight years.

In addition, if you choose to liquidate your contract after fulfilling the surrender period, fixed indexed annuities may also guarantee a minimum rate of return.

How fixed indexed annuities differ from traditional fixed annuities

Traditional fixed annuities earn a fixed rate of interest every period, which is set in the contract and not dependent on outside variables, such as market performance. Fixed indexed annuities, however, earn interest when the selected market index posts positive returns for a given period.

Both types of annuities are considered conservative investments because they provide principal protection without market exposure or market risk. Fixed indexed annuities offer the potential of earning more interest than a traditional fixed annuity when the markets perform well, but will not earn interest during down markets.

* The surrender period is the time which you must wait to take withdrawals from your annuity to avoid a penalty. The surrender period and penalty differ by annuity.

Investment options

In a fixed indexed annuity there are two types of investment options: Fixed Accounts and Indexed Strategy Accounts.

Fixed account option

This option functions like a traditional fixed annuity, guaranteeing a fixed interest rate amount for the specified term.

Upon purchasing a fixed indexed annuity, you may allocate a portion of your premium into the fixed account, with the option to reallocate at the end of each interest term. Your personal tolerance for risk will determine whether to choose the fixed account option, as well as what percentage to allocate toward it.

Indexed strategy account options

Indexed accounts credit interest based on the performance of the index that is selected (for example, the S&P 500 or Russell 2000). If the selected index performs positively, your annuity will earn interest, up to a stated "cap" (upper limit). If the index posts negative performance, you won't lose anything — you simply do not earn interest for that period.

Note that you are not directly invested in an index. Rather, the index's performance is used to determine how much interest, if any, will be credited to your contract in a given period. There are two ways in which interest is earned and applied, point-to-point and monthly averaging.

If you'd like the potential to benefit from positive market performance, but also want the assurance of a fixed rate of interest (regardless of market performance), you may decide to allocate a portion of your premium into the fixed account, while leaving the rest invested in the indexed strategies.

Example: $100,000 investment in an FIA

A hypothetical $100,000 investment can be split into two different account options.

- $25,000 in fixed account with fixed rate of 1.75%.
- $75,000 in Index Strategy S&P 500 with hypothetical cap rate at 4.25%.

Understanding cap rates

In return for the principal protection and moderate growth potential offered by fixed indexed annuities, insurance companies generally state a maximum amount of interest investors can earn each term, also known as the cap rate.

The amount of interest you earn each period is based on a formula that considers the stated cap rate, as well as changes in the selected market index. For example, if the change in the index is positive during the term, you can earn interest up to the contract's cap rate. If the change is negative, you will not earn any interest for that period.

Hypothetical growth of a $100,000 fixed indexed annuity

Year	Cap rate	Index return	Interest credited	Contract value
1	5.00%	7.00%	5.00%	$105,000.00
2	4.80%	5.00%	4.80%	$110,040.00
3	4.95%	-10.00%	0.00%	$110,040.00
4	5.10%	15.00%	5.10%	$115,652.04
5	4.95%	-12.00%	0.00%	$115,652.04
6	4.85%	2.00%	2.00%	$117,965.08
7	5.00%	8.00%	5.00%	$123,863.33

All values shown are for illustrative purposes and assume hypothetical cap rates and index growth rates.

The hypothetical example shown in the chart above illustrates the growth of a fixed indexed annuity contract that had an initial value of $100,000. Over the course of seven years, the contract's value increased to $123,863.33 as a result of the selected index's performance.

In the first year, the hypothetical index was up 7%, but the maximum amount of interest that the contract could earn that year was capped at 5%. In contrast, the cap rate was set at 4.95% for the fifth year and the index posted a return of negative 12% — while the investor did not earn any interest for that year, the annuity is protected from the index's 12% loss and all gains from prior years are preserved. By the end of year seven, the contract's value increased by $23,863.33, despite two years of double-digit market declines.

This example illustrates the potential growth of a fixed indexed annuity contract, as well as how investors:

1. earn tax-deferred interest when the index performs well,
2. are protected from market losses,
3. maintain gains made in prior years, and
4. are assured their principal is protected.

Key terms

Cap rate — The maximum amount (upper limit) of interest that can be earned during a term. Insurance companies set the cap rate at the beginning of each term, generally annually.

Index return — The selected benchmark's rate of return for the given term. Many insurance companies choose the S&P 500® as the contract's index.

Interest credited — The actual amount of interest earned in a term. It will never be more than the stated cap rate or less than 0%.

How is interest applied?

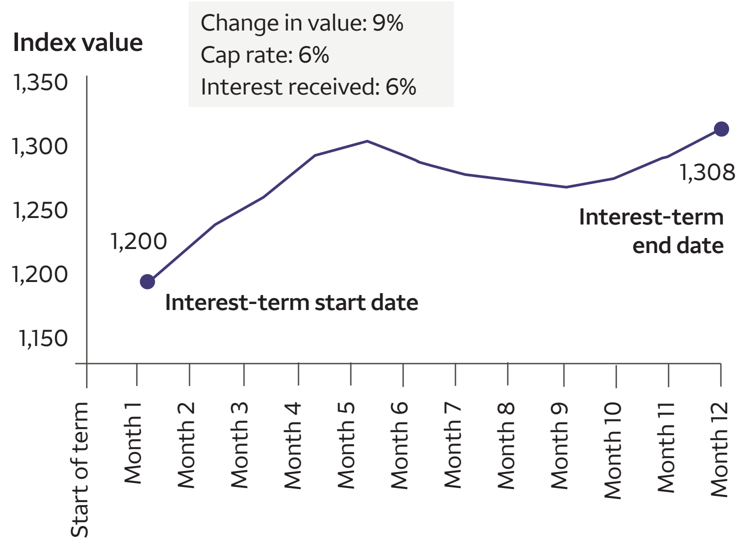
While insurance companies use various methods for applying, or crediting, interest to a fixed indexed annuity, two of the most common are point-to-point and monthly averaging.

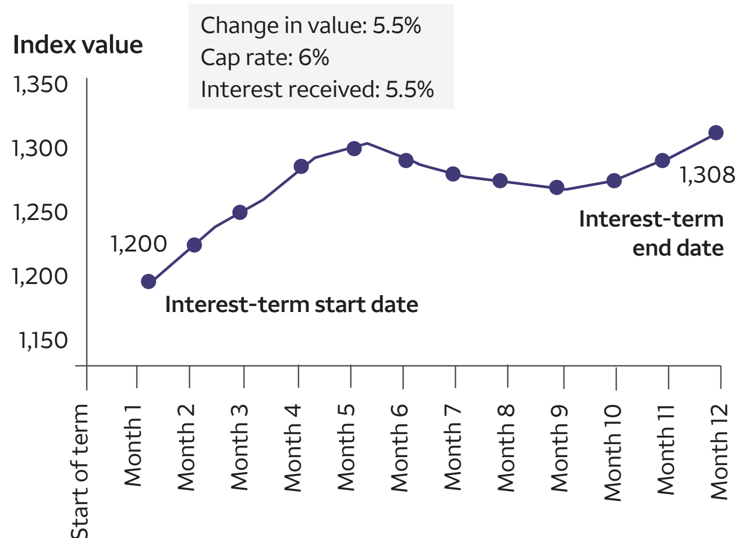
Point-to-point: This strategy compares the value of the index at the beginning of the interest term to its value at the end of the term (generally 12 months). If the ending index value is greater than the beginning value, interest is credited, up to the cap rate. If the ending index value is lower than the beginning value, no interest is credited.

In the hypothetical example on the right, the value of the index at the end of the interest term was 1,308, which was 9% higher than the starting value of 1,200. And although the index's value increased by 9%, this annuity will only receive 6% interest because the contract's stated cap rate is 6%.

Monthly averaging: This strategy compares the index value at the beginning of the interest term to its average value during the entire term (generally 12 months). If the average value is greater than the beginning index value, interest is credited, up to the cap rate. If the average value is lower than the beginning index value, no interest is credited.

In this hypothetical example, the value of the index at the beginning of the interest term was 1,200 and the ending value was 1,308, the same starting and ending values as our point-to-point example. But the average value throughout the 12-month term was 1,266, representing a 5.5% increase over the starting value. This annuity will receive the full interest amount of 5.5% because it is lower than the contract's 6% cap.





Additional FIA features

Living benefits

As you plan for retirement, you may want to consider the ways in which annuities can provide a guaranteed income stream to help cover your living expenses. Guaranteed Minimum Withdrawal Benefits (GMWBs) are optional benefits you can add on to your FIA that guarantee the ability to withdraw a certain percentage of your initial investment for a set number of years or for the rest of your life. It is important to note that living benefits are generally available only as an optional rider for an added cost. They are typically selected at the time of purchase and cannot be changed later. A waiting period and other restrictions could also apply to contracts on which such riders have been selected.

Enhanced death benefits

Death benefits provide you the ability to leave a financial legacy behind for your loved ones. These optional features (at an additional cost) guarantee your death benefit will grow annually at a certain percentage and that your beneficiaries will receive the greater of your contract value or the enhanced death benefit.

Access to your money

Designed for long-term savings goals, annuities may include surrender charges if you withdraw from or liquidate your annuity before the end of the specified surrender period. If you need to access your principal before fulfilling the surrender period, most fixed indexed annuities allow penalty-free withdrawals annually, up to 10% of the contract's value. Keep in mind, however, that withdrawals made prior to age 59½ may be subject to a 10% IRS early-withdrawal penalty.

Is a fixed indexed annuity right for you?

If you are looking for a conservative investment that offers moderate growth potential, the protection of your principal, and the potential for guaranteed lifetime income, a fixed indexed annuity may be right for you.

Your financial advisor at Wells Fargo Advisors can help you determine whether a fixed indexed annuity could complement your overall retirement strategy and portfolio.

Ask your Wells Fargo Advisors financial advisor if adding an annuity to your overall investment portfolio makes sense for your unique situation. Working together, we can create a comprehensive retirement income strategy that will support your lifestyle — both now and in retirement.

Annuities are long-term investments appropriate for retirement funding.

Unlike variable annuities, indexed annuities are typically structured so that they are not securities registered with the SEC. Nor are the sales in indexed annuities regulated by the SEC or FINRA Regulations, Inc.

Insurance products are offered through non-bank insurance agency affiliates of Wells Fargo & Company and underwritten by unaffiliated insurance companies.

Guarantees are based on the claims-paying ability of the issuing insurance company.

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