

# Index Annuities' 5-Year Returns Are In – And Do They Shine!

By Jack Marrion

The growth in index annuity sales is getting some new wind. This comes from news about the returns that investors from the late 1990s have earned in their products, as of the third quarter of 2003.

Example: The average index annuity total return for products purchased on Sept. 30, 1998, and reaching the end of their initial index period on Sept. 30, 2003, was 30.4%.

The lowest returns for the same period were 15.93% for annuities using a term-end point crediting structure.

The highest return was 46.74% for an annuity using an annual reset crediting method and daily averaging.

Although some annuities had higher total returns than others, the focus increasingly is on the overall success of the index annuity concept, not individual results.

The investors who stayed in the product during that period have come out ahead.

Let's compare those figures against the broader landscape.

On Sept. 30, 1998, the S&P 500 closed at 1017.01. Five years later, on Sept. 30, 2003, the S&P 500 closed at 995.97. Although the September 2003 value was 28% higher than the nadir reached in the previous year, the index was still 2% below where it had been five

years before.

And index annuities? They performed competitively in spite of enduring the worst bear market since the Depression.

Five years ago, there were 15 carriers offering index annuities that today have completed their index period and posted five years of interest crediting. Thirteen of these provided me with copies of 2003 customer statements (with personal data blacked out), or similar documentation, for a customer

dynamics of the next period might favor methods with caps or term-end point structures.) The bottom line is that index annuities went through their baptism by fire during this period and all performed as they were designed to do.

The annual reset crediting method received strong validation. These index annuities participated in the index advances in 1998 and 1999, protected the interest credited in the early years during the index declines in

subaccount return for the period.

This probably is not surprising when the swings of the stock market are considered. But the average index annuity return was better than typical bond vehicles during a reportedly strong bond market and was a third higher than the return of the average certificate of deposit, and all of the index annuities posted higher returns than index funds for the same five years.

To get some perspective on these trends, recall that the first index annuity was purchased almost 9 years ago.

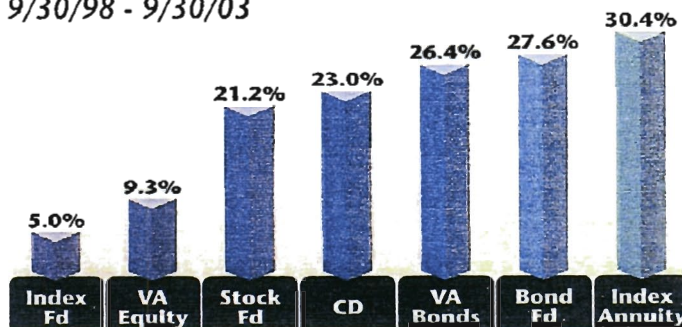
During their brief existence, the stock market has produced years of exuberant irrational returns and historical losses--not a gentle environment for a 9-year-old.

In spite of this, index annuities are building a tangible record of performance and protection.

Although the future path of the market has yet to be walked, index annuities have proven they offer safety in bad times and extraordinary potential in good. ■

*Jack Marrion is president of The Advantage Group, a St. Louis research-consulting firm. His e-mail address is [webmaster@indexannuity.org](mailto:webmaster@indexannuity.org)*

## Average Total Return 9/30/98 - 9/30/03



Compiled by: Jack Marrion, The Advantage Group, St. Louis, Mo.  
Notes: Figures ignore sales or surrender charges. Mutual fund returns include reinvested dividends; index annuity returns do not include reinvested dividends. Information believed accurate, but not warranted. Five-year return periods for four of the 13 reporting annuity companies have slightly different start and end dates. Data gathered from: The Advantage Group, Wall Street Journal 10/6/03, Federal Reserve Board.

who had purchased the index annuity as close to Sept. 30, 1998, as possible.

These are the results I used to compare the total index annuity return with various other vehicles for the same period.

This market period rewarded annual reset annuities with strong first-year index participation rates. (Market

2001 and 2002, and then reset at the indices' lower levels to

take advantage of the index climb in 2003.

The average total return for annual reset annuities alone was 36.72%.

The average index annuity total return was considerably higher than the average stock mutual fund or variable annuity equity