

Life Insurance May 2015 Interest Rate Announcement



Indexed Universal Life

	<u>Fixed Interest</u>	<u>Current Illustrated Variable Loan Rate</u>	<u>Guaranteed Variable Loan Rate</u>	<u>Cap</u>	<u>Short Term Interest Earning Account</u>	<u>Illustrated Rate</u>
<u>New Business</u>						
FG Life-Choice 100% Participation, APTP	4.00%	4.09%	5.00%	9.00%	4.00%	6.27%
FG Life-Choice 140% Participation, APTP	4.00%	4.09%	5.00%	6.50%	4.00%	4.88%
FG Life-Choice PTP Guarantee, APTP	4.00%	4.09%	5.00%	6.00%	4.00%	5.12%
FG Life-Choice MPTP	4.00%	4.09%	5.00%	2.75%	4.00%	4.82%
FG Life-Elite 100% Participation, APTP	4.50%	4.09%	4.50%	14.00%	4.50%	8.54%
FG Life-Elite 140% Participation, APTP	4.50%	4.09%	4.50%	8.50%	4.50%	6.23%
FG Life-Elite MPTP	4.50%	4.09%	4.50%	3.75%	4.50%	7.06%

APTP = Annual Point to Point, MPTP - Monthly Point to Point

All S&P 500 index, unless otherwise noted, Caps/Participation rates subject to change at the discretion of Fidelity & Guaranty Life Insurance Company

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Determining Maximum Illustrated Rates



One of the most challenging issues an agent faces today when selling a fixed indexed universal life (FIUL) product is determining what illustrated rate should be used in the sale. This choice is critical because the illustrated rate influences the expectations of the purchaser regarding future results. The FIUL purchaser relies upon the agent to use an illustrative rate that is credible and the agent is relying upon the insurance company to do the same in establishing a maximum illustrated rate.

When evaluating the reasonableness of a maximum illustrated rate, it is important to understand how the insurance company determined that rate. Did the insurance company use a particular formula in determining the maximum illustrated rate? If so, does the particular formula match how the insurance company actually determines the index credits that translate into interest credited to the FIUL contract? If not, how did the insurance company determine the maximum illustrated rate and why doesn't it match the method used to determine actual index interest credits?

Below is an explanation as to how Fidelity & Guaranty Life determines the maximum illustrated rates for its FIUL products: FG Life-Elite, FG Life-Choice and FG Life-Heritage.

What is the maximum illustrated rate for each participation rate strategy?

- **FG Life-Choice - 100% participation rate, APTP 9.00% cap - 6.27%**
- **FG Life-Choice - 140% participation rate, APTP 6.50% cap - 4.88%**
- **FG Life-Choice - 3% PTP Guarantee, APTP 6.00% cap - 5.12%**
- **FG Life-Choice - Monthly Point-to-Point 2.75% cap - 4.82%**
- **FG Life-Elite - 100% participation rate, APTP 14.00% cap - 8.54%**
- **FG Life-Elite - 140% participation rate, APTP 8.50% cap - 6.23%**
- **FG Life-Elite - Monthly Point-to-Point 3.75% cap - 7.06%**

How were the maximum illustrated rates determined?

Here are the 4 steps involved in this process:

1. We determined the 25 annual S&P 500 index changes for each of the 12 account allocation buckets (Jan 15th, Feb 15th, etc.) over the look-back period.
2. Then we applied the strategy-specific participation rate and current cap to the annual index changes to determine the indexed interest credit that would have been applied to each strategy on each account allocation anniversary during the 25 year periods.
3. Next, we calculated the cumulative growth that would have occurred, free of all costs, in each of the 12 account allocation buckets over the 25 year look-back periods.
4. Finally we took the average of the 12 account allocation buckets to determine the maximum illustrated rate for each strategy.

APTP = Annual Point-to-Point

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