



Advanced
Capital & Investments

ADVANCED CAPITAL & INVESTMENTS · THE ANNUITY DRAG SERIES · NO. 2

The Lost Opportunity Cost

No. 1 showed the gap at the end. This piece measures it each year: the dollars the cap, the missing dividends and the rider fee took, and what those dollars would have grown to if they had stayed at work.

01

The drag, year by year

02

Compounding the drag

03

Adding it up

04

Things to know and what's next

\$484,197

of drag over 25 years, just added up

\$642,856

that drag compounded at a fixed 5%
to age 85

\$710,423

compounded at the S&P 500 total
return

01 THE DRAG, YEAR BY YEAR

What each year cost

Same case as No. 1: \$200,000 at 60, an indexed annuity on the S&P 500 price index with a 0% floor, an 8% cap and a 1% income rider. Each year we measure what the annuity's own value would have earned in the total return index, minus what it was credited, plus the rider fee.

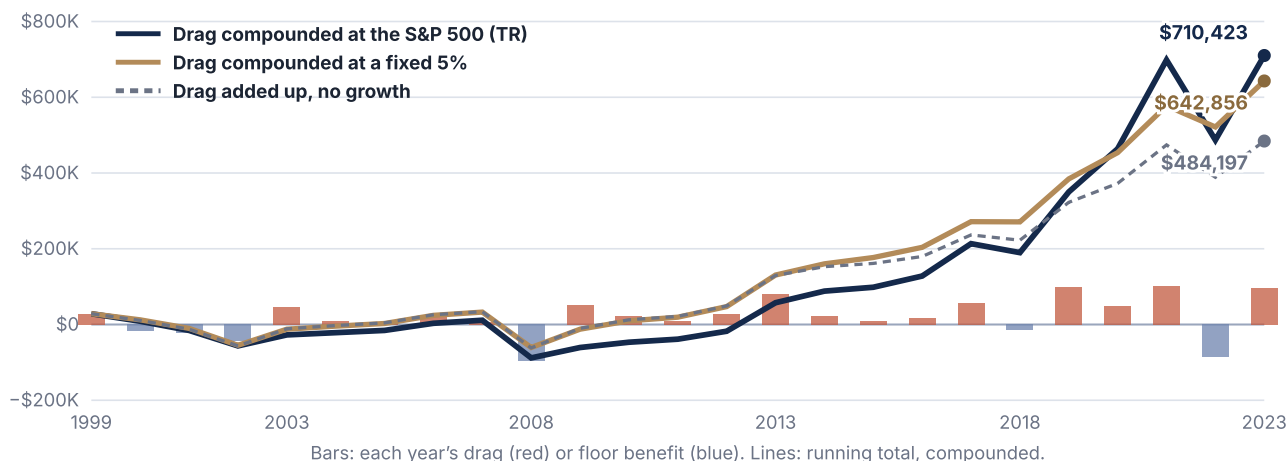
$$\text{Annual drag} = \text{annuity value} \times (\text{S\&P 500 TR} - \text{credited rate}) + \text{rider fee}$$

Year	Age	Annuity value	S&P TR	Credited	Rider fee	Drag	At 5% to 85	At S&P to 85
1999	60	\$200,000	21.0%	8.0%	\$2,160	\$28,240	\$91,077	\$144,262
2000	61	\$213,840	-9.1%	0.0%	\$2,138	-\$17,321	-\$53,202	-\$97,341
2001	62	\$211,702	-11.9%	0.0%	\$2,117	-\$23,054	-\$67,440	-\$147,045
2002	63	\$209,585	-22.1%	0.0%	\$2,096	-\$44,222	-\$123,202	-\$362,078
2003	64	\$207,489	28.7%	8.0%	\$2,241	\$45,150	\$119,795	\$287,278
2004	65	\$221,847	10.9%	8.0%	\$2,396	\$8,785	\$22,200	\$50,413
2005	66	\$237,199	4.9%	3.0%	\$2,443	\$6,974	\$16,783	\$38,145
2006	67	\$241,872	15.8%	8.0%	\$2,612	\$21,454	\$49,173	\$101,348
2007	68	\$258,609	5.5%	3.5%	\$2,677	\$7,746	\$16,909	\$34,688
2008	69	\$265,061	-37.0%	0.0%	\$2,651	-\$95,422	-\$198,375	-\$678,272
2009	70	\$262,410	26.5%	8.0%	\$2,834	\$51,275	\$101,521	\$288,209
2010	71	\$280,569	15.1%	8.0%	\$3,030	\$22,838	\$43,065	\$111,569
2011	72	\$299,984	2.1%	0.0%	\$3,000	\$9,330	\$16,754	\$44,634
2012	73	\$296,984	16.0%	8.0%	\$3,207	\$26,966	\$46,121	\$111,217
2013	74	\$317,536	32.4%	8.0%	\$3,429	\$80,876	\$131,739	\$251,952
2014	75	\$339,509	13.7%	8.0%	\$3,667	\$22,985	\$35,657	\$62,982
2015	76	\$363,003	1.4%	0.0%	\$3,630	\$8,639	\$12,764	\$23,351
2016	77	\$359,373	12.0%	8.0%	\$3,881	\$18,112	\$25,486	\$43,726
2017	78	\$384,242	21.8%	8.0%	\$4,150	\$57,290	\$76,775	\$113,524
2018	79	\$410,831	-4.4%	0.0%	\$4,108	-\$13,886	-\$17,723	-\$28,776
2019	80	\$406,723	31.5%	8.0%	\$4,393	\$99,932	\$121,468	\$157,495
2020	81	\$434,868	18.4%	8.0%	\$4,697	\$49,923	\$57,792	\$66,453
2021	82	\$464,961	28.7%	8.0%	\$5,022	\$101,315	\$111,700	\$104,779
2022	83	\$497,136	-18.1%	0.0%	\$4,971	-\$85,060	-\$89,313	-\$107,422
2023	84	\$492,165	26.3%	8.0%	\$5,315	\$95,332	\$95,332	\$95,332
Total					\$82,866	\$484,197	\$642,856	\$710,423

A minus is a floor benefit: in a down year the annuity credited 0% while the index lost, so the annuity came out ahead that year. Those years are counted against the drag. Annuity value at the start of each year.

02 COMPOUNDING A dollar of drag keeps costing

A dollar the annuity did not earn at 62 is not a one-dollar loss. It is the dollar plus everything it would have earned until 85. That is the lost opportunity cost.



\$763,163

drag in the 19 years the cap, dividends and fee cost money

-\$278,966

floor benefit in the 6 down years, counted against the drag

\$82,866

of the drag was the 1% rider fee alone, before any growth on it

Two ways to grow the drag

The drag dollars, if they had	Value at 85	What it means
Simply been added up	\$484,197	No growth at all. The floor's benefit is already taken out.
Earned a fixed 5%	\$642,856	A conservative rate, below the index over this period
Stayed in the S&P 500 (TR)	\$710,423	Exactly the gap at 85 in No. 1: \$1,236,646 gross minus \$526,223

03 ADDING IT UP From the gross to what is left

Step	Value at 85	Lost at this step
S&P 500 total return, our gross: no fee, no tax	\$1,236,646	—
Annuity: price index, 0% floor, 8% cap, 1% rider	\$526,223	-\$710,423
After income tax on the gain at 22% (No. 1, page 7)	\$454,454	-\$71,769
Total cost of the drag and the tax		-\$782,192

\$1,236,646

the gross we started from

\$454,454

left after the drag and income tax

63%

of the gross ending value lost to
the drag and the tax

Without the rider

With no income rider, the annual drag adds up to \$487,644. Compounded at 5% it is \$609,304; at the S&P 500, \$560,112, again the full gap from No. 1. The rider adds \$150,311 of lost opportunity on its own.

The point of No. 2: the drag is not a single number at the end. It is taken every year, and each year's loss stops compounding for the rest of your life. A conservative 5% on those dollars is still \$642,856 by 85.

04 BEFORE YOU DECIDE Things to know

- **How we measure drag.** Each year: the annuity's value times the difference between the S&P 500 total return and the credited rate, plus the rider fee. Down years count as a benefit to the annuity.
- **Why two growth rates.** The S&P 500 shows what the money would have done in the index; it reconciles exactly to the gap in No. 1. A fixed 5% shows the cost even at a conservative rate.
- **Rider fees are often higher than shown.** We took 1% of the account value. Many riders charge on a larger income base.
- **Caps change.** We held the cap at 8%, about today's median. Contracts let insurers lower it, often to 1% or less.
- **Taxes.** The drag figures are before tax. Annuity gains are taxed as ordinary income when withdrawn.

The Annuity Drag Series

NO. 1

The index vs. what gets credited

Total return against the price index, caps, rider fees and income tax.

NO. 2 · THIS PIECE

The lost opportunity cost

Each year's drag, compounded at the S&P 500 and at a fixed 5%.

NO. 3

Redirect the 10% free

The free withdrawal funding whole life: death benefit and cash value guarantees, wealth recaptured.



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