

Class 8 Outline
Business Finance 640
Autumn Quarter, 2007

This class is divided into three parts. The first part provides a review of life insurance rate-making. The second part discusses the basic characteristics of individual annuities. Concepts which are stressed are the annuity principle and the different types of annuities. For ease of understanding, we will classify annuities into three categories: (1) fixed annuity, (2) variable annuity, and (3) equity-indexed annuity. The final part discusses the different types of IRAs. In this context, we will compare the eligibility requirements, annual contribution, income taxation and other features of Traditional IRA's with Roth IRA.

I. Review of Life Insurance Rate-Making

- A) Net Single Premium Example

II. Individual Annuities

- A) Annuity principle
- B) Types of annuities
 - 1. Fixed annuity
 - a. Payment of benefits
 - b. Annuity settlement options
 - 2. Variable annuity
 - a. Basic characteristics
 - b. Guaranteed death benefit
 - c. Fees and expenses
 - d. Investment performance
 - 3. Equity-indexed annuity
 - a. Participation rate
 - b. Cap on the maximum percentage of gain
 - c. Indexing method
 - d. Guaranteed minimum value

III. Taxation of Individual Annuities

IV. Individual Retirement Accounts

- A) Traditional IRA
 - 1. Eligibility requirements
 - 2. Annual contribution limits
 - 3. Income tax deduction of traditional IRA contributions
 - 4. Special phase-out rule for spouses
 - 5. Withdrawal of funds
 - 6. Taxation of distributions
 - 7. Establishing a traditional IRA
 - 8. IRA investments
 - 9. IRA rollover account
- B) Roth IRA
 - 1. Income limits
 - 2. Conversion to a Roth IRA
 - 3. Adequacy of IRA funds