How indexed account rates are determined

Many considerations go into determining the rate associated with each indexed account, which can be periodically adjusted.

Indexed annuities credit interest based on changes in an index or set of indices. The actual crediting rate may be subject to a cap, participation rate, trigger rate and or spread. A given indexed account may use any combination of these options.

The rate may change from one crediting period to the next, but will never be less than the corresponding contractual minimum.

Below is how the insurance company sets and manages these non-guaranteed elements – this is not a representation of how an indexed account credits interest.

Key factors in determining rates

1. **Investment earned rate**
2. **Market-driven hedge cost**

Investment earned rate

The assets invested in the general account to back the contract must cover the cost of the instruments we purchase to hedge the index crediting. These instruments include financial options and other derivatives. The investment return available to purchase these instruments is often referred to as the "hedge budget."

The higher the investment returns, the greater the hedge budget available to back the index credits. For fixed indexed annuity contracts, one of the main drivers of investment returns is intermediate-term interest rates.

Hedge cost

The financial derivatives market determines the cost of providing an index credit to the contractholder, or the 'hedge cost." The hedge cost is impacted by multiple factors including the cap, participation rate, trigger rate and spread. For example, a 6% cap costs more to hedge than a 5% cap.

Another factor is market volatility. If volatility increases, the hedge cost also increases. If volatility decreases, the hedge cost also decreases. Which means we may be able to provide a higher rate for the indexed account.

When setting the indexed account rates, the company tries to match the hedge budget to the hedge cost.

Insurance products issued by:
Minnesota Life Insurance Company

Establishing indexed account rates

A client makes a purchase payment into an annuity.

That purchase payment is deposited into our general account (not directly into any index associated with the contract).

The assets within our general account are used to purchase derivatives that hedge the index credits.

This money, along with the investment earned rate and the financial derivatives market, is used to set the indexed account rates.

How key factors impact rates

Indexed account rates change over time due to a misalignment between how much is available for a hedge budget and the cost of the instruments purchased to provide the hedge.

Market Volatility

Low intermediate-term interest rates
High market volatility

Less investment return is available, resulting in a smaller hedge budget combined with a higher hedge cost

Result:

↓ Lower indexed account rates

High intermediate-term interest rates
High market volatility

More investment return is available, resulting in a larger hedge budget combined with a higher hedge cost

Result:

↑ High interest rate may offset higher hedge cost, resulting in the potential for a higher indexed account rate

↓ High interest rates may be unable to offset higher hedge cost, resulting in the potential for a lower indexed account rate

Low intermediate-term interest rates
Low market volatility

Less investment return is available, resulting in a smaller hedge budget combined with a lower hedge cost

Result:

↑ Low hedge cost may offset a smaller hedge budget, resulting in the potential for a higher indexed account rate

↓ Low hedge cost may be unable to offset a smaller hedge budget, resulting in the potential for a lower indexed account rate

High intermediate-term interest rates
Low market volatility

More investment return is available, resulting in a larger hedge budget combined with a lower hedge cost

Result:

↑ Higher indexed account rates

Intermediate-term interest rates

Important notes

- There is often a misconception that an insurance company profits when the market performance of a particular index is higher than the cap. However, purchase payments are not actually invested directly into the index on which the performance is based — they're placed into our general account.
- When hedges are purchased, the amount these instruments cost is set on the purchase date. This means that regardless of future market returns, the amount it costs the insurance company to provide the crediting remains unchanged from the original purchase date of the hedge.

Companies don't make any additional money on the hedge instruments if the market returns are higher than the cap.

GLOSSARY

Cap
The maximum growth rate of an indexed account in a given crediting period.

Participation rate
The percentage of the index performance that will be credited to an indexed account in a given crediting period.

Spread
A percentage that is deducted in the calculation of the amount of index change that may be credited in a given period. May be used in combination with other factors (e.g., participation rate).

Trigger rate
The declared interest rate that will be credited in a given crediting period if the index performance meets the criteria for that indexed account. For some indexed accounts, the trigger rate is credited when the index performance is zero or positive, and for others it is credited when the index performance is negative.

Investment earned rate
The returns earned on assets within our general account. This impacts the amount available to hedge the index credits.

Financial derivatives
An investment contract whose value is derived from an underlying asset. One type of derivative is an option contract, which gives us the right to buy or sell a particular asset, at a later date, at an agreed-upon price. These instruments are what we purchase to hedge the index credits and support the indexed accounts' crediting methods.

An annuity is intended to be a long-term, tax-deferred retirement vehicle. Earnings are taxable as ordinary income when distributed, and if withdrawn before age 59½, may be subject to a 10% federal tax penalty. If the annuity will fund an IRA or other tax qualified plan, the tax-deferral feature offers no additional value. Qualified distributions from a Roth IRA are generally excluded from gross income, but taxes and penalties may apply to non-qualified distributions. Please consult a tax advisor for specific information. There are charges and expenses associated with annuities, such as surrender charges (deferred sales charges) for early withdrawals.

The guarantees are subject to the financial strength and claims-paying ability of the issuing insurance company.

These materials are for informational and educational purposes only and are not designed, or intended, to be applicable to any person's individual circumstances. It should not be considered investment advice, nor does it constitute a recommendation that anyone engage in (or refrain from) a particular course of action.

Securian Financial Group, and its subsidiaries, have a financial interest in the sale of their products.

Insurance products are issued by Minnesota Life Insurance Company in all states except New York. In New York, products are issued by Securian Life Insurance Company, a New York authorized insurer. Minnesota Life is not an authorized New York insurer and does not do insurance business in New York. Both companies are headquartered in St. Paul, MN. Product availability and features may vary by state. Each insurer is solely responsible for the financial obligations under the policies or contracts it issues.

Securian Financial is the marketing name for Securian Financial Group, Inc. and its subsidiaries. Minnesota Life Insurance Company and Securian Life Insurance Company are subsidiaries of Securian Financial Group, Inc.

For financial professional use only. Not for use with the public. This material may not be reproduced in any way where it would be accessible to the general public.

securian FINANCIAL® | PREPARE PROTECT SECURE

securian.com

400 Robert Street North, St. Paul, MN 55101-2098

F92655 Rev 3-2025 DOFU 3-2025
4307855