



Understanding the impact of withdrawals

With an Index Frontier annuity

When your clients purchase an Index Frontier registered index-linked annuity, they will have access to a portion of their money each year without charges. However, it's important to keep in mind that withdrawals taken prior to the end of a one-year term will impact their indexed strategy values. The examples show what could happen if your clients decide to take a withdrawal in the middle of a term.

How does the withdrawal affect the ending strategy value?

In all three examples, the the vested gains or vested losses at the end of the term are calculated using the an investment base that has been reduced because a withdrawal was taken. This means any vested gains are smaller than they would have been if your client had not taken a withdrawal. Likewise, if the index change had been negative at the end of the term, vested losses at the end of the term would have been smaller. It is not possible to determine the full impact of a mid-term withdrawal until the end of the term.



What happens if my client takes a withdrawal from a -10% floor strategy when the index is rising?

THE FOLLOWING EXAMPLE ASSUMES:

- \$100,000 is allocated to a -10% floor indexed strategy that offers a 12% cap for the term
- The client takes a penalty-free \$10,000 withdrawal in month seven, so gains are subject to a 50% vesting factor
- At the time of the withdrawal, the index is up 4%
- At the end of the term, the index is up 6%

Step
1

Determine the vested gain

$$\begin{array}{ccccc} +4\% & \times & 50\% & = & 2\% \\ \text{index change at} & & \text{vesting factor} & & \text{vested gain} \\ \text{time of withdrawal} & & & & \end{array}$$

$$\$100,000 \times 2\% = \$2,000 \text{ vested gain}$$

Step
2

Determine the strategy value reduction

$$\begin{array}{ccccc} \$10,000 & \div & 102,000 & = & 9.80\% \\ \text{withdrawal} & & \text{starting investment} & & \text{reduction} \\ & & \text{base + vested gain} & & \end{array}$$

Step
3

Determine the investment base proportional reduction

$$\begin{array}{ccccc} \$100,000 & \times & 9.80\% & = & \$9,800 \\ \text{starting investment base} & & \text{reduction} & & \text{investment base} \\ & & & & \text{reduction} \end{array}$$

Step
4

Determine the strategy value at the end of the term

$$\begin{array}{ccccc} \$90,200 & + & \$5,412 & = & \$95,612 \\ \text{investment base} & & \text{vested gain} & & \text{ending strategy value} \\ \text{after withdrawal} & & & & \end{array}$$

$$\$90,200 \times 6\% = \$5,412 \text{ vested gain}$$

What happens if my client takes a withdrawal from a -10% floor strategy when the index is falling?

THE FOLLOWING EXAMPLE ASSUMES:

- \$100,000 is allocated to a -10% floor indexed strategy that offers a -10% floor for the term
- The client takes a penalty-free \$10,000 withdrawal in month seven, so losses are subject to a 100% vesting factor
- At the time of the withdrawal, the index is down 4%
- At the end of the term, the index is up 6%

Note that a vesting factor does not apply when the vested loss is calculated. This means that 100% of the index change is taken into account when calculating the vested loss.

Step
1

Determine the vested loss

$$\begin{array}{ccccc} \mathbf{-4\%} & \times & \mathbf{100\%} & = & \mathbf{4\%} \\ \text{index change at} & & \text{vesting factor} & & \text{vested loss} \\ \text{time of withdrawal} & & & & \end{array}$$

$$\$100,000 \times -4\% = \mathbf{\$4,000 \text{ vested loss}}$$

Step
2

Determine the strategy value reduction

$$\begin{array}{ccccc} \mathbf{\$10,000} & \div & \mathbf{96,000} & = & \mathbf{10.42\%} \\ \text{withdrawal} & & \text{starting investment} & & \text{reduction} \\ & & \text{base - vested loss} & & \end{array}$$

Step
3

Determine the investment base proportional reduction

$$\begin{array}{ccccc} \mathbf{\$100,000} & \times & \mathbf{10.42\%} & = & \mathbf{\$10,417} \\ \text{starting investment base} & & \text{reduction} & & \text{investment base} \\ & & & & \text{reduction} \end{array}$$

Step
4

Determine the strategy value at the end of the term

$$\begin{array}{ccccc} \mathbf{\$89,583} & + & \mathbf{\$5,375} & = & \mathbf{\$94,958} \\ \text{investment base} & & \text{vested gain} & & \text{ending strategy value} \\ \text{after withdrawal} & & & & \end{array}$$

$$\$90,200 \times 6\% = \mathbf{\$5,375 \text{ vested gain}}$$

What happens if my client takes a withdrawal from a buffer strategy when the index is falling?

THE FOLLOWING EXAMPLE ASSUMES:

- \$100,000 is allocated to a 10% buffer strategy that offers a 10% buffer for the term
- The client takes a penalty-free \$10,000 withdrawal on day 146 of the term
- At the time of the withdrawal, the index is down 15%
- And the end of the term, the index is up 6%

Step
1

Determine the vested loss

$$\begin{array}{ccccc} \mathbf{-15\%} & \times & \mathbf{4\%} & = & \mathbf{11\%} \\ \text{index change at} & & \text{vesting factor} & & \text{vested loss} \\ \text{time of withdrawal} & & & & \end{array}$$

$$10\% \text{ buffer} \times (146/365) = \mathbf{4\% \text{ buffer}}$$

Step
2

Determine the strategy value reduction

$$\begin{array}{ccccc} \mathbf{\$10,000} & \div & \mathbf{89,000} & = & \mathbf{11.23\%} \\ \text{withdrawal} & & \text{starting investment} & & \text{reduction} \\ & & \text{base - vested loss} & & \end{array}$$

Step
3

Determine the investment base proportional reduction

$$\begin{array}{ccccc} \mathbf{\$100,000} & \times & \mathbf{11.23\%} & = & \mathbf{\$11,235} \\ \text{starting investment base} & & \text{reduction} & & \text{investment base} \\ & & & & \text{reduction} \end{array}$$

Step
4

Determine the strategy value at the end of the term

$$\begin{array}{ccccc} \mathbf{\$88,765} & + & \mathbf{\$5,325} & = & \mathbf{\$94,090} \\ \text{investment base} & & \text{vested gain} & & \text{ending strategy value} \\ \text{after withdrawal} & & & & \end{array}$$

$$\$88,765 \times 6\% = \mathbf{\$5,375 \text{ vested gain}}$$



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