## Correction

By Editorial Staff Thu, May 1, 2014

Our story two weeks ago about Nationwide's New Heights fixed indexed annuity contained an error in the explanation of the crediting method.

In our cover story two weeks ago about Nationwide Financial's New Heights indexed annuity, our calculation of a hypothetical return under one of the product's two-year crediting methods was oversimplified. To annualize a two-year return, we divided by two instead of taking a square root. We blame deadline pressure and age-related innumeracy for the error.

Our calculation

To annualize a hypothetical two-year gain of $30 \%$, we divided by two to get $15 \%$. We then multiplied that number by the participation rate ( $60 \%$ ) and got $9 \%$, from which we subtracted the annual spread ( $1.85 \%$ ) for an annualized return of $7.15 \%$. For simplicity's sake, we ignored the extra return generated by participation in a fixed account with a one percent annual return, which would have added about $0.40 \%$.

The right calculation
According to Nationwide, we should have multiplied the two-year index return (30\%) by the participation rate $(60 \%)$ to get ( $18 \%$ ). Then we should have multiplied the compound two-year return of the fixed rate account ( 1.01 squared minus $1=2.01 \%$ ) by its participation rate ( $40 \%$ ) to get $0.804 \%$. We should then have combined the $18 \%$ and the $0.804 \%$ to get a total two-year return of $18.804 \%$.

To find the annualized return, we should have taken the square root of $18.804 \%$ (the square root of 1.18804 minus 1) to get $8.997 \%$. Finally, we should have subtracted the annual spread ( $1.85 \%$ ) to arrive at a total annual credit under the contract of almost $7.15 \%$. The client would receive the square of that amount, or $14.8 \%$ for the two years.
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