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 over-simplified. 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.