Make Your Retirement Savings Last a Lifetime

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Three Things to Consider When Planning for Retirement

Today, people are living longer than ever before.

Over the last 60 years, the average life expectancy has increased by more than 10 years.[1] In fact, statistics show that for a 65-year-old couple, there's an almost 20% chance that one of them will live to age 95.[2] This is all good news; however, the implication for today's retirees is that they need to plan carefully with the future in mind.

The traditional pension is going away. You're most likely on your own now.

Today's investors are facing retirement income planning challenges that simply didn't exist 20 or 30 years ago. Unlike previous generations who had the luxury of having their retirement funded by guarantees made by employers and/or the government, the assets you've accumulated in your 401(k) or IRA rollover could be your most important source of retirement income.

The timing of your retirement matters.

If your portfolio suffers market losses during the first 10 years, the chances of it lasting over a 30-year retirement are greatly diminished. Some financial experts call it "the fragile first decade."

[1] Source: http://aging.senate.gov/crs/aging1.pdf
[2] Source: RP-2000 Mortality Table, Society of Actuaries

Is it possible to retire at the wrong time?

Perhaps the most appealing feature of a pension is its guaranteed income for life, no matter when you retire or what happens in the market. Unfortunately, the same isn't true of 401(k) and IRA rollovers. You can retire at the wrong time. Consider two different retirement portfolios, each starting with $500,000; invested in 60% stocks/40% bonds; and withdrawing $25,000 in annual income, adjusted each year for inflation.[3] In the example of Investor A, the client's year-end value was exhausted after 16 years of withdrawals, whereas Investor B began taking withdrawals 10 years later and the client's year-end value wasn't exhausted, simply due to the timing of the positive and negative performance of the market.

	Investor A			Investor B		
	30-Year Period Ending 1995			30-Year Period Ending 2005		
Age	Year	ROR	Year-End Value	Year	ROR	Year-End Value
65	1966	-5.30%	$449,709	1976	20.90%	$574,111
66	1967	12.80%	$478,107	1977	-5.50%	$517,139
67	1968	7.30%	$484,049	1978	2.10%	$498,363
68	1969	-8.00%	$418,795	1979	9.40%	$509,115
69	1970	9.40%	$425,093	1980	15.20%	$543,996
70	1971	12.70%	$443,879	1981	-1.50%	$496,227
71	1972	13.60%	$467,416	1982	29.30%	$587,449
72	1973	-9.80%	$389,765	1983	13.50%	$617,562
73	1974	-15.20%	$297,166	1984	9.50%	$626,730
74	1975	23.30%	$314,422	1985	30.70%	$757,961
75	1976	20.90%	$326,575	1986	24.10%	$881,527
76	1977	-5.50%	$263,924	1987	0.40%	$835,566
77	1978	2.10%	$216,966	1988	13.50%	$889,730
78	1979	9.40%	$173,583	1989	27.80%	$1,067,888
79	1980	15.20%	$124,468	1990	0.30%	$1,013,459
80	1981	-1.50%	$52,261	1991	25.10%	$1,193,724
81	**1982**	**29.30%**	**Exhausted**	1992	8.90%	$1,234,005
82	1983	13.50%	Exhausted	1993	14.00%	$1,334,840
83	1984	9.50%	Exhausted	1994	-3.70%	$1,223,213
84	1985	30.70%	Exhausted	1995	35.30%	$1,566,115
85	1986	24.10%	Exhausted	1996	14.00%	$1,707,435
86	1987	0.40%	Exhausted	1997	25.60%	$2,057,859
87	1988	13.50%	Exhausted	1998	23.50%	$2,454,653
88	1989	27.80%	Exhausted	1999	8.90%	$2,593,091
89	1990	0.30%	Exhausted	2000	1.30%	$2,551,012
90	1991	25.10%	Exhausted	2001	-5.60%	$2,335,432
91	1992	8.90%	Exhausted	2002	-7.70%	$2,083,696
92	1993	14.00%	Exhausted	2003	17.30%	$2,351,418
93	1994	-3.70%	Exhausted	2004	8.30%	$2,458,423
94	1995	35.30%	Exhausted	2005	5.60%	$2,505,585
	Average Rate of Return	9.60%		Average Rate of Return	11.40%	

[3] This illustration does not account for taxes or fees. Sources: Standard & Poor's; Federal Reserve; Bureau of Labor Statistics. Data based on two 30-year periods ended on December 31, 1995, and 2005, respectively. Each portfolio assumes a first-year 5% withdrawal that was subsequently adjusted for actual inflation. Each portfolio also assumes a 60% stock/40% bond allocation, rebalanced annually. Stocks are represented by the S&P 500, an unmanaged index. Bonds are represented by the annualized yields of long-term Treasuries (10+ years maturity). Inflation is represented by changes to the historical CPI. Investors may not invest directly in any index. Past performance does not guarantee future results.

Although there are several products and strategies investors can employ to generate retirement income, not all of them offer the predictability of a steady income stream, which is often absent in retirement. However, there are products available today that can offer guarantees and income predictability.

For investors who don't have pension plans or other guaranteed streams of income post-retirement, they have the challenge of converting their retirement savings into an income stream to support their lifestyle. Incorporating a variable annuity with an optional feature, such as a guaranteed lifetime withdrawal benefit (GLWB), is one way of accomplishing this for a portion of their retirement assets, and works similarly to how most investors would treat a traditional investment account.

How Do These Strategies Work?

In its most basic form, picture an investment account where you're allowed to take withdrawals up to a specific dollar amount each year to support your spending needs. The major difference, however, is that with this strategy, you pay extra for a guarantee that if your account runs out of money over time due to the combination of poor performance and withdrawals, you'll receive uninterrupted payments that are paid to you by an insurance company. This is a strategy to insure your retirement assets in the form of an income stream.

A Closer Look at These Strategies

Variable Annuities

Variable annuities are long-term, tax-deferred investment vehicles designed to create a retirement income stream for life. They contain both an investment and insurance component and provide tax-deferred growth, access to professionally managed investment portfolios, death benefits, and flexible withdrawal options. Variable annuities are sold only by prospectus, and guarantees are based on the claims-paying ability of the issuer.

As a means of delivering retirement income, variable annuities provide a unique advantage: They allow you to invest in equity markets with insurance features called "living benefits," which are optional features available for an additional fee on annuity contracts that can offer protected lifetime income. There are different types of living benefits available that can offer income, the return of principal, or both. Some specialize in providing immediate income, while others are designed to provide you with distributions at a later date.

Benefit Base: Equal to your initial investment, this value can increase based on positive market performance or by a fixed interest rate, typically in years where no income is taken. The benefit base value is guaranteed by the insurance company and doesn't fluctuate with market performance on a daily basis like your actual account value. Unlike your account value, which can be accessed at any time as a lump sum (subject to potential surrender charges), **the benefit base is a value that is only used to calculate lifetime income payments, and therefore cannot be accessed through a lump-sum distribution.**

Guaranteed Lifetime Withdrawal Benefits

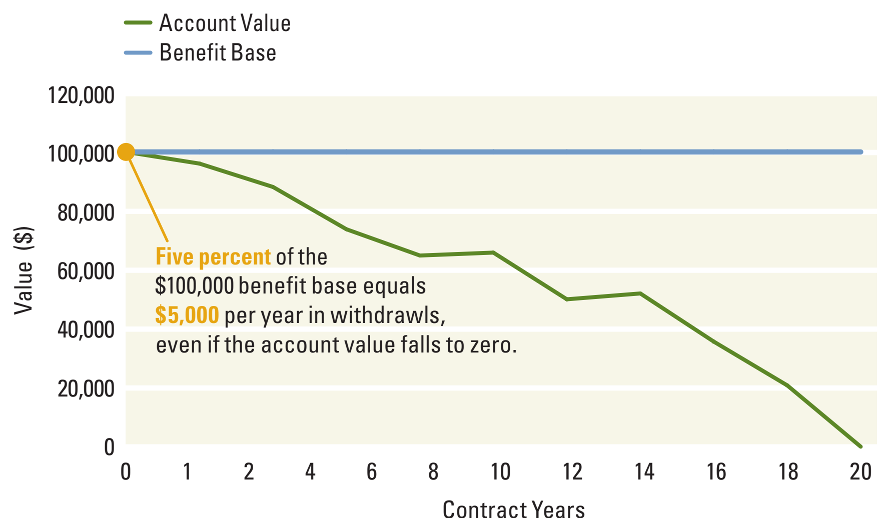
The most popular living benefit employed by investors today with variable annuities is called a guaranteed lifetime withdrawal benefit (GLWB), which is a type of living benefit feature. GLWBs can range in cost from 0.35% to 1.62%,[4] depending upon the feature and the issuing insurance company. It's common for there to be a connection between the cost of the living benefit and the amount of insurance or guarantee that it provides, and it's important for you to identify how much protection you need.

When you purchase a variable annuity with a GLWB feature, you can participate in equity markets and make withdrawals each year as you would from any of your investment accounts that you use to supplement your lifestyle. However, the added benefit in this case is that as long as your withdrawals remain within the annual withdrawal parameters of the GLWB feature and benefit base value, withdrawals will be guaranteed for your lifetime. Even if your annuity account value were to run out of money due to a combination of poor market performance and/or withdrawals, the insurance company would continue the payments pursuant to the provisions of your GLWB feature.

An Example of an Investor Looking for Income Today

An example of immediate income: An investor, age 65, invests $100,000 into a growth-with-income portfolio within a variable annuity with a GLWB that guarantees withdrawals of up to 5% of the initial investment for the investor's life starting at age 65. This means that the investor can withdraw up to $5,000 per year for life. In this example, 20 years later, the variable annuity runs out of money due to a combination of poor performance and withdrawals. The investor continues to receive $5,000 per year for life from the insurance company as a result of the feature.

Example 1: Hypothetical Guaranteed Lifetime Withdrawal Benefits



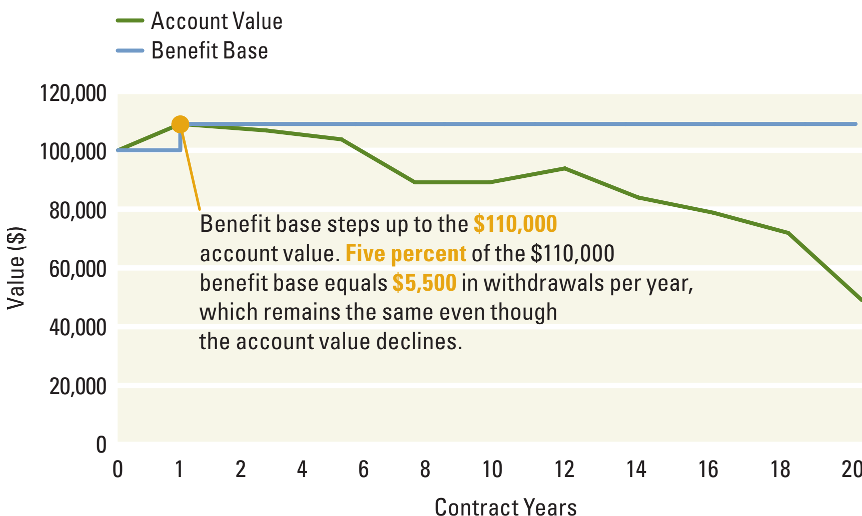
[4] Source: Morningstar Annuity Intelligence 2014

Locking in Investment Gains with GLWBs

Continuing this example, many GLWBs offer investors the ability to lock in investment gains and take income from higher account values, thus increasing the guaranteed annual lifetime income amount. This can be accomplished with a feature known as a "step-up." Step-ups exist on many GLWB features today and are a way to lock in account gains. The concept is that if the account value is greater than the existing benefit base, the benefit base steps up to equal the account value and is used as a new basis for the purposes of taking retirement income. Step-ups with GLWBs occur at a specified frequency up to a declared age. Perhaps most commonly, features offer annual step-ups that occur on the annuity anniversary, although some features may offer quarterly, monthly, or even daily step-ups.

An example of a step-up: After one year, an investor's account value grew from $100,000 to $110,000 on his contract anniversary. Since $110,000 is greater than the initial benefit base of $100,000, and assuming the feature offered an annual step-up, the benefit base would now be worth $110,000, and this new value would be used to determine how much the investor can take from his annuity per year. Since the GLWB feature guarantees 5% of the benefit base for life, the investor can now withdraw $5,500 per year, which is a $500 increase over his prior lifetime withdrawal amount.

Example 2: Hypothetical Guaranteed Lifetime Withdrawal Benefits



GLWBs are Also Popular Strategies Among Non-Retirees

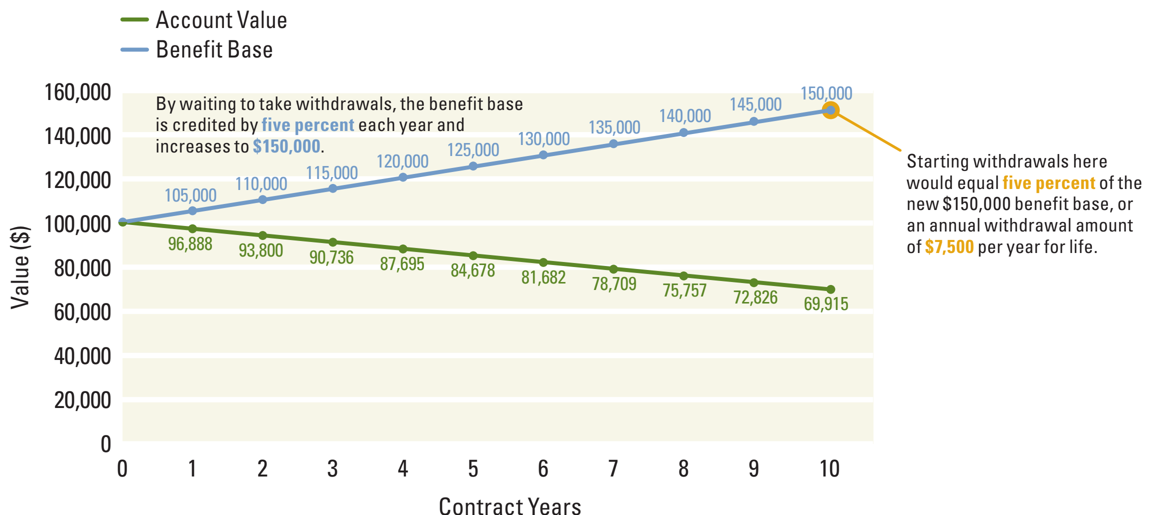
Guaranteed lifetime withdrawal benefits are not only for investors beginning retirement, but can also be used by investors who are looking to begin taking withdrawals down the road. This is because GLWB features can also offer the potential to lock in investment gains in addition to crediting a minimum annual growth rate to the benefit base. Again, the benefit base is the value used for the purposes of calculating the lifetime withdrawal amount available at the time you decide to begin taking distributions.

An Example of an Investor Taking Withdrawals in the Future

An investor decides to wait 10 years before taking withdrawals. Let's assume that this GLWB has a 5% simple interest roll-up and an annual step-up. At the end of 10 years, the investor takes her first withdrawal. Here are two examples that illustrate the functionality:

An example of a roll-up: The market over the 10-year period didn't experience any growth, and the investor's account value in this case declines to $69,915. Since the 5% roll-up is applied on an annual basis during the period when withdrawals aren't taken and no step-up occurs, the benefit base equals $150,000. This figure is then multiplied by 5% to determine the lifetime annual withdrawal amount, which in this case would be $7,500. As a result, this investor was able to achieve a higher income amount by deferring withdrawals. Moreover, without this feature, $7,500 per year would equate to a 10.7% annual withdrawal rate based on the account value of $69,915, which is a difficult withdrawal rate for a portfolio to sustain over an extended period of time.

Example 3: Hypothetical Guaranteed Lifetime Withdrawal Benefits



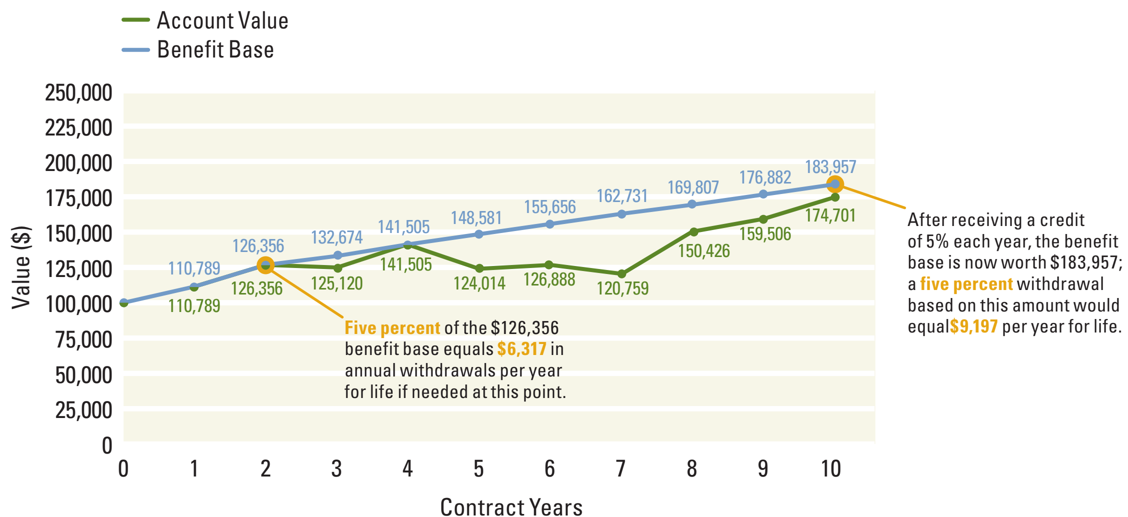
Fees and expenses: The account value reflects the deduction of the following flat-dollar charge: $35 annual contract maintenance charge (when the account value is less than $50,000); the following asset-based charges: mortality and expense risk charge of 1.10%, administration charge of 0.15%, and portfolio expense of 0.99%, which is the estimated arithmetic average of all of the portfolio expenses across all investment options that currently range from 0.57% to 2.30%; and the following benefit-based optional benefit charge of 0.90%, which is multiplied by the benefit base, with that amount being deducted from the account value. Upon a step-up, the benefit base charge may be subject to a maximum charge of 1.80%; however, in this example, the fee reflected is 0.90%. Partial withdrawals and withdrawals may be subject to a withdrawal charge schedule; these charges, if reflected, would reduce performance shown. Read the prospectus carefully prior to investing.

This is a hypothetical example and is not representative of any specific situation. Your results will vary. If you have specific questions regarding your own financial situation, please consult your financial advisor.

GLWBs offer two features that typically apply to the benefit base during the period when an investor doesn't take withdrawals. The first feature is called a roll-up, which is a guaranteed growth rate based on the initial contribution and is generally applied on an annual basis. The second is called a step-up, which as previously covered, is a feature that locks in investment gains, usually on an annual basis.

An example of a roll-up and a step-up: The account value experienced growth within the first two years and reached a high point on its fourth anniversary, where the account value was valued at $141,505. Following the fourth year, the investments did poorly and the value declined before beginning to increase to a value of $174,701 at the end of 10 years. Since the GLWB has an annual step-up, notice how the step-ups work in conjunction with the roll-up after Year 4 in the chart. When the account value reaches a high of $141,505, a step-up occurs; and in the following years, the 5% credit is based upon the $141,505 value and applies annually thereafter since no step-ups occur in the following years. This ends with a benefit base value of $183,957, which when multiplied by the 5% lifetime withdrawal amount, equals $9,197 per year in withdrawals guaranteed for life.

Example 4: Hypothetical Guaranteed Lifetime Withdrawal Benefits



Fees and expenses: The account value reflects the deduction of the following flat-dollar charge: $35 annual contract maintenance charge (when the account value is less than $50,000); the following asset-based charges: mortality and expense risk charge of 1.10%, administration charge of 0.15%, and portfolio expenses that range from 0.92% to 1.12%; Rule 12 b-1 distribution and service fees and other expenses, and the following benefit-based optional benefit charge of 0.90%, which is multiplied by the benefit base, with that amount being deducted from the account value. Upon a step-up, the benefit base charge may be subject to a maximum charge of 1.80%; however, in this example, the fee reflected is 0.90%. Partial withdrawals and withdrawals may be subject to a withdrawal charge schedule; these charges, if reflected, would reduce performance shown. Read the prospectus carefully prior to investing.

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How Much to Allocate to a Variable Annuity with GLWBs

While there's no standard percentage or specific amount to allocate to a variable annuity, there are some steps investors can take to identify how much may be appropriate. This can be accomplished by performing a guaranteed income needs analysis with your financial advisor.

Guaranteed Income Needs Analysis

Step 1 Determine expenses and income needs for retirement

This involves identifying your expected expenses at retirement and separating them between what you consider to be essential and discretionary.

Step 2 Analyze current guaranteed income for retirement shortfalls

Many investors have sources of recurring income at retirement. Social Security is a great example, although some may have pensions. In this step, you inventory the sum of your current sources of guaranteed income and also define what your target guaranteed income level is.

Defining your target guaranteed income: Many investors seek to have all or a portion of what they consider essential expenses covered by guaranteed income. Given that variable-annuity strategies with GLWBs are generally more expensive than traditional investments due to the insurance features, you'll want to weigh this carefully with how much you'll need to feel comfortable in retirement.

Finally, once you've calculated the sum of your guaranteed income and have defined your guaranteed income goal, the difference between these numbers will be your guaranteed income shortfall.

Step 3 Inventory current assets

In this step, you calculate the sum of your investable assets between both your qualified and non-qualified accounts.

Step 4 Reposition assets to guarantee total income needs

In this step, you'll need the help of your financial advisor. He or she will understand what's available within the variable annuity marketplace and will be able to input numbers as a proxy for what the current industry has to offer based upon your age, whether or not your goal is to cover two spouses, and when you plan on taking income.

Step 5 Identify and understand the strategy

Now that you have a rough estimate of how much you might allocate to a variable annuity, you can work with your financial advisor to identify a specific product that meets your needs. While the numbers may differ slightly, it's important that you engage in this process, as you'll know roughly how much you wish to commit to this strategy given the benefits and tradeoffs.

In this step, you'll want to evaluate the underlying insurance company, since it's their claims-paying ability will fund your guarantee. Be mindful of the investment options available to you in combination with the GLWB feature, since many are restrictive based upon the risk the insurance company is assuming on your behalf. Finally, analyze the liquidity options and costs associated with the variable annuity of your choosing.

Important Considerations for Variable Annuities

Benefits

- Professional investment management with a variety of investment options.
- Flexibility to re-allocate investment options without creating a taxable event.
- Optional Guaranteed Lifetime Withdrawal Benefits (GLWBs) that can provide you with a minimum guaranteed lifetime income stream (even if the value of your contract diminishes), which is a unique feature compared to traditional investment products.
- Death benefits that typically provide your beneficiaries the greater of your account value, or the return of your investment adjusted for proportional withdrawals.
- Tax-deferred growth on earnings until withdrawals begin.
- No IRS annual limit on the amount you can invest.

Risks

- Withdrawals made prior to age 59½ are subject to a 10% IRS penalty tax, and surrender charges may apply.
- Gains from tax-deferred investments are taxable as ordinary income upon withdrawal.
- The investment returns and principal value of the available sub-account portfolios will fluctuate so that the value of your annuity, if redeemed, may be worth more or less than its original value.
- Taking withdrawals beyond the maximum allowable amount under a GLWB feature may negatively impact your benefit base level and leave you paying a premium for a feature you're not using. In order to maximize the strategy, you should be prepared to adhere to the limitations of the feature and have funds outside of the annuity for emergencies or other supplemental needs so as to maximize the benefit you're paying for.
- All guarantees are subject to the claims-paying ability of the issuing insurance company. If the insurance company becomes insolvent, you could lose all or a portion of your future guarantees depending on coverage provided by your state's insurance-guarantee associations.[5]

[5] This risk extends specifically to the insurance features and not the investments. Variable-annuity subaccounts are held in separate accounts and are not exposed to creditors in the event of insurer insolvency.

If you're currently in or nearing retirement and are looking for protected lifetime income, a variable annuity with a guaranteed lifetime withdrawal benefit feature may be appropriate for a portion of your retirement assets. This strategy allows you to stay invested in equity markets while also providing a protected stream of income for the rest of your life.

Talk to your financial advisor about how a variable annuity may fit into your overall investment and retirement strategy.

Investors should consider the investment objectives, risks, charges and expenses of the variable-annuity contract and subaccounts carefully before investing. The prospectus contains this and other information about the variable-annuity contract and subaccounts. You can obtain the contract and underlying subaccount prospectuses from your financial representative. Read the prospectuses carefully before investing.

Features are additional guarantee options that are available to an annuity or life insurance contract holder. While some features are part of an existing contract, many others may carry additional fees, charges and restrictions; and policyholders should review their contract carefully before purchasing. Guarantees are based on the claims-paying ability of the issuing insurance company.

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