

VARIABLE ANNUITY LIVING BENEFITS SIDEBAR:

Types of Living Benefits

Following are the most popular types of variable annuity living benefits:

Guaranteed Minimum Withdrawal Benefit (GMWB) – Guarantees that a fixed percentage – generally five-to-seven percent – of the annuity premiums can be withdrawn annually for a specified period of time until the entire amount of paid premiums has been withdrawn, regardless of market performance. Example:

Susan purchases a \$100,000 variable annuity, with a guaranteed minimum withdrawal benefit of seven percent. Even if the market value of her annuity contract has declined to \$65,000, for example, the GMWB guarantees that Susan can withdraw \$7,000 (seven percent of \$100,000) per year, until she has received the entire \$100,000.

Guaranteed Minimum Withdrawal Benefit for Life – An increasingly popular living benefit which guarantees an income payment for life. A fixed percentage – typically four-to-five percent – of the annuity premiums can be withdrawn annually for as long as the annuitant lives. These payments continue even after the initial investment amount has been paid out, and regardless of the actual account value. Example:

Joe purchases a \$100,000 variable annuity, with a guaranteed minimum withdrawal benefit for life of five percent. He will receive \$5,000 a year for as long as he lives, even beyond the 20 years it would take to recoup the principal amount, and even if the account value drops due to poor investment performance.

Guaranteed Minimum Income Benefit (GMIB) – Guarantees that when a contract is annuitized – i.e., converted into retirement income payments – the income payments will be based on the greater of the actual contract value or a minimum payout base, which typically is equal to the amount invested credited with a competitive rate of interest (five percent is common). If the contract value grows, monthly income payments may be higher, but never lower, than the guaranteed minimum amount.¹ Example:

Bill invests \$100,000 in a variable annuity and selects the guaranteed minimum income benefit, guaranteeing five percent annual growth. He makes no withdrawals or transfers. At year 12, as a result of stock market losses, the variable annuity is valued at only \$85,000. However, by selecting the GMIB, Bill would have at least \$179,585 to annuitize.

Guaranteed Minimum Accumulation Benefit (GMAB) – Guarantees that the variable annuity contract value will be at least equal to a certain minimum amount – typically the premium amount – after a specified number of years, regardless of actual performance. Many GMABs guarantee the return of premium after a ten year period. Example:

Mary purchases a \$100,000 variable annuity with the guaranteed minimum accumulation benefit. She holds the annuity for ten years, and makes no withdrawals. By this time, the stock market has declined, and the market value of the funds in her variable annuity sub-accounts is only \$73,000. However, with the GMAB feature, Mary is guaranteed that her contract is still valued at \$100,000.

¹ Annuity options and tables are typically limited to those specified in the annuity contract, and may differ from those available if the GMIB is not elected.