

Randy's Annuity Notebook

A Primer on GLWBs



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Over the last several months, a number of insurance carriers have made significant changes to their income riders or have pulled income riders from their annuity lineup altogether. **In light of these changes, how prepared are you to continue providing income rider options to your clients?**

In this section of my annuity notebook, I provide you with a primer on Guaranteed Lifetime Withdrawal Benefits (GLWBs). To give you an overview of GLWBs, I start with GLWB basics and share why they are likely to remain an important income option for many of your clients. I finish this section of the notebook discussing the history and future of GLWBs.

Let's begin with some GLWB basics.

A Guaranteed Lifetime Withdrawal Benefit (GLWB) is a living benefit that guarantees lifetime income without requiring your client to annuitize. (Keep in mind, most riders can only be added when the policy is issued.) It allows the owner to remain in control of his or her money while providing a guaranteed income floor. Most GLWBs offer accumulation rate roll-up guarantees, generally ranging from four to eight percent, and most provide the flexibility to start and stop withdrawals. Some GLWBs also provide a potential step-up benefit at the time of the first income payment and some offer ratcheting income during the payout phase.

What can be confusing about a GLWB is the special "account" system that's used to track the basis for determining the amount of future income payments. Depending upon the carrier or annuity product, this special account system can be called different names such as: Income Account Value, Benefit Base, Guaranteed Withdrawal Base, Withdrawal Payment Base, or Income Withdrawal Value. The problem with using the term "account" is a producer or customer could be confused, thinking the value of that special "account" is the same as the annuity's cash value, which it is not.

Perhaps a more concise term is "Income Benefit Base," because this clearly describes the main purpose of their special value. Regardless of what it's called, it's very important that you and your clients understand that the sole purpose of this "value" is to determine the amount of future income payments that your client can receive. It is not the same thing as the annuity's accumulated value, and it is not an account that can be cashed out.

The GLWB's "Income Benefit Base" is:

- Normally guaranteed to grow at a specified rate, or formula, most commonly for 10 years, or until withdrawals begin under the rider.

- The account used for a series of lifetime income or fixed period withdrawals.
- Usually the basis for the rider charge.
- Shown on the annual report.
- Increased automatically at the time of first withdrawal.

The GLWB's "Income Benefit Base" is not:

- A lump sum surrender account.
- A lump sum death benefit account.
- An annuitization account.
- Used for tracking withdrawal taxation or the underlying annuity guarantee.

A note about compliance.

As an insurance professional, it's imperative to stay compliant when selling GLWBs. To do this, it's important to receive ongoing training and to read all carrier bulletins regarding product changes and/or how to communicate about GLWB benefits. Using carrier-approved marketing materials when presenting GLWBs to your clients can help you properly market them. However, if you choose to create your own GLWB marketing materials, make sure you submit them to the respective carrier(s) for compliance review.

Generally, it's not compliant to make GLWB claims such as:

- You can double your money in "x" amount of years.
- You can earn seven percent on your money.
- Your annuity can earn seven percent.
- You earn a 20 percent premium bonus.
- You can earn guaranteed 17+ percent on your money in the first year with a 10 percent bonus.

More compliant GLWB statements may include:

- The Income Benefit Base is not the same as the Accumulated Value of the underlying contract.
- The sole purpose of the Income Benefit Base is to determine the amount of future income payments you can receive from your contract.
- These riders may have a cost. (And disclose the cost.)
- The lump sum death benefit does not come from the Income Benefit Base.
- Roll-up accumulation under the rider ceases when withdrawals begin under the benefit.

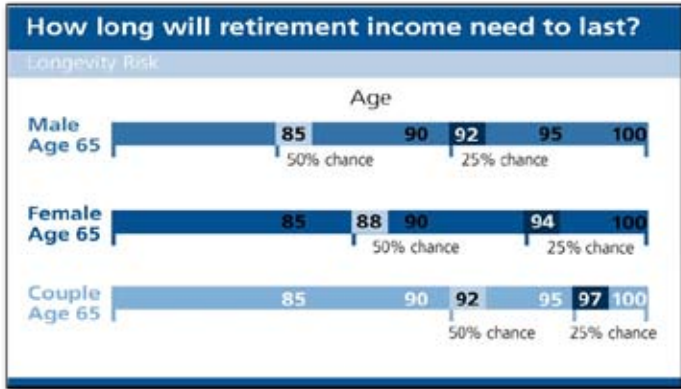
What do people find appealing about GLWBs?

It wasn't until the Great Depression that interest in annuities began to grow. This was because insurance companies were viewed as a safe place to save money and still receive guaranteed lifetime payments.

Since then, longevity is one of the main reasons why the demand for living benefits has remained high. Everyone hopes for a long and secure retirement, but as the number of years lived in retirement increases so does the risk of outliving retirement dollars. Do you remember the last time you sat down with a married couple, ages 65, and they told you they thought they had a 25 percent chance that one of them will live to age 97? This probably hasn't happened, but these statistics are why guaranteed retirement income products are so appealing to many people. Take a look at Table 1 to get a better idea on projected life expectancies of people who purchase annuities.

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Table 1
Source Mortality 2000 Table



The History of GLWBs on Fixed Indexed Annuities (FIAs)

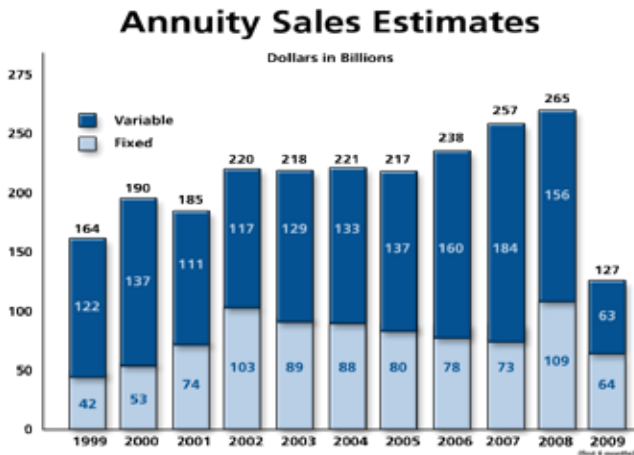
Three companies introduced a GLWB in the second quarter of 2006 on a Fixed Indexed Annuity (FIA). At one point, 25 carriers offered these riders on FIAs; currently 20 offer these riders on FIAs. GLWBs are also being offered on more traditional fixed annuities.

Industry sales statistics

Table 2, from LIMRA, demonstrates individual annuity sales from the last 10 years. First, take a look at the dark bar, which illustrates the substantial growth of variable annuities. This increase was due to the market and the tremendous popularity of living benefit riders. The lighter bar illustrates fixed and fixed indexed annuity sales. At periods where the stock market took a substantial drop, such as 2002 and 2008, sales for fixed annuities rose.

It's clear that when the market decreased in the recent past, consumers reached out for the security of fixed annuities. The trend continued for the fourth quarter of 2008. And in the first half of 2009, fixed outsold variable annuities.

Table 2



Below are statistics from LIMRA based on variable annuities in-force assets.

Variable Annuity Year End Assets	
2007	\$1.517 trillion
2008	\$1.151 trillion

What happened to the \$366 billion of consumers' values? The values decreased when the market decreased. In one year,

they were down 24 percent. They decreased further at the end of the first quarter but gained some in the second quarter of 2009. Remember, variable annuities in their purest form are a principal at risk product. On a positive note, many of these retirement balances were protected because the consumer had some form of living benefit on their variable annuity.

The Future of GLWBs

Carriers are continuing to review the long-term costs and risks of these riders. Variable annuity players have already started down this road; many riders have been removed from sale or have been dramatically adjusted.

Fixed annuity carriers may consider the following on future issued policies:

- A lower roll-up rate and higher usage of the simple interest method.
- Product pricing levels to shorten the guarantee period and increase future charges.
- Lower payout percentages to encourage deferral of income.
- Limiting riders to certain products and/or building the riders into the product, offering them to everyone in order to spread costs and lower utilization.
- Pulling their riders altogether.
- Limiting new agent carrier contracting.
- Increasing GLWB rider's availability on traditional fixed annuities.

You can click here to review an income rider training presentation.

Part II will cover additional sales spotlights on GLWBs.

Chapter 2: Nine GLWB Case Studies

In this chapter of Randy's Annuity Notebook, you will learn more about using different products and guaranteed lifetime withdrawal benefit riders. These 9 sales spotlights focus on each product's Income Benefit Base and its corresponding benefits.

A guaranteed lifetime withdrawal benefit (GLWB) guarantees your client lifetime income without requiring your client to annuitize the contract and the Income Benefit Base is the basis that determines the amount of future income that would be available.

These spotlights are based on a hypothetical roll-up rate using compound interest of 7% on the Income Benefit Base. Throughout the article, specific products and/or riders will not be named. Before you present an annuity product and/or income annuity product rider to your client, you should always review carrier-approved marketing materials, state approvals, and any product variations for your state. This article is not intended to give tax or legal advice and is for general educational purposes only. Features and/or Riders may not be available in all states and may vary from state to state.

Spotlight #1: Nursing Home Confinement Enhancement

Some income benefits offer a provision that pays an enhanced income benefit if the annuitant(s) are confined to a nursing home.

Suppose a husband and wife, both age 80, have \$500,000 in their Income Benefit Base and now want to begin lifetime retirement income under the rider. The joint income for life

would be \$32,500 (6.5% payout factor). Two years later, the husband goes into a nursing home and the annual income increases to \$65,000. Five years later, the husband dies and the income decreases to \$32,500 for the surviving spouse. One year later, the wife goes into the nursing home and the income increases to \$65,000. Any remaining accumulated value in the underlying annuity is left to the beneficiary. Usually no underwriting is required for this enhancement. Some producers call this a nursing home doubler benefit.

Spotlight #2: Increasing Income Benefit Base During Accumulation

Some income benefits increase the income benefit base during accumulation period at a higher rate than the roll-up rate in the contract. This can provide an attractive increasing benefit base for future retirement income.

Year	Income Benefit Base	Accumulated Value
At Issue	\$100,000	\$100,000
1	\$107,000	\$103,000
2	\$114,480	\$116,000
Increase up	\$116,000	
3	\$124,120	\$122,000
4	\$132,808	\$123,000
5	\$142,105	\$138,000
6	\$152,052	\$145,000
7	\$162,686	\$165,000
Increase up	\$165,000	
8	\$176,550	\$170,000
9	\$189,908	\$175,000
10	\$202,132	\$190,000

\$100,000 Initial Premium, Income Benefit Base growing at 7% Accumulated Value growing at hypothetical rates. Notice in year 2 and year 7 how the Income Benefit Bases is increased by more than 7%.

Spotlight #3: Annual Ratcheting of Income During the Payout Phase

There are income benefits that can increase the income payments in retirement. This can happen even if the cash value of the policy is not growing above its starting value under the rider. It provides the opportunity for an increasing income while still maintaining the lifetime payment guarantee.

Year	Lifetime Annual Income	Index and Fixed Interest Credit Percentage	
1	\$6,000	6%	
2	\$6,360	Index fell 20%	
3	\$6,360	5%	
4	\$6,678	10%	
5	\$7,346	Index fell 10%	
6	\$7,346	6%	
7	\$7,787	2%	
8	\$7,942	0%	
9	\$7,924	12%	
10	\$8,895		48% higher income than starting point

\$100,000 Initial Premium, Accumulated Value is being credited at the listed hypothetical rates.

Another version of spotlight idea #3 is when some companies offer income that increases at a fixed percentage each year for example 3% at shown below. As compared to traditional level payments the payments start lower but increase each year.

Attained Age	Lifetime Income Withdrawal using a 6% payout factor	Annual Lifetime Income Withdrawal Amount with Increased Benefit Option using a 5% payout factor and 3% annual increase	3% Cumulative Increases
70	\$6,000	\$5,000	\$0
71	\$6,000	\$5,150	\$150
72	\$6,000	\$5,305	\$305
73	\$6,000	\$5,464	\$464
74	\$6,000	\$5,628	\$628
75	\$6,000	\$5,796	\$796
76	\$6,000	\$5,970	\$970
77	\$6,000	\$6,149	\$1,149
78	\$6,000	\$6,334	\$1,334
79	\$6,000	\$6,524	\$1,524
80	\$6,000	\$6,720	\$1,720
81	\$6,000	\$6,921	\$1,921
82	\$6,000	\$7,129	\$2,129
83	\$6,000	\$7,343	\$2,343
84	\$6,000	\$7,563	\$2,563
85	\$6,000	\$7,790	\$2,790
Total	\$96,000	\$100,784	

Spotlight #4: Cumulative Withdrawals

Some income benefits allow you to withdraw a lower amount of annual income. In the future you can take the cumulative amount you have accumulated in the benefit. This provides additional cash flow at a later date without lowering your guaranteed lifetime payment.

Year	Lifetime Income Available Annually	Amount Taken Annually	Cumulative Withdrawal Available
1	\$20,000	\$15,000	\$5,000
2	\$20,000	\$15,000	\$10,000
3	\$20,000	\$15,000	\$15,000
4	\$20,000	\$15,000	\$20,000
5	\$20,000	\$15,000	\$25,000
6	\$20,000	\$45,000	\$0
7	\$20,000	\$20,000	\$0

Spotlight #5: Non-Qualified Income Without Flipping the Switch

It is possible to take normal withdrawals under a contract without turning on income. For example, you could withdraw five percent of your starting balance per year while still keeping the roll-up rate accumulating at seven percent. This is usually called a pro-rata withdrawal. It has potential to do great things for your clients' non-qualified and qualified funds. In the example below the customer withdrawals \$5,000 for ten years by taking "normal" withdrawals with out turning on the income provision of the rider. Ten years later they officially elect to take income under the rider and received \$6,405 for life which is over 30% higher than the amount they would have received if they would have turned on the benefit at age 60. Notice how the Income Benefit Base continues to grow even while they are withdrawing dollars.

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Non-qualified Income without Flipping the Switch

Interest Age	Accumulated Value					Income Benefit Base					
	Beginning of Year Accumulated Value @ 2.0%	Withdrawal	Annual Interest	End of Year Accumulated Value @ 2.0%	Withdrawal Percentage	Beginning of Year Income Benefit Base	Pro-Rata Withdrawal	Annual Interest @ 7.0%	End of Year Income Benefit Base @ 7.0%	Available to Withdraw Income @ Withdrawal Percentage	Available Lifetime Withdrawals (Remaining of Life)
00	100,000	5,000	1,900	106,900	5.00%	100,000	5,000	6,679	101,659	5.00%	\$0,000
01	96,900	5,000	1,847	93,755	5.16%	101,658	5,206	6,779	103,172	5.00%	\$5,000
02	93,755	5,000	1,794	90,556	5.33%	103,172	5,324	6,869	104,516	5.00%	\$9,159
03	90,556	5,000	1,740	87,268	5.52%	104,516	5,356	6,945	106,627	5.00%	\$13,296
04	87,268	5,000	1,685	83,911	5.73%	106,627	5,379	7,008	108,585	5.00%	\$17,383
05	83,911	5,000	1,629	80,488	5.98%	108,585	5,377	7,054	107,272	5.00%	\$18,330
06	80,488	5,000	1,573	77,016	6.21%	107,272	5,360	7,081	107,963	5.00%	\$19,304
07	77,016	5,000	1,516	73,405	6.49%	107,963	5,318	7,087	107,733	5.00%	\$19,383
08	73,405	5,000	1,459	69,643	6.81%	107,733	5,262	7,070	107,442	5.00%	\$19,507
09	69,643	5,000	1,399	65,740	7.18%	107,442	5,222	7,027	106,746	5.00%	\$19,572
10	65,740	5,000	1,338	61,740	7.60%	106,746	5,166	6,966	105,746	6.00%	\$19,600

This hypothetical illustration assumes \$100,000 initial premium, no additional premium, no other withdrawals, 7% roll-up on the Income Benefit Base and the Single Life Level Benefit was elected. This is not an illustration. It is not intended to predict past or future performance. The above chart illustrates a 2.0% net annual growth on the Accumulated Value. The accumulation rate on the Income Benefit Base stops once withdrawals are elected under the rider.

Qualified Income without Flipping the Switch

The example below shows the same idea on a client age 70 that needs to take Required Minimum Distributions (RMD) on their IRA. Notice at age 80 the Income Benefit Base has grown to over \$126,000 but the customer has been taking RMD's for ten years.

Interest Age	Accumulated Value					Income Benefit Base					
	Beginning of Year Accumulated Value @ 2.0%	Withdrawal	Annual Interest	End of Year Accumulated Value @ 2.0%	Withdrawal Percentage	Beginning of Year Income Benefit Base	Pro-Rata Withdrawal	Annual Interest @ 7.0%	End of Year Income Benefit Base @ 7.0%	Available to Withdraw Income @ Withdrawal Percentage	Available Lifetime Withdrawals (Remaining of Life)
70	100,000	3,000	1,927	98,277	3.00%	100,000	3,000	6,745	103,026	6.00%	\$0,000
71	98,277	3,700	1,891	96,497	3.77%	103,026	3,890	6,944	106,149	6.00%	\$0,180
72	96,497	3,700	1,854	94,549	3.91%	106,149	4,146	7,149	108,143	6.00%	\$0,360
73	94,549	3,028	1,814	92,523	4.05%	108,143	4,419	7,331	112,055	6.00%	\$0,540
74	92,523	3,000	1,773	90,478	4.20%	112,055	4,708	7,514	116,991	6.00%	\$0,720
75	90,478	3,048	1,729	88,159	4.37%	116,991	5,016	7,688	117,534	6.00%	\$0,892
76	88,159	4,000	1,684	85,819	4.55%	117,534	5,342	7,863	120,048	6.00%	\$1,062
77	85,819	4,051	1,638	83,451	4.72%	120,048	5,682	8,007	122,368	6.00%	\$1,233
78	83,451	4,111	1,597	81,026	4.90%	122,368	6,029	8,145	124,508	6.00%	\$1,343
79	81,026	4,151	1,558	78,520	5.13%	124,508	6,385	8,268	126,388	6.00%	\$1,470
80	78,520	4,150	1,518	76,000	5.30%	126,388	6,748	8,377	128,022	7.00%	\$1,547

This hypothetical illustration assumes \$100,000 initial premium, no additional premium, no other withdrawals, 7% roll-up on the Income Benefit Base and the Single Life Level Benefit was elected. This not an illustration. It is not intended to predict past or future performance. The above chart illustrates a 2.0% net annual growth on the Accumulated Value. The accumulation rate on the Income Benefit Base stops once withdrawals are elected under the rider.

Spotlight #6: Death Benefit Payout Advantage

Some income benefits allow the beneficiary to receive the income benefit base over a five year period upon death. For example, instead of taking \$115,927 in a lump sum upon death, the beneficiary has the choice to take \$140,255 in the income benefit base in five equal payments. This provides an advantage of over \$24,000 in 5 years.

	Income Benefit Base	Single Life Lifetime Payments	Joint Life Lifetime Payments
Age at Issue 70	\$100,000	\$6,000	\$5,500
Defer income until attn. age 71	\$107,000	\$6,420	\$5,885
72	\$114,490	\$6,869	\$6,297
73	\$122,504	\$7,350	\$6,738
74	\$131,080	\$7,865	\$7,209
75	\$140,255	\$8,415	\$7,714
76	\$150,073	\$9,004	\$8,254
77	\$160,578	\$9,635	\$8,832
78	\$171,819	\$10,309	\$9,450
79	\$183,846	\$11,031	\$10,112
80	\$196,715	\$13,770	\$12,786

\$100,000 Initial Premium, Income Benefit Base growing at 7% Accumulated Value growing at 3% net

Spotlight #7: Joint Payout IRA

There are income benefits that allow individual owners on an IRA to select a joint payout option on the income benefit. This allows the owners to receive payments for life until the last surviving spouse dies. Many producers don't know this can be done with IRA qualified dollars.

Year	Accumulated Value	Income Benefit Base	5-Year Death Benefit Payout	Additional Payments Received by the Beneficiary
At Issue	\$100,000	\$100,000		
1	\$103,000	\$107,000	\$21,400	\$4,000
2	\$106,090	\$114,490	\$22,898	\$8,400
3	\$109,273	\$122,504	\$24,501	\$13,232
4	\$112,551	\$131,080	\$26,216	\$18,529
5	\$115,927	\$140,255	\$28,051	\$24,328

Spotlight #8: Return of Rider Charges Upon Death

Some income benefits allow a full refund of the income rider charges upon death. The beneficiary can then receive the cash value in a lump sum plus the cumulative cost of the rider charges. This increases the total death benefit.

Spotlight # 9: Inflation Protector

There are income benefits available guaranteed to increase each year. These benefits are tied to the Consumer Price Index. Your client can receive payments that can increase each year while the initial payment level is guaranteed for life.

Fixed annuity income payments are adjusted each year based on the movement of the CPI. Payments start lower and increase when the CPI increases, decrease when the CPI decreases, and never decrease below than the starting income payment. Over the last 30 years it has averaged over a four percent increase.

Year Ending	CPI-U Annual Changes	Year Ending	CPI-U Annual Changes
12/31/1980	12.61%	12/31/1994	2.68%
12/31/1981	12.65%	12/31/1995	2.67%
12/31/1982	9.59%	12/31/1996	2.61%
12/31/1983	4.59%	12/31/1997	3.26%
12/31/1984	3.27%	12/31/1998	1.83%
12/31/1985	4.05%	12/31/1999	1.55%
12/31/1986	3.51%	12/31/2000	2.62%
12/31/1987	1.28%	12/31/2001	3.45%
12/31/1988	4.53%	12/31/2002	1.90%
12/31/1989	4.25%	12/31/2003	2.20%
12/31/1990	4.66%	12/31/2004	1.77%
12/31/1991	6.27%	12/31/2005	3.52%
12/31/1992	2.99%	12/31/2006	3.46%
12/31/1993	3.05%	12/31/2007	1.97%

This chapter of Randy's Annuity Notebook, with additional details, is also available in a 45-minute educational webinar replay. To learn more about the companies that offer these great benefits. I encourage you to e-mail me. To access the webinar please click here. (<http://www1.gotomeeting.com/register/333657833>.)

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