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Annuity Guaranteed Lifetime Withdrawal Benefit

If you find this article useful, please feel free to contact me or go to our website to find even more articles and information on how to grow, protect, preserve, utilize and transfer your wealth.

Wealth Management is more than just investments. It encompasses a disciplined professional approach, using a broad range of services and an experienced team of advisers.

I can help you put together your specialized team of investment, tax, legal and insurance advisers and then lead the development and implementation of your integrated wealth management plan.

If you are within 10 years of retirement, let me help you understand how the retirement landscape has changed and how these changes can impact your current and future financial decisions.

December 06, 2007

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Annuity Guaranteed Lifetime Withdrawal Benefit

What is it?

A "living benefit" annuity rider

A guaranteed lifetime withdrawal benefit (GLWB) is a rider attached to either a variable annuity or an equity-indexed annuity that allows you to receive an annual withdrawal throughout your lifetime, without having to annuitize your contract. It is referred to as a "living benefit" because the withdrawals continue even if the annuity's account value decreases or is exhausted.

> **Caution:** Annuity guarantees, including guarantees associated with benefit riders, such as the guaranteed lifetime withdrawal benefit, are subject to the claims-paying ability of the annuity issuer.
>
> **Caution:** Withdrawals made prior to age 59½ may be subject to a 10 percent federal penalty tax.

A note about variable annuities

Variable annuities are long-term investments suitable for retirement funding and are subject to market fluctuations and investment risk, including the possibility of loss of principal. Variable annuities generally contain fees and charges which include, but are not limited to, mortality and expense risk charges, sales and surrender charges, administrative fees and charges for optional benefits and riders.

> **Caution:** Variable annuities are sold by prospectus. You should consider the investment objectives, risk, charges and expenses carefully before investing. The prospectus, which contains this and other information about the variable annuity, can be obtained from the insurance company offering the variable annuity or your financial professional. You should read the prospectus carefully before you invest.

How does it work?

Common annuity withdrawal options

Ordinarily, with most deferred annuities, you can withdraw up to a certain stated percentage of the cash value once each year without surrender charges (called a free withdrawal). Or, you can wait until the expiration of any applicable surrender charges, then withdraw as much of the cash value as you wish. Or, you can surrender the cash value of the annuity in exchange for guaranteed payments either for a stipulated period of time or for the rest of your life (annuitization). A GLWB rider combines these common withdrawal options in one annuity.

The basic GLWB rider

There are different variations of the GLWB rider, depending on the issuer offering it, but most riders have the same basic features. Your premium is invested in subaccounts (variable annuity) or earns interest (equity-indexed annuity). Thereafter, like annuitization, you can elect to receive annual withdrawals from the annuity, guaranteed to last for the rest of your life (minimum guaranteed withdrawal). The amount of the withdrawal is based on a percentage (withdrawal percentage) of either the premium or cash value, whichever is greater at the time of your election. Withdrawals are subtracted from the annuity's cash value and may reduce it. The amount of withdrawal is not affected if the cash value decreases or is exhausted. But, unlike annuitization, you continue to have access to the annuity's remaining cash value.

For example, suppose you invest $100,000 in a deferred annuity with a withdrawal percentage of five percent. In five years, you elect to begin receiving minimum guaranteed withdrawals, but the annuity's cash value is only $80,000 (due to poor subaccount performance). The withdrawal percentage (five percent) is applied to your premium ($100,000) since it is greater than the cash value at the time of your election. Your minimum guaranteed withdrawal is $5,000 per year ($100,000 x five percent).

> **Caution:** Any examples contained herein are for illustration only and do not represent any particular investment.

Minimum income value

Some issuers apply a minimum rate of return to your premium (minimum income value) apart from your cash value. In this case, the withdrawal percentage is applied to the greater of your minimum income value or your cash value, to determine your guaranteed minimum withdrawal. This calculation ensures that the amount of your minimum guaranteed withdrawal increases with each year you defer receiving withdrawals. In addition, some issuers increase the withdrawal percentage as the age at which you begin to receive withdrawals increases.

> **Example(s):** You invest $100,000 in a deferred annuity with a GLWB rider and a minimum income value of six percent interest applied to your premium each year. Presume the withdrawal percentage at age 55 is five percent, and at age 65 it's six percent. In five years when you elect to receive withdrawals, the minimum income value is $133,823 ($100,000 x six percent per year x five years), and the annuity's cash value is $110,000. Since the minimum income value is greater than the cash value, the withdrawal percentage is applied to the minimum income value. If you're 65 years old at the time of election, the withdrawal percentage (six percent) is applied to the minimum income value ($133,823) yielding an annual minimum guaranteed withdrawal of $8,029 ($133,823 x six percent).

Step-up feature

Your withdrawals can increase if the issuer includes a step-up feature with its GLWB rider. At certain intervals, (usually once every five or ten years) the issuer compares your annuity's current cash value to the account value used to determine your minimum guaranteed withdrawal. If the cash value is greater, the issuer applies the withdrawal percentage to the cash value, thus increasing your minimum guaranteed withdrawal.

> **Example(s):** You have been receiving minimum guaranteed withdrawals of $5,000 per year based on your premium investment of $100,000 and a withdrawal percentage of five percent. In five years, your annuity's cash value growns to $115,000, despite your annual $5,000 withdrawals. The step-up feature is applied to the cash value, because it is greater than the amount previously used to calculate your withdrawals ($100,000). Your new minimum guaranteed withdrawal increases to $5,750 per year ($115,000 x five percent). This amount will not decrease, even if the cash value subsequently decreases.

GLWB costs

Issuers usually charge an annual fee for GLWB rider ranging from .1 percent to 1.0 percent of the annuity's cash value.

> **Tip:** The GLWB is one of many different “living benefits”; annuity riders that guarantee minimum cash values or income. Since these benefits are sold as “riders” there is usually a charge to include them. Some other living benefits include the guaranteed minimum withdrawal benefit (GMWB) which allows you to withdraw a maximum percentage of your total premium each year for a set number of years, regardless of your annuity’s cash value, until you have recovered all of your premium.

Another living benefit is called the guaranteed minimum income benefit (GMIB) which guarantees a minimum future income, even if your cash value decreases due to poor subaccount performance. The GMIB typically requires the annuity owner to own the annuity for a specified number of years before exercising the GMIB rider, and the owner must annuitize the contract to take advantage of this benefit.

The guaranteed minimum accumulation benefit (GMAB) is also a living benefit which ensures that you retain the value of your premium payments regardless of investment performance. At the end of a waiting period, typically 10 years, if your annuity's cash value is worth less than your premium (excluding any withdrawals you made), the issuer will add the difference to your account.

Access to your annuity's cash value

Most issuers allow you to take money from your cash value, even if you are also receiving GLWB withdrawals. However, some issuers reduce subsequent minimum guaranteed withdrawals in proportion to the amount you take from the cash value. For example, you have a cash value of $100,000 and your guaranteed minimum withdrawals are $5,000 per year. You withdraw an additional ten percent ($10,000) from the cash value. Your subsequent GLWB payments also will be reduced by ten percent to $4,500.

Death benefit

Unless a death benefit rider alters this provision, annuities with the GLWB rider either pay the remaining account value as a death benefit, or the death benefit may be limited to the amount of any premium not yet withdrawn. Generally, the GLWB rider applies to the annuity owner only, not his/her beneficiary. However, some issuers allow the GLWB withdrawals to continue to the beneficiary if it is the surviving spouse of the deceased annuity owner.

Why is it important?

Guaranteed income and control over your remaining cash value

The GLWB rider provides a guaranteed income for life without annuitization or loss of control over the annuity account balance. Typically, if you want to receive a guaranteed income from your annuity, you have to relinquish control over all of your cash value in exchange for the issuer's guaranteed payment to you for the rest of your life or for a fixed duration. The GLWB rider offers you the flexibility of getting the guaranteed income for life, while maintaining control over how the remaining cash value is invested within the annuity. Usually, you can receive additional distributions from the cash value even while receiving guaranteed withdrawals.

What are the common features?

- Some GLWB riders allow you immediate access to the withdrawals while others may require that you defer withdrawals for a set number of years.
- The percentage of the withdrawal can range from four to nine percent per year.
- GLWB withdrawals may be for your life or for the joint lives of you and someone else. If the withdrawal amount is based on two lives, it will continue until the surviving joint owner dies. The percentage used to determine withdrawals based on two lives is usually lower the percentage applied to single life withdrawals.
- Some GLWB riders may contain a minimum withdrawal account value. When you begin to take guaranteed payments, the withdrawal percentage is applied to the greater of your actual annuity cash value based on investment performance, or the guaranteed minimum account value.
- Most GLWB riders allow you to receive guaranteed withdrawals for the rest of your life, while the remaining annuity account balance is available for growth based on your chosen investment subaccounts (with a variable annuity) or interest earnings (with an equity-indexed annuity).
- Some GLWB riders have a step-up feature which increases your withdrawal amount if your annuity account value increases during the withdrawal period.
- GLWB withdrawals from non-qualified annuities are generally considered ordinary income to the extent they do not represent a return of premium.
- Some GLWB riders may allow you to accumulate unused withdrawals. For example, if the withdrawal is six percent per year, and you only take three percent in any given year, then the remaining three

percent can be added to a future withdrawal such that you can withdraw nine percent later.

- Most annuity issuers charge annually for the GLWB rider. The charge can range anywhere from 0.1 percent to 1.0 percent of your annuity account value.

Advantages

- Provides for guaranteed lifetime withdrawals without requiring annuitization
- Allows you to maintain control over the remaining annuity account balance which is available for continued growth within the annuity and to which you have access for additional withdrawals
- Since the withdrawal benefit is based on a minimum income value, risk of losing your investment is diminished
- At your death, any remaining account balance is transferred to your named annuity beneficiary, avoiding probate

Disadvantages

- The cost of GLWB riders can run from .01 percent to 1.0 percent which, when added to other variable annuity expenses, can equal total annual charges of 3percent or more. In addition, there may be an additional cost for the step-up feature.
- Some annuity issuers offering the rider on variable annuities restrict the investment options to more conservative investments.
- GLWB withdrawals from non-qualified annuities are generally taxed as ordinary income until all accrued earnings have been withdrawn.
- If the annuity is within an IRA, the GLWB withdrawals may not be sufficient to satisfy required minimum distributions.
- GLWB withdrawals are applied against your cash value. It is possible these withdrawals could reduce or even exhaust your cash value. However, even if the cash value is reduced to zero, your minimum guaranteed withdrawals will not stop, nor decrease for the rest of your life.
- GLWB withdrawals may not increase to compensate for inflation.
- GLWB riders offering a minimum income value applies only to minimum guaranteed withdrawals and not for lump sum distributions.

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State, national and international laws vary, as do individual circumstances; so always consult a qualified investment advisor, attorney, CPA, or insurance agent on all investment, legal, tax, or insurance matters.

The effectiveness of any of the strategies described will depend on your individual situation and on a number of other factors. After reviewing your personal situation, we may recommend that you not use any strategy in this document but instead consider various other strategies available through our practice.

Please fell free to contact me to discuss your particular situation.

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