

THE NEW LIVING BENEFITS IN VARIABLE ANNUITIES

These popular investments now have even more to offer.

by David Gatesman

GMIBs. GMWBs. GMABs. GLWBs. What do these acronyms mean? If you own a variable annuity or think you might want to own one, they stand for a new class of living benefits that make these investments even more attractive.

Variable annuities are tax-deferred investments structured to pay you benefits over a set number of years, and a death benefit to your beneficiaries. They let you invest some of your annuity assets in investment subaccounts that suit your investment styles and goals.

Additionally, these annuity contracts often come with riders that guarantee certain benefits regardless of how the markets perform: GMIBs, GMWBs, GLWBs, and GMABs.

Guaranteed minimum income benefit (GMIB). A GMIB ensures that the annuity payments that come your way are at least a specified minimum amount, even if your investment subaccounts perform poorly (the insurer picks up the slack). How is the minimum payment amount figured out? It is based on the insurance company's estimation of the future value of the initial annuity investment.¹

Guaranteed minimum withdrawal benefit (GMWB). If the principal of your variable annuity shrinks due to a market downturn, you can use this rider to recoup the amount of your entire initial investment. If you own a variable annuity with a GMWB with a 10% withdrawal rate, you can withdraw 10% of your entire investment each year until the initial investment amount has been recouped. That's useful if the value of your annuity should decline. If you started your variable annuity with a \$200,000 investment and it is now worth \$180,000, you can use the 10% GMWB to withdraw \$20,000 of the original principal amount each year until the entire \$200,000 is recovered thanks to the guarantee set by the insurance company.²

Guaranteed lifetime withdrawal benefit (GLWB). This means guaranteed income payments for life. Let's say your variable annuity has an account balance of \$100,000 and is structured to pay out \$5,000 a year for 20 years. With a GMWB for life, you will continue to receive \$5,000 a year from the insurer even if you have recouped the original principal and even if the account value falls due to poor investment returns.³

Guaranteed minimum accumulation benefit (GMAB). A GMAB gives you the confidence of knowing that after a set period of years, you will have at least X dollar amount of assets in your variable annuity. Usually, the GMAB is established for the end of a 10-year period, i.e., in ten years, the insurer guarantees that your annuity contract will be valued at a minimum of \$100,000, even if the market drives the actual value down.⁴

Long-term care insurance options. This is certainly a new wrinkle in variable annuities and worth knowing about. Some variable annuities now allow you to pay long-term care benefits from the life insurance death benefit promised in the annuity contract. While this will reduce the amount of the death benefit, it can certainly help during your life. If you don't choose to spend some of the death benefit on long-term care, then the entire death benefit will be received by your heir. You can also choose to receive the cash value of the death benefit as an income stream.⁵

Very interesting, isn't it? If you'd like to know more about the new living benefits in variable annuities, why not talk to a qualified insurance or investment professional today? These new annuity options may give you more financial confidence - and financial choices - for retirement.

Please note that variable annuities are long-term investment vehicles designed for retirement purposes. Investing in variable annuities involves market risk, including possible loss of principal. Investors should carefully consider the product's investment objectives, risks, limitation, charges, and expenses. The variable annuity prospectus and underlying sub-account prospectus contain this and other important information. These prospectuses should be read carefully before investing.

These views are those of the author and should not be construed as investment advice. All information is believed to be from reliable sources; however we make no representation as to its completeness or accuracy. Please consult your Financial Advisor for further information.

Citations.

¹ investopedia.com/terms/g/gmib.asp [11/11/08]

² investopedia.com/terms/g/gmwb.asp [11/11/08]

³ tidp.com/living-benefits-defined.html [11/11/08]

⁴ finance.yahoo.com/how-to-guide/retirement/18308 [11/11/08]

⁵ investopedia.com/printable.asp?a=/articles/pf/08/variable-insurance.asp [11/11/08]