SIMON

# Lifetime Living Benefits
## What They Are and How You Should Use Them

Financial Experts Network Webinar

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# What is a lifetime living benefit?

- A lifetime living benefit is a systematic withdrawal that is guaranteed by the insurance company to be paid even if the annuity account value runs out of money
  - The insurance company charges a fee (an insurance premium) to provide this guarantee
  - All withdrawals first come from the policyholder’s account value
  - The insurance company only pays out of its pocket if withdrawals, market performance and fees cause the account value to go to down to zero. Then and only then, does the ”insurance” kick in.

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# Lifetime living benefit example

- A lifetime withdrawal benefit can be thought of as longevity insurance
  - The policyholder pays an annual fee (premium) to ensure that the systematic withdrawal payment will last as long as he or she lives

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# How the income account grows

- Most living benefits create an income account that is used to calculate the guaranteed income
  - This income base can also be referred to as an ”income benefit base”, “guaranteed withdrawal account” or “guaranteed income account”

- The income account grows separately from the account value at a specified rate, typically 5%
  - The income account will grow even if the account value falls
  - If the account value grows faster than the income account, the income account will be increased periodically to match the account value (referred to as a step up)

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# How the income account grows – Different Methods

1. Income account grows at a specific rate for a set number of years
   - Typically 5-6% for each of the first 10 years

2. Income grows at the same rate as the account value plus an additional amount
   - Found in fixed and indexed annuity designs
   - Example: Account value grows at 3% so income account grows at 3% x 1.5

- Growth rates can be simple interest or compounded

- Income account will "step up" to the account value if it grows faster than the income account

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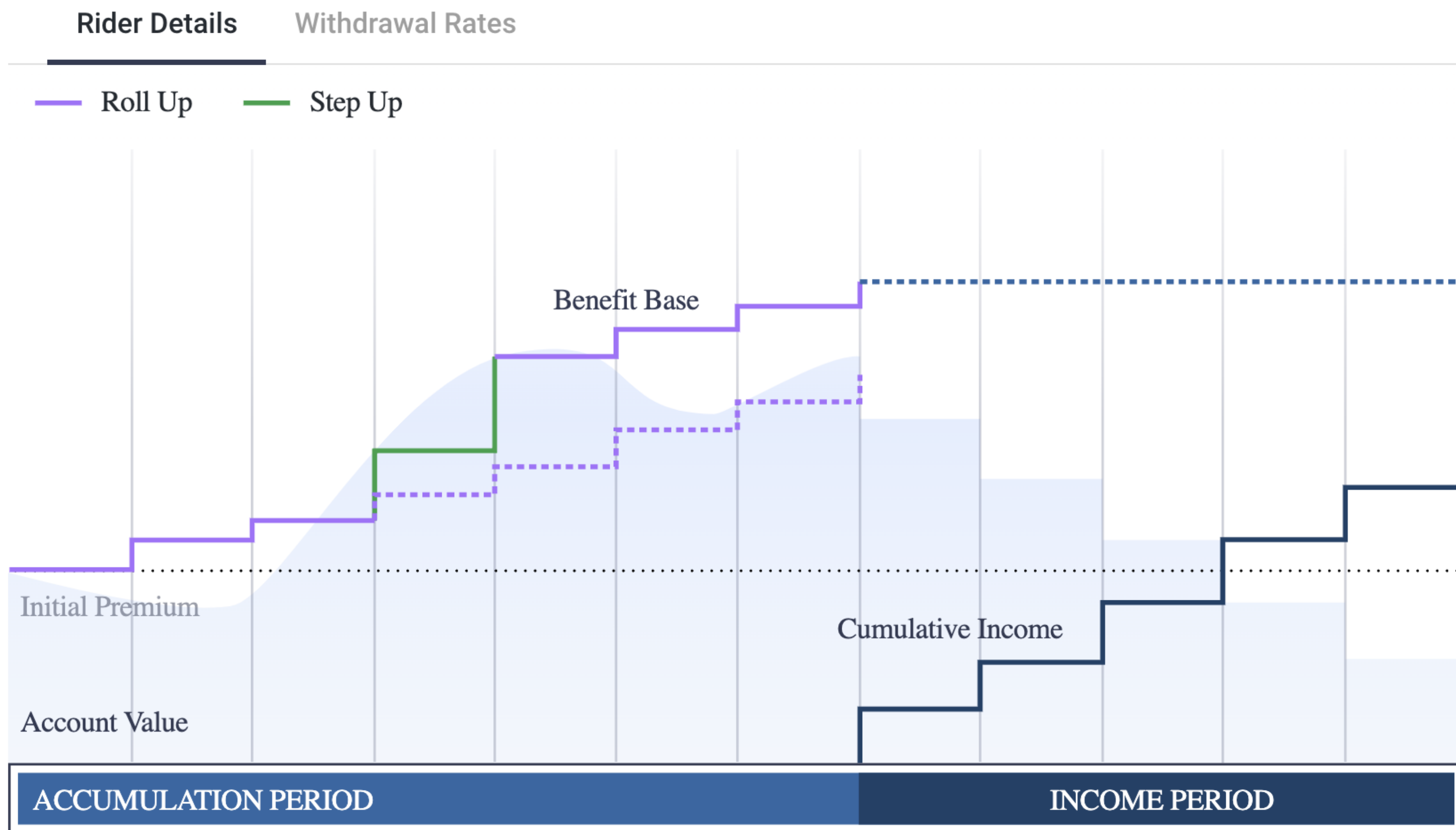
# Step up example

Rider Details | Withdrawal Rates

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# How the Payout Percentage Increases

- Allowable withdrawal percent increases as the policy owner ages and/or the policy ages

| | At Age 60 | At Age 65 | At Age 70 | After Age 50 |
|---|---|---|---|---|
| **If single annuitant** | 3.80% | 4.70% | 5.30% | **Increases each year to age 90** (at age 90+ the percentage stays at 7.70%) |
| **If joint annuitant** | 3.10% | 4.00% | 4.60% | **Increases each year to age 90** (at age 90+ the percentage stays at 7.00%) |

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# Knowledge Check #1:

Which of the following **is not true** when you add a living benefit to an annuity?

a. The policyholder is guaranteed an income for life even if the account value goes to $0
b. The policyholder has to pay an extra fee
c. The income base is a sum of money that can be taken as cash
d. Any withdrawals first come from the account value

# The importance of a growing income account

- Variable annuities are subject to market risk – the income account is not
- Prevents income from fluctuating the same way the account value fluctuates
- Provides increases in income account even if the account value falls
- Protects income against a drop in the stock market

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# An example using SIMON's technology

| Allocation | Fund Performance |
|---|---|

**Contract Settings**

**Customized Portfolio** — Reselect Funds

| Fund Name<br>Fund Manager \| Net Fund Management Fee | *Avg Return | Volatility | Allocation |
|---|---|---|---|
| JNL/American Funds Growth-Income<br>American Funds \| 0.62% | 14.19% | 11.27% | 50 |
| JNL/S&P Dividend Income & Growth<br>FIAM LLC \| 0.35% | 11.89% | 11.20% | 25 |
| JNL/WMC Balanced<br>Wellington Management Company, LLP \| 0.43% | 10.09% | 6.98% | 25 |
| Clear Allocations | | | Amount Allocated 100% |

*Non-Standardized Avg Return over 05/03/2010 - 02/08/2022

Indicate Interest | Confirm and Plot Allocation

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# The potential power of the income protection

- Income account for previous example on March 23, 2020:
  - 222,420
- Account Value:
  - $162,599
- Systematic withdrawal percentage if income started then (assuming 5% allowable withdrawal):
  - 222,420 x .05 = $11,121
  - $11,121 / $162,599 = 6.84%

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# Factors to consider with a variable annuity

- Investment Flexibility
  - To protect the downside risk of the product, insurance companies will place investment restrictions on any annuity that has a living benefit attached

- Your view of the market
  - Given any investment restrictions, how likely is it that the market sees enough growth to increase the income beyond what was guaranteed in a fixed indexed annuity?

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# Fixed Indexed vs. Variable

## Scenario: $100,000 deposit at 60, single life, income starts at age 70

| Fixed Indexed Annuity | Variable Annuity |
|---|---|
| • Income base grows at 6.5% simple interest per year<br>  ○ Income base after 10 yrs: 165,000<br>• Income on a single life at age 70:<br>  ○ 5.15%<br>Min. Guaranteed Income: $8,498 | • Income base grows at 5% simple interest per year<br>  ○ Income base after 10 yrs: 150,000<br>• Income on single life at age 70:<br>  ○ 4.75%<br>Min. Guaranteed income: $7,125 |

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# Fixed Indexed vs. Variable Analysis

- To get the same income on the variable annuity as the fixed indexed, the income base must be 178,905 in year 10

- Account value would have to average 6% per year after taking into account the 2.45% per year in contract and rider fees
  - Variable annuity will likely have investment restrictions
    - Require a specific % go into fixed income and/or a fixed rate account
    - Limit the % that can go into equities

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# Best practices for buying a living benefit: Rule #1

- Don't buy a living benefit if you're not sure you are going to use it
  - The 0.75% - 1.5% annual rider fees will lower investment performance
  - Adding the income rider may limit investment options

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# Best practices for buying a living benefit: Rule #2

- Don’t take withdrawals prior to starting the income
  - Any deferral credits added to the income base are typically until “income starts”. Most products define this as the first withdrawal, and exercising the 10% free annual withdrawal would likely stop any future income growth

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# Best practices for buying a living benefit: Rule #3

- Avoid any excess withdrawals
  - Excess withdrawals will reduce the income base, which will reduce the remaining amount of lifetime income. In the extreme, the income base could be reduced to the account value, and eliminate most of the benefits advantages of the living benefit
    - An annual 10% free withdrawal is likely to be an “excess withdrawal” under the terms of the rider.

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# Best practices for buying a living benefit: Rule #4

- Be very careful in a divorce situation
    - Lawyers typically want to divide every asset in half.  Most annuity companies can do this only by processing a withdrawal equal to 50% of the account value which would absolutely be an excess withdrawal, and seriously impact any income guarantees.
        - Give one party the policy in its entirety and give the other party an asset of equivalent value.

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## Knowledge Check #2:

Which is not a method to grow an income base?

a. Grow at a specific % per year (i.e., 5%)
b. The annual price increase of bitcoin
c. The income base “steps up” to the account value if the account value is higher
d. The income base grows by the amount of the account value growth times a specific amount (i.e. account value x 1.5)

# Knowledge Check #3:

**What statement below is not true?**

a. An excess withdrawal will cause an increase the allowable lifetime income
b. In general, the initial guaranteed income from an indexed annuity with a living benefit will exceed the initial income guaranteed by a variable annuity with a living benefit.
c. Most variable annuities will restrict your investment options if you add a living benefit
d. You are far more likely to get a step up with a variable annuity than an indexed annuity.

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