Fixed Index Annuities

Innovative Retirement Planning Alternative

Genworth

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Securing the Future in an Unpredictable World: Two Options for Retirement Income

Executive Summary

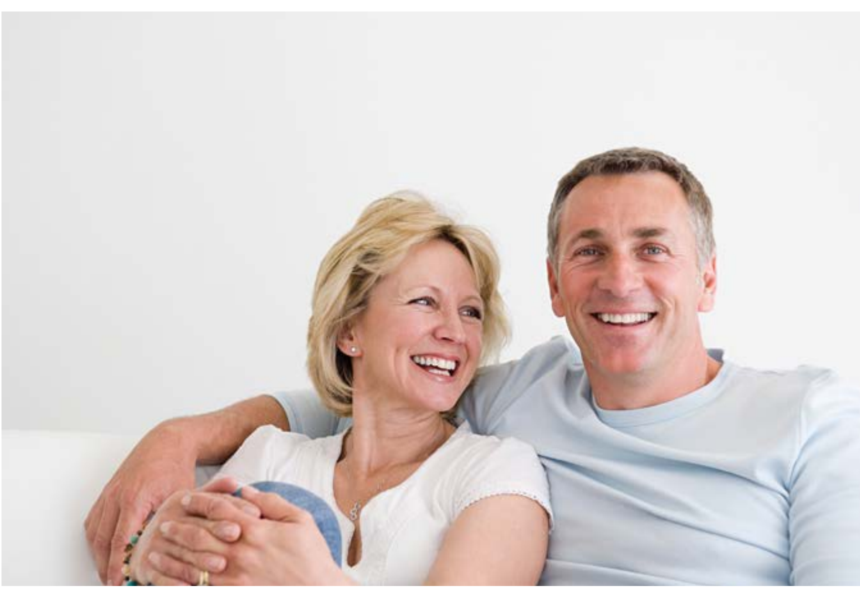
Variable annuities have long been a common tool for financial professionals whose clients seek tax-deferred growth and guaranteed retirement income, with the opportunity to outperform inflation. Yet high market volatility and low interest rates continue to challenge accumulation and income objectives. That's why some financial professionals are looking to fixed index annuities to protect portfolio value and create guaranteed income.

Read on to learn how advisors can incorporate this newer option into their toolkits, and expand the range of goals they can help their clients achieve.

When your clients look into the future, what do they see? If they are optimistic, they might see a retirement lifestyle much like that they enjoy today, or one that's even better. Clients who are less enthusiastic about the future may be worrying about how they will protect their portfolios, what their income will look like, and how long their retirement savings will last.

People looking for financial stability and a guaranteed lifetime stream of income have long turned to annuities. And while the value proposition of deferred annuities remains fairly straightforward—pay an insurer today for income in the future—they have become considerably more diverse, and can offer your clients a wide range of benefits.

That's a good thing: Approximately 10,000 baby boomers turn 65 every day,[1] and with high economic volatility and low interest rates, the need for innovative retirement income solutions and principal-protected cash accumulation products has never been greater.



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[1] http://pewresearch.org/databank/dailynumber/?NumberID=1150

Weighing the Options: Variable and Fixed Index Annuities

The Evolution of Variable Annuities

Variable annuities have been in existence since the 1950s, but changed dramatically during the boom years of the 1990s. During this period insurers began offering more investment choices and, for an additional cost, adding a variety of optional living and death benefit riders. Modern variable annuities allow contract holders to allocate their money into a wide range of investment options, thus gaining exposure to the ups and downs of many asset classes.

Following the collapse of technology stocks in 2000, many insurers began offering optional lifetime income guarantees with variable annuities, essentially providing a floor for their guaranteed income base while the annuity's contract value fluctuated. This was done to address contract holders' fears of running out of money when they retired. The addition of optional lifetime income guarantees led to a surge in variable annuity sales. As reported by LIMRA, variable annuity sales reached a peak of more than $184 billion in 2007.[2]

Yet the financial crisis that began accelerating in 2008 affected the profitability and viability of some of these products. This led many insurers offering variable annuities to reduce benefits, raise core product expenses, increase the income rider charge, or take a combination of all three actions.

A Newer Option: Fixed Index Annuities

For their part, fixed index annuities are a more recent innovation, first offered in 1995. Rather than direct exposure to the markets via underlying subaccounts, fixed index annuities pay interest based on the performance of a market index – in many cases a common stock index such as the S&P 500®.

Three Common Indexing Features

A **participation rate** determines how much of the gain in the index will be credited to the annuity. For example, the insurance company may set the participation rate at 80%, which means the annuity would be credited with 80% of any gain experienced by the index.

Many index annuities use a **cap or upper limit** on the index annuity's interest crediting rate. The cap rate is generally stated as a percentage, and it determines the maximum rate of interest the annuity will earn. For example, if the index linked to the annuity gained 10% and the cap rate was 4%, then the gain in the annuity would be 4%.

Some index annuities use a **spread, margin or asset fee** in addition to or instead of a participation rate. This percentage would be subtracted from any gain in the index linked to the annuity. For example, if the index gained 10% and the spread, margin, or asset fee is 3.5%, then the credit to the annuity would be 6.5%.

[2] LIMRA US Individual Annuity Yearbook – 2011.

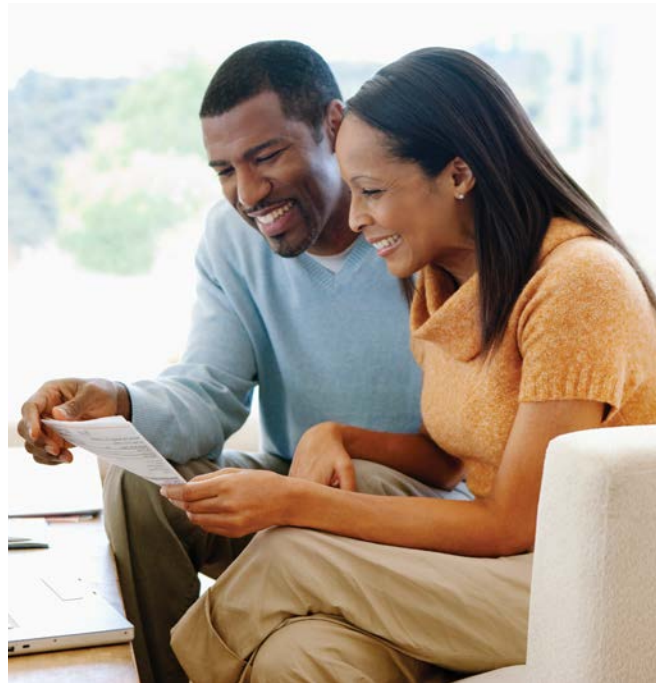
When computing the crediting rate for a fixed index annuity's interest, insurers use a combination of crediting methods. These may include participation rates; spreads, margins and asset fees, and interest rate caps (see sidebar for more details).

Like traditional fixed deferred annuities, fixed index annuities feature principal protection, which eliminates the risk of losing money due to market downturns. Even when the linked index declines in value, the contract value will not decline. That means fixed index annuities can provide access to some of the growth of a major index, without downside risk. This is the essential tradeoff of a fixed index annuity: While the owner foregoes some potential gains, they have protected their assets from losses due to market declines.

A key difference between fixed index and variable annuities is the way in which their expenses and fees are expressed. Fixed index annuities do not charge an explicit annual fee for the core product like their variable annuity counterparts. Rather, the product's profit margin is accounted for when its interest rate crediting strategies are set.

Similar to variable annuities, most fixed index annuities do offer optional lifetime withdrawal benefit riders. In fact, recent LIMRA data indicates that 87% of index annuity products sold during the second quarter of 2012 offered a guaranteed lifetime withdrawal benefit.[3] These riders for both fixed index and variable annuities are generally offered for an additional cost, which is typically assessed on the benefit the rider could provide and charged annually against the contract value.

The availability of lifetime income riders, the market's volatility and clients' desire for principal stability may be three reasons fixed index annuities are enjoying a surge in sales: According to LIMRA, sales of indexed annuities rose by 6% in the second quarter of 2012 compared to the same quarter in 2011, reaching $8.6 billion.[4]



Fixed index annuity sales reached $8.6 Billion, Q2 2012[5]

[3,4,5] LIMRA, US Individual Annuity Sales, Second Quarter 2012

Key Considerations

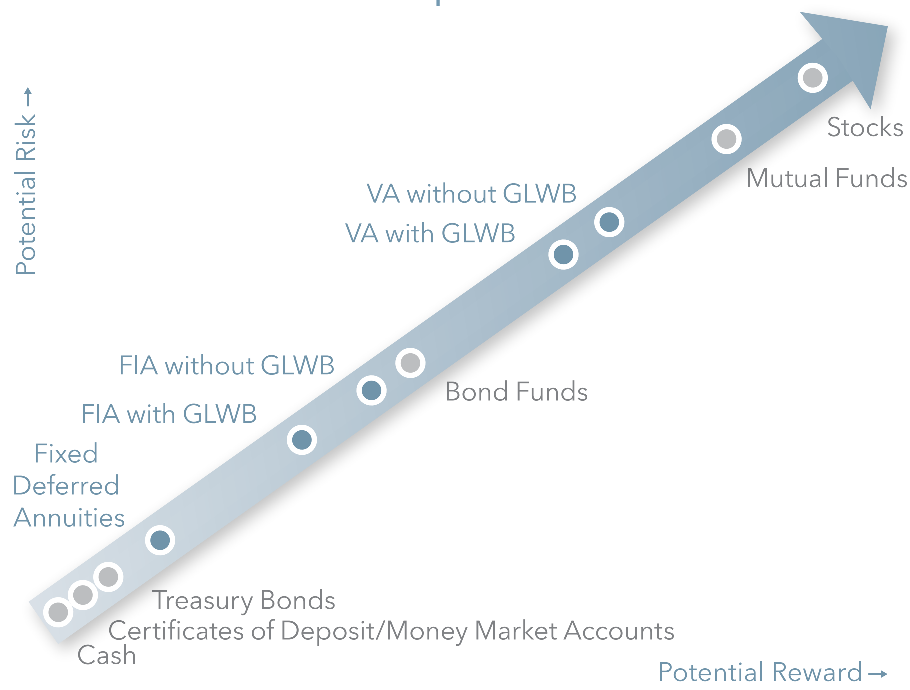
As a financial professional, how do fixed index annuities fit in with other financial tools that are available to you to help address your clients' needs as effectively as possible? The following charts highlight some key considerations.

Risk Tolerance is a Key Factor

When reviewing client needs and product trade-offs, it may be helpful to view variable and fixed index annuities along a continuum to compare the risk and reward potential of each.

The Potential Risk - Potential Return Spectrum demonstrates the relationship between the amount of potential gain received on a particular financial product as it relates to the amount of potential risk that must be considered. The general assumption is potential return can be impacted by the amount of potential risk a client is willing to assume. Due to the nature of market fluctuations, rate volatility, and various types of risk, this assumption is not always accurate.

Potential Risk - Potential Return Spectrum



FIA – Fixed Index Annuity   VA – Variable Annuity
GLWB – Guaranteed Lifetime Withdrawal Benefit

Quick Comparison

Looking at the key similarities and differences between variable annuities and fixed index annuities may help you determine which is the better fit for your client.

Similarities

Both Variable and Fixed Index Annuities

Can provide guaranteed lifetime income

Allow tax-deferred cash accumulation

Are backed by the claims paying ability of the issuing insurance company

Differences

Variable Annuities	Fixed Index Annuities
Provide a wide range of investment choices.	Growth potential is linked to one or multiple indices.
Value grows and declines with the specific investments chosen.	Growth is often limited by caps; principal is protected from decline in the markets.
Generally charge explicit annual mortality and expense risk charges along with additional costs and charges associated with the sub-accounts and riders selected.	"Fees" are incorporated into their crediting strategies though charges to the contract value may be applicable if a living benefit rider is available and selected.

Focus on Client Objectives

Not all retirement products are created equal. When considering a variable annuity or fixed index annuity as part of your client's retirement savings strategy, the overall objectives for their retirement savings should be top of mind when making any recommendations.

Client Objectives

Principal Protection	Annuity Advantage: Fixed Index	Annuity Advantage: Variable
Avoid declines in contract value	●	
Protect / reposition bond gains from rising interest rates	●	
Lock in any gains each year	●	
Protect assets from market downturns	●	
Guarantees their principal balance	●	●*
Reduce tax liability**	●	●
Growth Opportunities		
Seeks alternatives to low-interest savings vehicles	●	●
Deploy cash sitting on the sidelines	●	●
Have the opportunity for asset growth closer to the inflation rate	●	●
Obtain exposure to the markets with a death benefit	●	●
Gain highest upside potential with full market exposure		●
Tolerate volatility and principal risk in exchange for greater potential growth		●
Have direct exposure to equities, fixed income, cash and other asset classes in a single tax-deferred vehicle		●
Get access to multiple investment options		●
Income Generation		
Have the potential to secure guaranteed, lifetime income	●	●

* Variable annuity with death benefit

** No additional tax deferral for annuities purchased in an IRA, or any other tax-qualified plan, since these plans are already afforded tax deferred status.

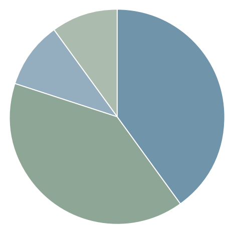
Fit with the Overall Plan

Another important consideration is how a fixed index annuity (FIA) or variable annuity (VA) would fit into your client's overall retirement strategy. The following are examples of hypothetical portfolios which are shown solely to help you understand how a fixed index annuity may fit into your client's overall portfolio to address their retirement needs.

Client Portfolio #1 Before: **No Guaranteed Income**

Allocations:

- Equities 40%
- Bonds 40%
- REITs/Other Alternative 10%
- Cash 10%



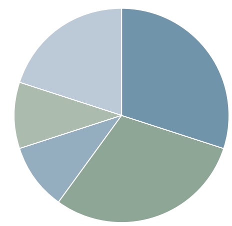
Assumptions:

- Diversified portfolio
- Lacks guaranteed income allocation
- 90% of the portfolio is subject to bearing investment losses

Client Portfolio #1 After: **Introduce Guaranteed Income**

Allocations:

- Equities 30%
- Bonds 30%
- REITs/Other Alternative 10%
- Cash 10%
- FIA with Income Benefit 20%



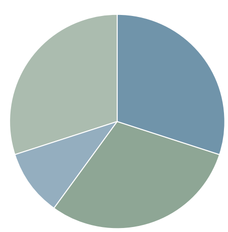
Actions/Rationale:

- Add FIA with lifetime withdrawal benefit rider
- Create guaranteed lifetime income
- Reduce overall portfolio volatility

Client Portfolio #2 Before: **Reallocate Cash**

Allocations:

- Equities 30%
- Bonds 30%
- REITs/Other Alternative 10%
- Cash* 30%



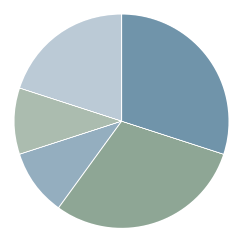
Assumptions:

- Diversified portfolio
- Sufficient guaranteed income from other sources
- Dissatisfied with low yields of existing cash position

Client Portfolio #2 After: **Increase Growth Potential**

Allocations:

- Equities 30%
- Bonds 30%
- REITs/Other Alternative 10%
- Cash 10%
- FIA without Income Benefit 20%*



Actions/Rationale:

- Add FIA without lifetime withdrawal benefit rider
- Wishes to reduce cash position, yet protect principal
- No desire for higher direct exposure to equities or bonds
- Create opportunity for higher growth potential

* Money market accounts and certificates of deposits are generally insured by the FDIC and NCUSIF up to specific monetary limits. Annuity guarantees are backed by the claims paying ability of the issuing insurance company and may be subject to surrender charge penalties for early withdrawals.

Conclusion

There are many reasons why fixed index annuities should be in any financial professional's toolkit as a complement to variable annuities. Fixed index annuities can provide some of the growth potential of variable annuities with none of the downside risk, so they may be a good choice for more risk-averse clients or those who are closer to retirement. Conversely, variable annuities may be a better fit for clients that seek greater potential growth opportunities and can tolerate a higher degree of risk.

Either type of product provides solid opportunities for accumulation and for creating guaranteed retirement income. As with any financial decision, your client's specific goals and priorities should be the deciding factor.

75% of variable annuity owners are either very satisfied or somewhat satisfied with their annuity purchase.

83% of fixed index annuity owners are either very satisfied or somewhat satisfied with their annuity purchase.[6]

[6] LIMRA US Deferred Annuity Buyer Attitudes and Behaviors, 2012

Notes

SecureLiving® Index Annuities Issued by
Genworth Life and Annuity Insurance Company

SecureLiving® Index Annuities, Individual Single Premium Deferred Annuities with market value adjustment and optional indexed interest crediting, subject to policy form series GA3005-1113, GA3003-0711, GA3006-1113, GA3004-0711, GA303R-1113, ICC14GA303R, GA302R-0612, ICC14GA3005, ICC11GA3001, ICC14GA3006, ICC11GA3002, ICC14GA303R and ICC12GA302R et. al. Features and benefits may vary by product, state and market and may not be available in all states. Genworth Life and Annuity Insurance Company is licensed in all states except New York.

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There is no additional tax deferral benefit for annuities purchased in an IRA, or any other tax-qualified plan, since these plans are already afforded tax deferred status. The other benefits and costs should be carefully considered before purchasing an annuity in a tax-qualified plan.

Withdrawals/surrenders from annuities have the effect of reducing the contract value and death benefit. Withdrawals/surrenders of taxable amounts are subject to ordinary income tax and if taken prior to age 59½ an additional 10% federal penalty tax.

The discussion of tax treatments in this material is Genworth's interpretation of current tax law and is not intended as tax advice. Your clients should consult the contract and a tax professional for information relating to their particular situation.

Withdrawals may be taxable and a 10% federal penalty may apply to withdrawals taken before age 59½.

Although the contract value may be affected by the performance of an index, the contract does not directly or indirectly participate in any stock or equity investment including but not limited to, any dividend payment attributable to any such stock or equity investment.

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Insurance and annuity products:	Are not deposits.
Are not guaranteed by a bank or its affiliates.	May decrease in value.
Are not insured by the FDIC or any other federal government agency.	