



Elevate in-plan lifetime income conversations

A PLAN ADVISOR’S GUIDE TO ANNUITIES

Assessing new lifetime income solutions is a new challenge for plan advisors. Evaluating each solution requires advisors to tailor their analytical approach. At the same time, becoming educated on the different types of annuities and their key elements is a strategic way to differentiate oneself from other plan advisors who lack the skillset to provide guidance on this evolving topic.

The plan advisor’s role in reviewing and presenting recommendations to their plan sponsor clients includes a series of steps, which begins with understanding the basics.

Understanding the guaranteed lifetime withdrawal benefit (GLWB)

The basic annuity types that you may already be familiar with in the retail market or from working with 403(b) plans, for example, include terms such as variable annuity or fixed annuity. These terms are the underpinnings of the new lifetime income solutions available in the defined contribution (DC) market today.

But before you study the common annuity types, it’s important to review one of the common contract riders that can attach to an annuity: the guaranteed lifetime withdrawal benefit (GLWB). Though this feature has been available for many years in the retail market, it has only been sporadically used in DC plans in the more recent past. Many innovative lifetime income programs in the DC market are now incorporating GLWB as a feature.

GLWBs are riders to annuities that are part of a class of insurance benefits called “living benefits.” Other examples include the guaranteed minimum accumulation benefit (GMAB) and the guaranteed minimum income benefit (GMIB). The most popular in the DC market today is the GLWB, which maintains an account balance that continues to be invested, accumulating earnings, while also growing the payout guarantees for the time of retirement. The payout guarantees are determined by something called the benefit base, which is:

- A value separate from the account balance that is maintained for each individual participant
- Initially equal to the participant’s deposit to the GLWB and grows as the account values grow, but is later separately calculated over time to reflect the annuity contract’s guarantees (such as against the risk of loss, the preservation of “high water” values, or the crediting of certain longevity bonuses under the terms of the annuity contract)
- The value upon which the lifetime guarantee is actually calculated as of the date of retirement

Participants generally still have control over how to allocate the investment in the GLWB to start. They’re able to withdraw from the account balance under the GLWB while in the accumulation stage, but this will reduce the value of the benefit base. Participants can also withdraw funds from the GLWB after payouts begin, but if those additional withdrawals exceed a certain amount, they’ll reduce the amount of guaranteed lifetime payments to be made. Should the account balance reach zero after retirement, the insurance company will still guarantee the payment of the lifetime income, but the ability to withdraw funds from the contract will end at that time.

Overview of common annuity types

Single premium income annuity (SPIA)				
Overview	Accumulation of lifetime income credits	Distribution payment options	Cash or surrender value	Death benefit
<ul style="list-style-type: none"> Guarantees a specific monthly benefit commencing immediately upon purchase (or within a year of its purchase) Payments are annuitized Typically considered irrevocable 	<ul style="list-style-type: none"> Provides no opportunity for preretirement accumulation of lifetime income Purchased at the time retirement income is to begin 	<ul style="list-style-type: none"> Provides a set monthly payment amount, as a single life or joint life May have an increasing payment (such as for COLA), based upon the contract terms No GLWB available 	<ul style="list-style-type: none"> No investment accounts nor cash value to the contract Contract typically can't be surrendered for cash, with some exceptions 	<ul style="list-style-type: none"> No cash value payable upon death, even if death is prior to pay status
Deferred income annuity (DIA)/Qualified longevity annuity contract (QLAC)				
Overview	Accumulation of lifetime income credits	Distribution payment options	Cash or surrender value	Death benefit
<ul style="list-style-type: none"> Guarantees a specific monthly benefit, payable at a future date, in return for the current payment of a premium Payments, when made, are annuitized Typically considered irrevocable 	<ul style="list-style-type: none"> Can be purchased by the payment of a single premium, such as a QLAC, where the single premium buys a guaranteed future benefit Can also be purchased under a periodic premium program, where the plan buys a collection of small amounts of guaranteed benefits that accumulate over time at different interest rates – effectively income averaging the guaranteed benefit 	<ul style="list-style-type: none"> Provides a set monthly payment amount, as a single life or joint life May have an increasing payment (such as for COLA), based upon the contract terms No GLWB available 	<ul style="list-style-type: none"> No investment accounts nor cash value to the contract Contract typically can't be surrendered for cash, with some exceptions 	<ul style="list-style-type: none"> No cash value payable upon death, even if death is prior to pay status

What's a GLWB?

A GLWB, or guaranteed lifetime withdrawal benefit, is a rider to an annuity. It's the most popular example of a class of insurance benefits known as "living benefits."

Fixed annuity (FA)

Overview	Accumulation of lifetime income credits	Distribution payment options	Cash or surrender value	Death benefit
<ul style="list-style-type: none"> ■ Annuity contract that has a single investment account that earns interest based on a fixed rate on the plan assets it holds 	<ul style="list-style-type: none"> ■ Can provide for the accumulation of lifetime income credits in a plan if it also has a GLWB rider 	<ul style="list-style-type: none"> ■ Account balance that can be used to purchase annuity payments (like the SPIA or DIA) at the time of retirement ■ If it has a GLWB feature, it can pay enhanced retirement benefits accumulated prior to retirement ■ Once balance is exhausted, payments are annuitized 	<ul style="list-style-type: none"> ■ Has a cash value that can be paid at any time until the contract is annuitized ■ Withdrawal of the entire account before a date named in the policy may affect the amount of guaranteed monthly payment if the contract is annuitized 	<ul style="list-style-type: none"> ■ Death benefit is the cash value, unless it has been annuitized

Variable annuity (VA)

Overview	Accumulation of lifetime income credits	Distribution payment options	Cash or surrender value	Death benefit
<ul style="list-style-type: none"> ■ Annuity contract with a variety of investment accounts, the value of which varies with the performance of the underlying investments it holds ■ Investment accounts typically aren't registered securities if they are held by retirement plans, unless held by 403(b) plans ■ Most common annuity in the DC market 	<ul style="list-style-type: none"> ■ Can provide for the accumulation of lifetime income credits in a plan if it also has a GLWB 	<ul style="list-style-type: none"> ■ An account balance that can be used to purchase annuity payments (like the SPIA or DIA) at the time of retirement ■ If it has a GLWB feature, it can pay enhanced retirement benefits accumulated prior to retirement ■ Once balance is exhausted, payments are annuitized 	<ul style="list-style-type: none"> ■ Has a cash value that can be paid at any time until the contract is annuitized ■ Withdrawal of the entire account before a date named in the policy may affect the amount of guaranteed monthly payment if the contract is annuitized 	<ul style="list-style-type: none"> ■ Death benefit is the cash value, unless it has been annuitized

Fixed index annuity (FIA)

Overview	Accumulation of lifetime income credits	Distribution payment options	Cash or surrender value	Death benefit
<ul style="list-style-type: none"> ■ Annuity contract with an account value that earns interest based on the performance of equity indices named in the policy and chosen by the participant on the assets it holds ■ Guarantees that the account value will not be reduced, even if the indices drop in value ■ In return for guarantee, it caps the gains that can be credited from the index ■ Not a registered security 	<ul style="list-style-type: none"> ■ Can provide for the accumulation of lifetime income credits in a plan if it also has a GLWB 	<ul style="list-style-type: none"> ■ An account balance that can be used to purchase annuity payments (like the SPIA or DIA) at the time of retirement ■ If it has a GLWB feature, it can pay enhanced retirement benefits accumulated prior to retirement ■ Once balance is exhausted, payments are annuitized 	<ul style="list-style-type: none"> ■ Has a cash value that can be paid at any time until the contract is annuitized ■ Withdrawal of the entire account before a date named in the policy may affect the amount of guaranteed monthly payment if the contract is annuitized 	<ul style="list-style-type: none"> ■ Death benefit is the cash value, unless it has been annuitized

Registered index-linked annuity (RILA)				
Overview	Accumulation of lifetime income credits	Distribution payment options	Cash or surrender value	Death benefit
<ul style="list-style-type: none"> An annuity like the FIA, with an account value that earns interest based on the performance of equity indices named in the policy on assets it holds Though it does not guarantee that the account value will not be reduced when the indices drop in value, it does create a floor, also called a buffer, which protects against some investment losses In return, the investment upside is not capped as much as the FIA Investment accounts within the RILA are registered securities 	<ul style="list-style-type: none"> Can provide for the accumulation of lifetime income credits in a plan if it also has a GLWB 	<ul style="list-style-type: none"> An account balance that can be used to purchase annuity payments (like the SPIA or DIA) at the time of retirement If it has a GLWB feature, it can pay enhanced retirement benefits accumulated prior to retirement Once balance is exhausted, payments are annuitized 	<ul style="list-style-type: none"> It has a cash value that can be paid at any time until the contract is “annuitized.” Withdrawal of the entire account before a date named in the policy may affect the amount of guaranteed monthly payment if the contract is annuitized 	<ul style="list-style-type: none"> Death benefit is the cash value, unless it has been annuitized

Contingent deferred annuity (CDA)				
Overview	Accumulation of lifetime income credits	Distribution payment options	Cash or surrender value	Death benefit
<ul style="list-style-type: none"> An annuity that wraps a plan’s investment accounts with insurance, which enables a plan to offer a GLWB program that guarantees lifetime income Pure insurance that does not hold assets Ensures that the plan’s assets that are covered by the policy can guarantee lifetime payouts to participants once the participant’s account value in the plan is exhausted A premium is charged for this insurance, and the insurer must have control over which investments are offered under the program it’s insuring Not a registered security 	<ul style="list-style-type: none"> Enables a plan or collective trust to accumulate lifetime income credits under the plan’s or collective trust’s own design 	<ul style="list-style-type: none"> Guarantees whatever the distribution payout program has been adopted by the plan or collective trust 	<ul style="list-style-type: none"> Cannot be surrendered for a cash value Can only be terminated, at which time the insurance on the GLWB is canceled 	<ul style="list-style-type: none"> No death benefit under the policy, unless the design of the plan or collective trust providing the GLWB has chosen to cover it with the CDA

You may already be familiar with the terms variable annuities and fixed annuities. That's just the beginning.

Understanding the different annuity types, as well as their specific benefits and limitations, takes time. But becoming an expert in this evolving area can boost your value as a plan advisor. As always, we're here to help guide you through the process and answer your questions.

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