

# Lifetime Income with Today's Modern Annuities

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## Annuities

Jamie Awe -  
Senior Annuity Specialist x 5237

Maggie Kordash -  
Annuity Specialist x6087

American history began a new chapter January 1st, 2011 when the first of the baby boomer generation turned age 65, the historical target date for retirement. In 2011, an average of 7,000 Americans per day turned age 65 and over 75 million individuals will hit that magical age by the year 2029.

This highly influential segment of the U.S. population now faces unprecedented concerns surrounding their retirement plans. Gone are the days of relying solely on employer provided pension plans and Social Security. According to the Employee Benefit Research Institute, only 3% of private sector employees are solely covered by a defined benefit pension plan, down from 28% in 1979. Today, even public employee pensions are under attack in many debt-burdened states. Furthermore, the federal government is already paying out more in Social Security benefits than they are taking into the system, leaving the program with an uncertain future. Compounding these issues further is the combination of the unpredictable markets and the fact that people are living longer lives.

All of these factors have led to the reconsideration of what the retirement dream looks like and how it will be funded. Unfortunately, this evaluation in today's market environment shows an increasing number of threats making retirement seem less like a dream and more like an improbable goal. Today's annuity products can help mitigate some of those threats by helping you answer questions like "Will I outlive my money?" and "Where can I get a guaranteed, reliable and predictable income stream that I cannot outlive?"

## BENEFITS OF AN ANNUITY

1. Tax Deferred Growth – Earnings from an annuity grow on a tax-deferred basis. It is important to note that earnings will be taxed as ordinary income tax rates when you withdraw your money from an annuity.
2. Income for Life – Annuities offer several income options for receiving payments. These payments may last a lifetime.
3. Penalty Free Withdrawals – Annuities generally permit penalty-free withdrawals, subject to limitations and restrictions.
4. Probate Avoidance – By simply naming a beneficiary, the assets of your annuity are transferred directly to your beneficiaries, and may bypass probate.
5. Reallocating Investments – You may transfer among the investment options in variable annuities without paying fees or taxes.
6. Principal protection, lifetime income and guaranteed death benefits may be offered for an additional cost and are subject to limitations.

## TYPES OF ANNUITIES

There are two main types of annuities—fixed and variable. Fixed annuities provide a rate of return at a fixed rate set and guaranteed by the insurance company for a certain period of time. A variable annuity offers a wide range of investment options and entails more risk in exchange for greater growth potential.

Annuities are also categorized based on when you take income, immediate or deferred, and how you make payments, single premium or flexible premium. An immediate annuity is purchased with a single payment and starts providing you with income payments right away.

## GENERATING INCOME

One common element among annuities of any type is that they can all be used to guarantee payments in retirement, creating an ongoing and consistent income stream much like you enjoyed while earning a paycheck. You can generate income from an annuity in a variety of ways including:

- Annuitization
- Exercising free-withdrawal provisions & waivers (e.g., nursing home care)
- Enhanced benefits

## SOLUTION TO VOLATILITY

Variable annuities offer a potential solution to volatility through benefits designed to help you stay invested in equities while guaranteeing a baseline level of income in retirement. With these optional benefits, you are guaranteed a minimum income even when market values decrease, plus you enjoy the potential for an increase to your income if the value of the underlying investment increases. These features may allow you to invest confidently, knowing that an up market offers benefits, while a down market won't erode your guaranteed minimum income.

## RETIREMENT RISKS

Many Americans have a greater responsibility for funding their own retirement. So it's more important than ever to manage the key risks to your retirement strategy. These risks include:

- Longevity Risk – Will you outlive your money?
- Inflation Risk – Will rising prices impact your lifestyle?
- Market Risk – Can you survive the volatility in the market during another substantial decline?
- Health Care Expense Risk – How will I be able to maintain my independence if I need care?

## LIVING BENEFITS EXPLAINED

Annuities have been characterized by their ability to provide retirement income that cannot be outlived during the payout phase. Today, annuity products offer living benefits that provide principal and income guarantees to protect your retirement income from declining markets. There are four basic types of living benefits, each with a distinct objective: GMAB, GMIB, GMWB and GLWB. The chart below provides a summary and some additional considerations.

Living Benefits Options	Benefit Description
Guaranteed Minimum Accumulation Benefit (GMAB)	Generally this benefit guarantees the return of your purchase payments or a higher stepped-up value at the end of a waiting period, typically ten years from issue or the last step-up, regardless of your investment performance. If your contract value is below the guaranteed amount at the end of the waiting period, the insurance company will increase your contract value to equal the guaranteed amount (adjusted by any withdrawals).
Guaranteed Minimum Income Benefit (GMIB)	This benefit typically guarantees a lifetime income stream when you annuitize the GMIB amount, after a specific holding period (e.g., 10 years), regardless of your investment performance. Most insurance companies provide GMIBs with some flexibility for taking earlier withdrawals under certain guidelines. Withdrawals reduce the value of the benefit. A GMIB can provide income protection for an individual or a couple.
Guaranteed Minimum Withdrawal Benefit (GMWB)	Generally these benefits guarantee a return of your purchase payments over a specified number of years (e.g., 7% payments for 14.2 years).
Guaranteed Lifetime Withdrawal Benefit (GLWB)	The lifetime GMWB (or GLWB) can provide annual income over a lifetime of an individual or a couple. Certain benefits may provide for a higher stepped-up benefit base via a roll-up percentage and/or positive market performance.

The actual guarantees and corresponding fees will vary by contract. These benefits are optional and carry an additional cost. Minimum holding periods and investment restrictions may apply.

## CHOOSING AN ANNUITY COMPANY

Your Baird financial professional can help determine if an annuity is right for you. When selecting an annuity, remember to review some important factors, including:

- **Independent Ratings** – A number of rating organizations measure the financial strength of insurance companies. A.M. Best Co., Standard & Poor's, Moody's and Fitch are the primary rating organizations. It is important to consider the financial strength of the insurance company as all guarantees are subject to the claims paying ability of the insurer. Also, the insurance company ratings do not apply to the investment options within a variable annuity.
- **Service Quality** – You should also consider a company that provides high-quality service.

## GENERATING LIFETIME INCOME WITH LIVING BENEFITS

You can generate lifetime income with both the GMIB and GLWB living benefits. Let's take a closer look.

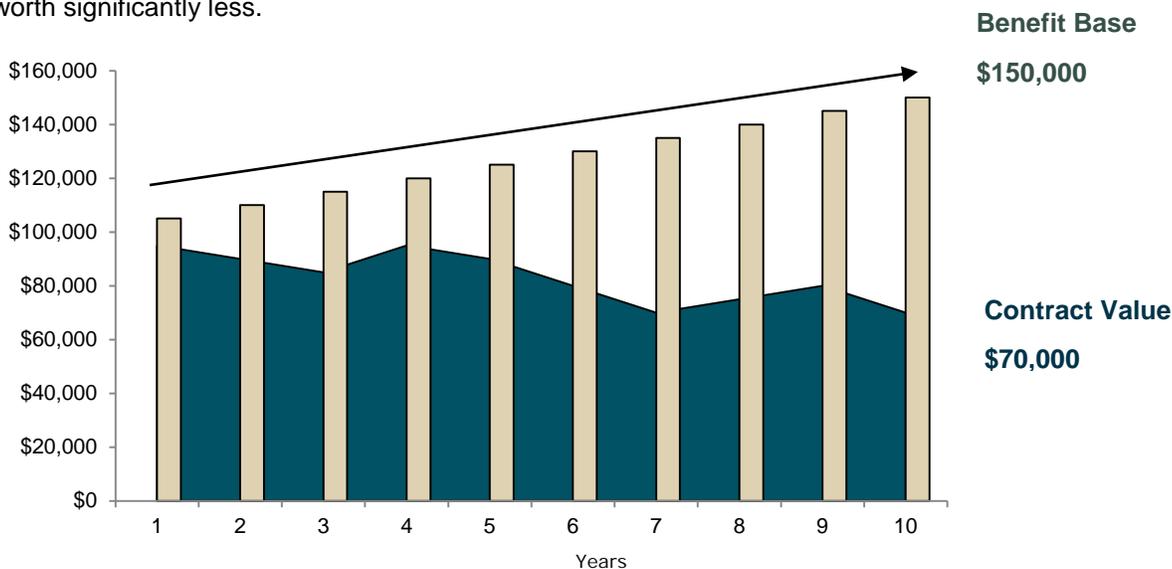
### GUARANTEED MINIMUM INCOME BENEFIT (GMIB)

There are several common terms an annuity company may use to describe the features of its GMIB.

- **Benefit Base**—When electing a GMIB, the amount used to calculate your lifetime income is commonly referred to as the “Benefit Base.” This amount starts as your initial investment, and grows through positive market performance or the guaranteed growth roll-up rate. If the contract value surpasses the benefit base value in any given year for example, the benefit base may “step-up” to the current contract value, typically on the contract anniversary date (if applicable).
- **Withdrawal Rate**—Many GMIBs allow for systematic withdrawals up to a certain percentage (e.g., 5%) of the benefit base. If you begin taking the maximum allowed withdrawals, the benefit base will remain steady for when you are ready to elect lifetime income (i.e., annuitize the benefit base).
- **Lifetime Income**—Simply put, annuitization is the exchange of your investment for an income stream. A variable annuity with a GMIB offers the option to annuitize your benefit base after a waiting period (typically 10 years) to receive guaranteed lifetime income.

### EXAMPLE

Assume you purchase a \$100,000 variable annuity and select the guaranteed minimum income benefit, guaranteeing 5% annual growth of the benefit base. Over the years you do not take any withdrawals. After year 10, the contract value of the variable annuity is worth only \$70,000 due to stock market losses while the 5% benefit base grew to \$150,000. If you wanted to turn on lifetime income, you could annuitize the benefit base amount despite the fact the contract value is worth significantly less.



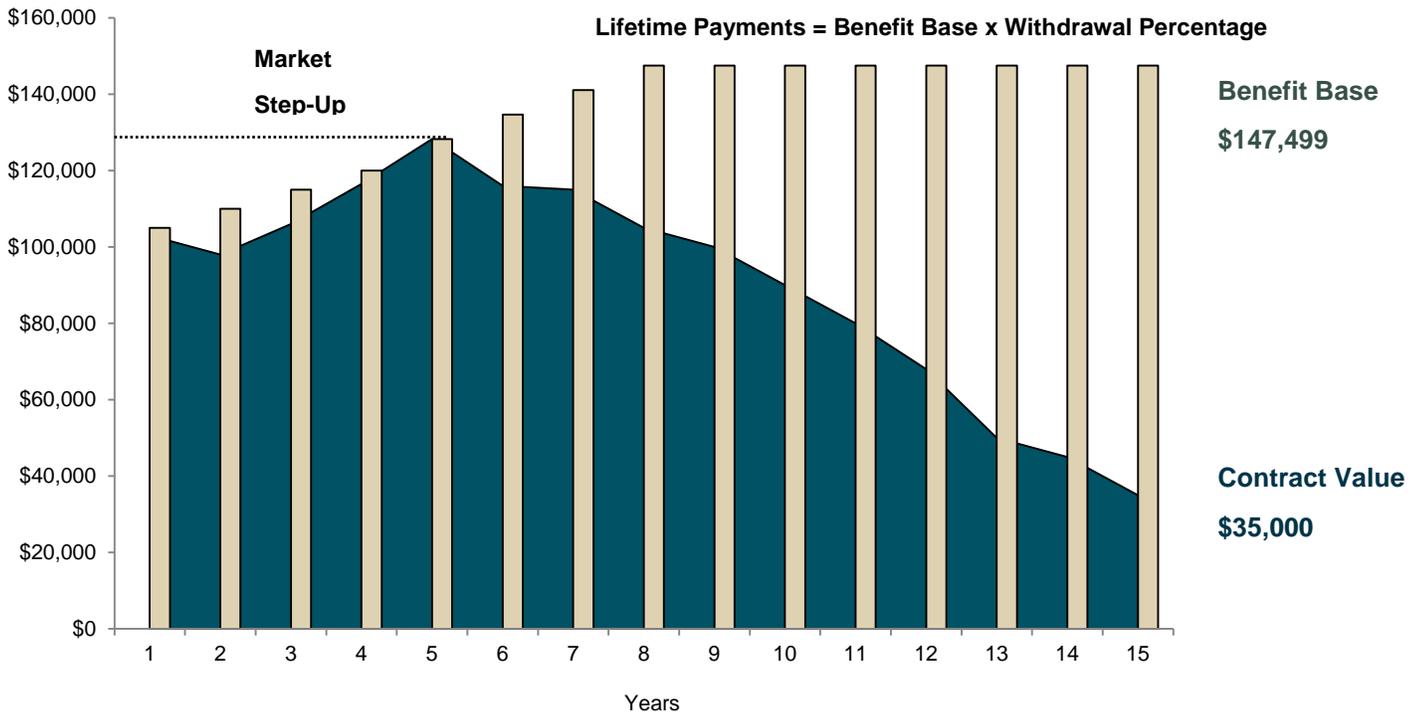
*This hypothetical does not reflect a specific actual investment. Example assumes no additional investments or withdrawals. Withdrawal charges, mortality and expense risk charges, administrative fees, and other contract charges were not factored in to this example. Value would be significantly lower if these fees and charges had been included. Please note the benefit base features and withdrawal percentages vary by contract.*

**GUARANTEED LIFETIME WITHDRAWAL BENEFIT (GLWB)**

Similar to the GMIB, the GLWB benefit also offers a growing benefit base and withdrawal rate. The benefit base will grow at a fixed percentage, but can “step-up” to the current contract value as well (typically at the contract anniversary). The primary difference between a GMIB and GLWB is how lifetime income is generated. You do not need to annuitize the GLWB benefit base in order to receive lifetime income. Today, the GLWB continues to be the most popular living benefit.

**EXAMPLE**

Assume you purchase a \$100,000 variable annuity and select the guaranteed lifetime withdrawal benefit of 5%. The benefit base grows by 5% (or \$5,000) annually while the contract value will fluctuate with the market performance. After the fifth year, instead of the benefit base growing to \$125,000, it “stepped-up” to \$128,260 since the contract value at anniversary exceeded what the benefit base would’ve grown to. The benefit base will recalculate and grow by \$6,413 (\$128,260 x 5%) until withdrawals are taken. After year eight, assume you begin taking your 5% lifetime withdrawals from the benefit base value. You will receive \$7,375 (\$147,499 x 5%) annual withdrawals for the rest of your life, regardless of your contract value.



*This hypothetical does not reflect a specific actual investment. Example assumes no additional investments. Withdrawal charges, mortality and expense risk charges, administrative fees, and other contract charges were not factored in to this example. Value would be significantly lower if these fees and charges had been included. A step-up may not apply, depending on the performance of the contract over time. Please note the benefit base features and withdrawal percentages vary by contract.*

**VARIABLE ANNUITY CHARGES AND FEES**

There are charges and fees that are unique to variable annuity products. These charges may include mortality and expense risk charges, surrender charges, administrative fees, portfolio management and optional insurance benefits.

Annuities are investment vehicles designed for long-term planning. Variable annuities are subject to risk, including the loss of principal. All guarantees are based on the claims-paying ability of the insurance company. Withdrawals of taxable amounts are subject to income tax, and if taken prior to age 59 ½, a 10% federal tax penalty may apply. Neither Robert W. Baird & Co., Incorporated nor its Financial Advisors offer legal or tax advice.

***Investors should carefully consider the investment objectives, risks, charges, and expenses of variable annuities and their underlying investment options before investing. This and other information can be found in the prospectus or summary prospectus for the variable annuity and the prospectuses or summary prospectuses for the underlying investment options, which can be obtained by contacting Robert W. Baird & Co. Please read them carefully before you invest.***

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