The Essential Element of Retirement
Income Planning with a Variable Annuity


Annuities may lose value and are not insured by the FDIC or any federal government agency. They are not a deposit of or guaranteed by any bank, bank affiliate, or credit union.
Retirement Realities

Today’s retiree faces unprecedented challenges: heightened market volatility, historically low interest rates, escalating health care costs and the reality that we are living longer than ever before.

Also consider that defined benefit plans (pensions) are declining, inflation and taxes may be increasing, and entitlement programs like Social Security and Medicare are grossly underfunded.

Answers to these challenges are in short supply. Fortunately, there is an optional rider commonly offered in variable annuities that can help.

A Living Benefit.

There may be no better step towards

The New American Dream —

a long and financially comfortable retirement — than to enjoy

the advantages of today’s Living Benefit.
History and Growth

The Variable Annuity
A variable annuity is the base product from which living benefits are offered. Quite simply, a variable annuity is a contract between you and an insurance company, under which you make a lump-sum payment or series of payments. In return, the insurer agrees to make periodic payments to you beginning immediately or at some future date.

The first variable annuity was introduced in 1952 to help fund pension arrangements for teachers desiring to grow their retirement funds with a potential hedge against inflation. Over 40 years later, these products clearly established their position in the retirement planning process and industry sales grew in concert with the equity markets.

A New Era Emerges — Living Benefits
In the early 2000’s, a new feature of variable annuities began to gain interest. As more companies closed their employee pension plans, the first living benefits were introduced in response to consumers’ need to protect and grow their own retirement assets. Now, the majority of variable annuity contracts are sold with an optional living benefit, and for good reason.

A Living Benefit
A Living Benefit, an optional benefit available with a variable annuity, may be one of the only products today that can help address the greatest challenges to a successful retirement:

- The challenges facing traditional retirement income sources
- Increased market volatility
- Historically low interest rates
- Inflation
- Rising health care costs

Let’s take a closer look...

Variable annuity fees and charges include Mortality and Expense Risk fee and Administrative charge, surrender charges, annual service charge, and investment option management fees. Additional fees may apply to optional benefits, including living benefit riders, selected.
Retirement Income Sources are Eroding

Private Sector Pensions Disappearing

- Out of every 100 workers had pensions in 1979\(^1\): 87
- Out of every 100 workers had pensions in 2012\(^2\): 17

Social Security Cost of Living Adjustment

- Only 3.6% increase in Cost of Living Adjustment Social Security recipients received after two years of no increase\(^3\)

Social Security Funding Declining

- The government appointed Board of Trustees estimate of when the Social Security program will not be able to pay 100% of promised benefits\(^4\): 2033

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\(^1\) Social Security & Pensions, SmartMoney, October 2011.
Consecutive Collapses in Equity Markets

The back-to-back collapses of equity markets in the last 10 years have severely damaged retirement account assets.

Trillions Lost Overnight
U.S. Retirement Assets Lost in Two Market Collapses\(^5\)

And Unfortunately, You Cannot Time Your Retirement

One of the most critical factors to a financially stable retirement is not investment returns, but the sequence of investment returns. Retiring into a down market can have a devastating effect on savings, and the sustainability of income in retirement. For example, had you retired in the down markets in 2002 or 2008, it could have had a significant impact on your retirement.\(^6\)

2002 ...................... -23.37%

2008 ...................... -38.49%


An investor may not make a direct investment in the index.
Current Yields and Dividends no Longer Adequate

The recent and ongoing market volatility has forced an unprecedented amount of money ($10.3 trillion) into short-term liquid investments. This fact, combined with today’s historically low interest rates, has left many investors searching for adequate income.

Cost of Income

The Cost of Income – the amount of capital needed to create income – has changed considerably over the last decade. 10 years ago if you needed $20,000 in annual income and had assets of $525,000, it would have taken almost all of those assets to reach your goal – considering the 10 Year Treasury Yield was at 3.83%. Fast forward 10 years. You would need to invest $1,124,000 to reach your goal of $20,000 in annual income with the 10 Year Treasury Yield at 1.78%.

<table>
<thead>
<tr>
<th>Rate of Return</th>
<th>Annual Income</th>
<th>Cost of Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.0%</td>
<td>$20,000</td>
<td>$2,000,000</td>
</tr>
<tr>
<td>1.5%</td>
<td>$20,000</td>
<td>$1,333,333</td>
</tr>
<tr>
<td>2.0%</td>
<td>$20,000</td>
<td>$1,000,000</td>
</tr>
<tr>
<td>2.5%</td>
<td>$20,000</td>
<td>$800,000</td>
</tr>
<tr>
<td>3.0%</td>
<td>$20,000</td>
<td>$666,666</td>
</tr>
<tr>
<td>3.5%</td>
<td>$20,000</td>
<td>$571,428</td>
</tr>
<tr>
<td>4.0%</td>
<td>$20,000</td>
<td>$500,000</td>
</tr>
<tr>
<td>4.5%</td>
<td>$20,000</td>
<td>$444,444</td>
</tr>
<tr>
<td>5.0%</td>
<td>$20,000</td>
<td>$400,000</td>
</tr>
<tr>
<td>5.5%</td>
<td>$20,000</td>
<td>$363,636</td>
</tr>
</tbody>
</table>

In the chart above, the “cost of income” represents how much money would be required to generate an income of $20,000 annually assuming different rates of return. It does not represent the performance of any specific product.

8 As of December 31, 2002.
9 As of December 31, 2012.
Inflation’s Impact is Underestimated

The Silent Thief

Often overlooked in the retirement planning process, is the unforeseen impact inflation can have on your future retirement income. For example, at just a 2.5% annual inflation rate: 11,12

A Conservative 2.5% Inflation Rate

$1.00
Today will be worth

$.78
In 10 years

$.61
In 20 years

$.48
In 30 years

And with your retirement likely to span several decades, it is smart to consider the impact of inflation over extended periods of time. For example, the average annual inflation rate over the past 30 years is 4.3%.11,12

4.3%
Average
Inflation rate over the past 30 years

Consider the following statement from leading industry speaker and author Nick Murray:

“Thus, keeping nominal income rising at the same rate as nominal living costs is not a retirement income imperative. It’s the retirement income imperative.” 13

12 www.calculator.net/inflation-calculator.html.
The Big Concerns

Life Expectancies are Rising

There is no escaping the fact that we are living longer. Depending on when you choose to retire, you may enjoy more years in retirement than any previous generation. But the haunting question is, “Will your retirement income last as long as you do?”

Average U.S. Life Expectancy\textsuperscript{1,14}

<table>
<thead>
<tr>
<th>Year</th>
<th>Expectancy</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975</td>
<td>72.6</td>
</tr>
<tr>
<td>2012</td>
<td>78.5</td>
</tr>
</tbody>
</table>

And if you are thinking about delaying your retirement and working longer consider this:

- Over 50\% of retirees said they left the workforce earlier than planned\textsuperscript{15}
- Merely 7\% of retirees said that they had the financial means to retire earlier than planned\textsuperscript{15}

Medical Expenses are Skyrocketing

The rising cost of health care has consumed the attention of corporations, the media, politicians and consumers. Consider, it is estimated that a 65-year-old couple today will need $240,000 for medical expenses throughout retirement, not including nursing home care. This is equivalent to a 50\% increase in just ten years.\textsuperscript{16}

\begin{center}
\begin{tikzpicture}
\fill[blue!20] (0,0) -- (3,3) -- (6,0) -- cycle;
\fill[red!20] (0,0) -- (3,3) -- (6,6) -- cycle;
\draw[thick] (0,0) -- (3,3) -- (6,6) -- cycle;
\node[above] at (3,3) {$160,000$};
\node[above] at (6,6) {$240,000$};
\node[below] at (3,0) {2002};
\node[below] at (6,0) {2012};
\node[below] at (4.5,0) {50\% increase during this time period};
\end{tikzpicture}
\end{center}

\textsuperscript{1} Social Security & Pensions, SmartMoney, October 2011.
\textsuperscript{15} Boomers Retiring Earlier Than Expected, Cite Bad Health, Job Loss, jobs.aol.com, February 4, 2012.
\textsuperscript{16} Fidelity Estimates Couples Retiring In 2012 Will Need $240,000 To Pay Medical Expenses Throughout Retirement, fidelity.com, May 9, 2012.
Mainstream Recognition

Previously maligned by mainstream media as too expensive and complicated, variable annuities with living benefits are one of the few investments which can provide retirees with what they are looking for: lifelong income, equity participation and income protection when markets go down.

Print Media Acknowledgement

Some of the recent recognition from the Wall Street Journal:

“…With interest rates so low, it makes sense for many people to buy a variable annuity with a guaranteed benefit, typically in the 5% to 6% range of what you invested, meaning the holder gets a regular income stream and picks equity-like investments that could lead to potentially higher payments down the road.” 17

“Retirees with pension envy increasingly are turning to annuities to restore some financial security to what are supposed to be their golden years.” 18

Academic Validation

“…Implementing a target asset allocation with a mixture of traditional investment products and variable annuities with guaranteed minimum withdrawal benefits for life creates a powerful retirement income solution that enables investors to participate in the upside of good markets and provides them income for life in bad markets.” 19

— Journal of Financial Planning

Federal Government Takes Notice

“…The Government Accountability Office, the investigative arm of Congress, suggested that some investors might be better off buying annuities from insurance companies that guarantee income rather than trying to manage their money themselves.” 20

— U.S. Government Accountability Office


All guarantees, including optional living benefit riders, are backed by the claims-paying ability of the issuing insurance company.
A Living Benefit and You

A living benefit, an optional benefit available with a variable annuity for an additional fee, may be one of the only products that can help address the greatest challenges facing today’s retirees, including the strain on traditional income sources, record low interest rates, inflation, and market volatility.

A Living Benefit Can Provide:

- Income protection when the market goes down
- Income growth potential when the market goes up
- Income stability during periods of low interest rates
- Income for various uses like healthcare expenses
- Income flexibility that can start and stop as you desire
- Income that can work like your own personal pension
- Income that is guaranteed for life*

Today, the question is no longer, should you consider a living benefit, but rather

How Much of Your Retirement Income Should You Guarantee

The investment options in variable annuities are subject to market risk and that the value of the annuity, when surrendered, may be more or less than the amount invested. Any withdrawals, including those permitted under a rider, reduce the annuity’s policy value, death benefits, and other values. Withdrawals in excess of what is allowed by a rider will result in a decrease in the dollar amount of future withdrawals available under the rider.

*All guarantees, including optional living benefit riders, are backed by the claims-paying ability of the issuing insurance company.
Important Information

Before investing, consider a variable annuity’s investment objectives, risks, charges, and expenses. Call 1-800-525-6205 for a contract and fund prospectus containing this and other information. Please read it carefully.

All contract and rider guarantees, including optional benefits and any fixed subaccount crediting rates or annuity payout rates, are backed by the claims-paying ability of the issuing insurance company. They are not backed by the broker/dealer from which this annuity is purchased, by the insurance agency from which this annuity is purchased, or any affiliates of those entities, and none makes any representations or guarantees regarding the claims paying ability of the issuing insurance company.

Variable annuities are long-term financial products designed for retirement purposes. They offer three main features: tax-deferred treatment of earnings, guaranteed lifetime payment options, and guaranteed death benefit options available prior to annuitization.

Withdrawals of taxable amounts are subject to ordinary income tax and may be subject to a 10% additional federal tax if withdrawn before age 59½.
At Transamerica, we make products that help meet the needs of today’s and tomorrow’s retiree. We offer one of the industry’s broadest suites of variable annuities and a variety of innovative living benefits. But the way we see it, we don’t just make products.

We make solutions. Solutions that may provide successful retirements founded on the knowledge that you will have retirement income, month-after-month, for as long as you live.

We’ve always stood by a simple idea: we do what we say we’re going to do. We’ve done it for over 100 years, and we’ll keep delivering on our promises—so we can keep making the things that make tomorrow better.