In-Service Withdrawals

Guaranteeing Lifetime Income via In-Service Withdrawals from Qualified Plans

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Executive Summary

Retirement is the goal many of your clients focus on for their entire working lives. Yet for half, it happens sooner than they expect — and, potentially, before they are fully prepared. Although your clients may have built up solid 401(k)s or other qualified retirement accounts, they may not be aware of all the ways they can put that money to work for them – while still employed – in case retirement arrives ahead of schedule. In addition, as your clients get nearer to their planned retirement date, they may be looking for financial options that are more predictable than the ever-changing stock market.

One option to help achieve predictability and guarantees may be using an in-service withdrawal to purchase a fixed index annuity with an optional guaranteed lifetime withdrawal benefit rider. This can help your clients protect their principal and create guaranteed lifetime income that is ready when they need it. In the pages that follow, you will learn more about this strategy and the key steps to help your clients protect their accumulated wealth and the retirement lifestyle they hope to achieve.

A Golden Opportunity

Many of your clients likely have a date or age fixed in their minds for retirement. This milestone can be a powerful incentive to your clients as they progress through the challenges of working and saving.

Yet even the best-laid plans sometimes change, particularly in terms of retirement. In fact, according to a 2012 study by the Employee Benefit Research Institute (EBRI), 50 percent of retirees retired sooner than expected.[1] This can be the result of a positive event, like an unanticipated windfall. Yet the EBRI research reveals that challenges, including health concerns, loved ones' care requirements, and job changes often drive early retirement.

> **Fifty percent** of retirees stop working **sooner** than planned

The EBRI study also notes a degree of pessimism among workers heading into retirement. While 14 percent described themselves as "very confident" they had enough money for a comfortable retirement, nearly one in four (23 percent) described themselves as "not at all confident." This leaves approximately 60 percent of workers somewhere between confidence and concern.

In addition, like all investors, people nearing retirement are facing significant market volatility and are even more sensitive to the potential the loss of years of hard-earned wealth. In fact, in June of 2012 the US Federal Reserve released figures showing that median U.S. household net worth had dropped by 39 percent[2] between 2007 and 2010, substantially reducing 18 years of prior gains.

> U.S. household net worth **dropped by 39%** between 2007 and 2010.

This does not mean that retirement is a thing of the past. Indeed, retirement is still a golden opportunity for people to focus on the things that are most important to them. In particular, your clients may be relying on the wealth they have accumulated over the years in their 401(k)s and other qualified plans. For many, the goal might be securing predictable, guaranteed lifetime income. Clients are also likely to want to take steps to protect their hard-earned money from declines in the market. And, of course, many will want to enhance their flexibility and maintain the control they have over their money.

[1] 2012 Retirement Confidence Survey: Employee Benefit Research Institute, 2012
[2] www.federalreserve.gov/pubs/bulletin/2012/PDF/scf12.pdf

Yet the typical qualified plan may not have the options to facilitate these goals. For clients who want to protect their principal, the available stable value funds provided by these plans can offer safety, but often do so at the expense of growth potential. For clients seeking growth and income potential from their assets, options exist in equity and bond funds, but their performance can be unpredictable – which can be undesirable as retirement dates loom nearer. Few 401(k)s offer in-plan deferred annuity options with which clients can guarantee lifetime income, which is the ultimate goal for many.

Protect Principal and Guarantee Lifetime Income with a Fixed Index Annuity

There is another way for your clients to address their principal protection and income goals. They may be able to take an in-service withdrawal as a direct rollover from their employer retirement plan, and purchase a fixed index annuity established as an Individual Retirement Annuity (IRA). In fact, according to a recent study by consulting firm Aon Hewitt, 90 percent of defined contribution plans allow in-service withdrawals,[3] though it is important to keep in mind that while in-service withdrawals may be allowed within IRS guidelines, each plan may have its own set of restrictions and limitations.

The guaranteed income, and principal protection offered by fixed index annuities along with the potential to participate in gains from the index are making them increasingly relevant to clients nearing retirement in today's uncertain world. In fact, fixed index annuity sales have skyrocketed in recent years, reaching a new high of $32.3 billion in 2011.[4]

> Fixed index annuity sales have reached **record highs** in recent years.

Make It Happen

Let's walk through the details of this approach to securing lifetime income, and then explore how you could use it with your clients. To begin with, **what is an in-service withdrawal?** Simply put, it means your client withdrawing money from their employer-sponsored 401(k) or other qualified retirement plan while they continue to work and contribute to the plan.

An in-service withdrawal , if completed properly, can allow active employees – typically age 59½ and older – to initiate a direct rollover of funds from a qualified retirement plan into an IRA without incurring income taxes or penalties. (Although the tax code generally allows such rollovers, some plans impose more restrictive rules).

The first critical step for you and your client will be determining whether in-service withdrawals are allowed from their plan, and identifying any limitations that may be in place (such as withdrawal amount, type of funds, and timing of transfers).

Your client also should **discuss potential tax implications** with their tax advisor before transferring any funds out of their current plan. Generally, the tax code permits the following types of funds to be rolled over from a 401(k) as part of an in-service withdrawal (subject to plan approval):

- Employer matching and profit sharing contributions
- Employee after-tax contributions (non-Roth)
- Employee pre-tax and Roth contributions after the employee attains age 59½

However, the tax code prohibits rolling over some types of contributions prior to separation from service, including employer safe harbor match or safe harbor non-elective contributions, as well as employee pre-tax or Roth contributions before the employee reaches age 59½.

[3] 2011 Trends & Experience in Defined Contribution Plans, Aon Hewitt, 2011.
[4] AnnuitySpec's 2012 Indexed Sales & Market Report, 2/2012

And, while many defined contribution plans (such as 401(k) plans) allow in-service withdrawals once a participant attains age 59½, others may allow them based upon years of work or service credits instead of by minimum age. Withdrawals also may be subject to a vesting schedule. Some defined contribution plans (such as 457(b) plans) have greater IRS restrictions governing in-service withdrawals than others. However, like other defined contribution plans, any plan sponsor may always elect to restrict some or all of the in-service withdrawal options allowable under the tax code.

Once you have determined that an in-service withdrawal is possible, it's important to **ensure the withdrawal is handled properly — via a direct rollover**. Because of tax regulations, qualified plan administrators usually are required to withhold 20 percent of any distribution made directly to the plan participant for federal income taxes, even if that participant intends to roll it over with the 60-day time limit. With a direct rollover, however, the funds are transferred from the plan trustee directly to another qualified retirement plan or IRA, and are not subject to this withholding.

Of course, **getting the paperwork right** is important as well. Most qualified plans have specific forms related to direct rollovers. Additionally, each insurance carrier usually has transfer paperwork that can hold rates in place while the transaction proceeds.

Help Your Clients Choose the Right Index Annuity

The steps we just described are essential groundwork for helping your clients use a direct rollover from a qualified plan to purchase a fixed index annuity. Yet it also is vital to help them choose the right annuity — and it is important to remember that not all fixed index annuities are created equal. In addition to product features such as cap rates, participation rates, and surrender charges, three other common areas of concern fixed index annuities address are: flexibility, spouse/partner benefits, and the ease with which clients can understand how the annuity works.

Flexible Products for Uncertain Times

As mentioned above, one out of two retirees stops working earlier than planned, and thus may need income ahead of schedule. Yet many fixed index annuities are designed to optimize income at a specific date in the future, often years from the date of purchase. While they often are available with optional guaranteed lifetime withdrawal benefit riders for an additional cost, many of those riders only credit growth to the benefit base on an annual basis. The riders that only credit annually are not designed to optimize retirement income for people who retire sooner than expected or on a date other than their purchase anniversary. Yet on average contract owners begin taking income withdrawals from a fixed index annuity just 1.5 years from contract inception.[5] In other words, these products may leave significant numbers of clients unable to maximize income withdrawals when they need to begin taking them.

In comparison, more flexible products with options that can be utilized ahead of schedule often are better for the uncertain environment in which we live. A key feature for which to look: optional income riders that credit growth to the benefit base daily. Riders with daily benefit base growth can help optimize the guaranteed retirement income of all your clients, including the 50 percent retiring sooner than expected.

Annuities That Support Couples

According to the U.S. Census, 64 percent of older workers are married,[6] so there's a good chance your clients nearing retirement are too. Chances also are good that your married clients want to secure lifetime income for their spouses or domestic partners, not just for themselves. However, not all annuities are set up to provide income streams to spousal joint annuitants following a direct rollover from a qualified plan — despite the fact that a qualified plan may represent the lion's share of the couple's wealth.

Therefore, you can add value by paying close attention to whether or not an annuity allows joint annuitants when using qualified funds. Likewise, it may be valuable to some of your clients to choose an annuity that recognizes a domestic partner as a spousal joint annuitant in states where this is the law.

[5] AnnuitySpec's 2012 Indexed Sales & Market Report, 2/2012
[6] http://www.census.gov/hhes/www/laborfor/Working-Beyond-Retirement-Age.pdf

Familiarity, Comfort, and Transparency

As with many financial products, your clients may need help understanding how annuities work. Compared to the world of mutual funds and money market funds – with which many of your clients may have become comfortable – annuities may appear foreign.

Some clients may hesitate to put a portion of their qualified money into a vehicle with which they are not comfortable or familiar. That is why it can be valuable to search for annuities with straightforward and transparent features and benefits. Some, for example, use multi-year, guaranteed fixed rate crediting strategies comparable to other financial products of which your clients most likely have knowledge. Others have crediting options linked to indices such as the S&P 500®, which may also be familiar to many clients.

Insist on transparency, as well. You and your clients should be able to understand how the annuity functions: how rates may change, how income withdrawals may be taken, and how crediting strategies work.

Overall, fixed index annuities with guaranteed lifetime withdrawal benefits can help your clients boost the certainty that their retirement funds will provide them with guaranteed income and the protection of their principal from market volatility. And using a direct rollover from a qualified plan can be an effective strategy to provide more certainty and a greater sense of security for clients. The keys to success are making sure you choose an appropriate product that is designed to meet your clients' goals and executing the transaction properly.

> The right fixed index annuity can provide your client with the **flexibility, control, and guarantees** they are looking for from their retirement funds.

One (Hypothetical) Client's Experience

The following hypothetical example demonstrates how this approach could work with your clients.

Suzy Hoffman, age 59½

The Situation: Suzy is happily employed and plans to retire in the next five to seven years. As a part of Suzy's benefit plan, she has been contributing to a 401(k). Due to fluctuations in her 401(k) balance over the past few years – coupled with the fact that she is nearing retirement – Suzy is increasingly interested in guarantees regarding her retirement funds.

The Strategy: After discussing her goals with her financial professional, Suzy decided to move a portion of the funds in her 401(k) into an individual retirement annuity to provide guarantees for her principal and future retirement income needs.

The Solution: Suzy discussed several different options with her financial professional. Based on her retirement goals, she determined her best solution was a SecureLiving Index Annuity with the optional Income Protection rider offered by Genworth Life and Annuity Insurance Company (Genworth Life & Annuity). This product would offer Suzy principal protection for her hard-earned dollars, the opportunity for growth, and the flexibility to maximize lifetime income withdrawals. Best of all, due to daily benefit base growth, the timing of Suzy's withdrawals could be based on her retirement schedule, not a contract anniversary.

After verifying with her employer's retirement plan administrator that she was eligible to take an in-service withdrawal, Suzy completed a direct rollover of $400,000 into a SecureLiving Index Annuity with the optional Income Protection rider, established as an Individual Retirement Annuity (IRA). When Suzy turned 65 and decided to retire, she elected to begin receiving payments under the rider. She was guaranteed $30,240 each year for the rest of her life, regardless of the contract's performance.

With guaranteed annual income in place for the rest of her life, Suzy can focus on what is really important: enjoying her retirement years.

Conclusion

For many of your clients, using an in-service withdrawal from a qualified plan to fund a fixed index annuity can be a good way of securing lifetime income, as well as protecting principal. According to Eric Taylor, Genworth's National Sales Manager for Annuities, "As retirement dates and market dynamics become more unpredictable, this strategy is becoming more and more relevant to consumers. For clients seeking a guarantee for some of their qualified fund assets, it's a great way to take control and provide a greater sense of security."

Your expertise as a financial professional is vital. With your help, your clients can choose an appropriate fixed index annuity and execute this transition properly, taking advantage of one of life's golden opportunities.

In-Service Withdrawals to Fund a Fixed Index Annuity: Getting Started

Crucial Groundwork	Features to Look For
• Determine whether in-service withdrawals are allowed from your client's plan, and identify any limitations	• Annuities that allow joint annuitants and a single owner when using qualified funds
• Work with your client's tax advisor and discuss potential tax implications	• Income riders that credit growth to the benefit base daily
• Ensure you handle the withdrawal properly, via a direct rollover	• Familiarity and transparency – such as crediting strategies based on the S&P 500® and multi-year, guaranteed fixed strategies
• Identify all required plan forms for direct rollovers and seek guidance from the insurance carrier on recommended transfer forms	

To learn more about this strategy, talk to your in-house or general agency marketing specialist.

Ready to get started? Visit genworth.com/indexannuities

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The discussion of tax treatments in this material is Genworth's interpretation of current tax law and is not intended as tax advice. Your client should consult their tax professional regarding their specific situation. Withdrawals may be taxable and a 10% federal penalty may apply to withdrawals taken before age 59½.

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.

Be sure to consult the annuity contract for a detailed description of benefits, limitations, and restrictions.

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