The Daily Roll Up

Income Protection and Daily Benefit Base Growth

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Traversing the New Retirement Landscape

Executive Summary

The recent economic downturn and slow recovery have had a significant impact on Americans' plans for retirement. Having experienced the reduction or elimination of retirement plan contributions due to job loss and a decline in the value of the existing retirement savings, workers have changed their expectations about when they'll retire. According to the Employee Benefit Research Institute (EBRI), 25% of workers report that the age at which they expect to retire has changed. Of those, the vast majority, 88%, report their expected retirement age has increased. In 2012, 37% of workers reported they plan to retire at age 65 or later; a figure that has been on the rise over the past 20+ years. In 1991, only 11% of workers planned to stay in the workforce that long.[1]

However, expectation isn't reality. The same EBRI research reveals that 50% of all current retirees left the labor force earlier than expected. Most often the early departure was due to unforeseen or unplanned events – health problems, a debilitating injury or company downsizing.

Clearly, clients need to be prepared to retire earlier than planned. As research shows, in half of all cases the timing of retirement is likely to be beyond their control.

With large numbers of Baby Boomers approaching retirement age, it's no wonder that fixed index annuity sales have skyrocketed, enjoying record sales for four straight years and reaching a new high of $32.3 billion in 2011.[2] Today's typical fixed index annuity product is designed to optimize income at a specific date in the future, usually 10 years from purchase, with the addition of an optional guaranteed lifetime withdrawal benefit rider at an additional cost. Unfortunately, the majority of these riders credit growth to the benefit base on an annual basis and may not optimize retirement income for those clients who may be forced to retire unexpectedly and prematurely, less than 10 years in the future. Given EBRI's findings regarding the unpredictable nature of retirement dates, clients may be better served by income riders which credit growth to the benefit base on a daily basis.

Genworth's SecureLiving® Index Annuities are among a select few fixed index annuities whose optional income rider credits growth to the benefit base daily. As a result, SecureLiving Index Annuities help optimize the guaranteed retirement income of all clients, including the 50% leaving the work force sooner than expected.

> A significant number of clients that purchase index annuity products designed for a 10-year deferral period act in a way that may be contrary to the maximization to their benefit.

[1] Employee Benefit Research Institute and Mathew Greenwald & Associates, 2012 Retirement Confidence Survey
[2] AnnuitySpec's 2012 Indexed Sales & Market Report, 2/2012

Nuts & Bolts: How Fixed Index Annuities Can Create Guaranteed Income

When a client is ready to begin receiving guaranteed income from a fixed index annuity with optional guaranteed lifetime withdrawal benefits, the amount is determined by this formula:

Benefit Base X Withdrawal Factor
(based on current age) =
Annual Guaranteed Withdrawal Amount

The "benefit base" is generally based on the premiums used to purchase the contract. Depending on product design, this amount may grow periodically based on a declared roll up rate or it may step up with the contract value at specific times throughout the contract's life. In most cases, the benefit base is increased on an annual basis – once a year on the anniversary date of the contract. As a result, the benefit base grows only on the contract anniversary. Fixed index annuities with annual benefit base crediting force the client to wait until the contract anniversary to make sure they are taking full advantage of their benefit base growth opportunities and optimizing their guaranteed income withdrawals.

However, waiting isn't always an option. The unpredictable nature of retirement dates is further confirmed by recent data on the actual timing of guaranteed income withdrawals from index annuities. Recent findings from AnnuitySpecs.com show that although withdrawal benefits on index annuities have been broadly available for less than five years, more than 15% of clients have already exercised their lifetime income benefits. In fact, the average wait time for beginning withdrawals is only 1.4 years from contract inception.[3] This means a significant number of clients that purchase products designed for a 10-year deferral period act in a way contrary to the maximization of their benefit.

What's the solution for optimizing guaranteed income payments based on a deferral period other than a full 10 years? One solution is a product with a "daily roll up difference." Rather than using an annual basis for crediting, a select number of fixed index annuities credit growth to the benefit base on a daily basis. So, for every day that a client's contract is in deferral, their income benefit base grows.

Genworth's SecureLiving Index Annuities: The Benefit of a Daily Roll Up

Genworth's SecureLiving Index Annuities are one of a select few fixed index annuities that offer a daily roll up on their guaranteed lifetime withdrawal benefit rider. The contracts' optional Income Protection rider provides a benefit base that grows at an 8% simple roll up rate each year for 10 years or until income withdrawals begin, whichever comes first. The difference between this and the majority of lifetime withdrawal benefit riders is the benefit base grows each day—not just on the contract anniversary. In other words, the 8% annual simple roll up earned is divided into 365 pieces of interest and a piece is added to the benefit base each day.

> A SecureLiving Index Annuity with the optional Income Protection rider provides clients with the ability to maximize their guaranteed lifetime income on a schedule of their own choosing, not the insurance company's.

[3] AnnuitySpecs's 2012 Indexed Sales & Market Report, 4th Quarter, 2011 GLWB Elections, 2/2012

A Hypothetical Example: The Case of Adam and Maria

The following hypothetical example illustrates the impact of the daily roll up credit on a client's guaranteed retirement income.

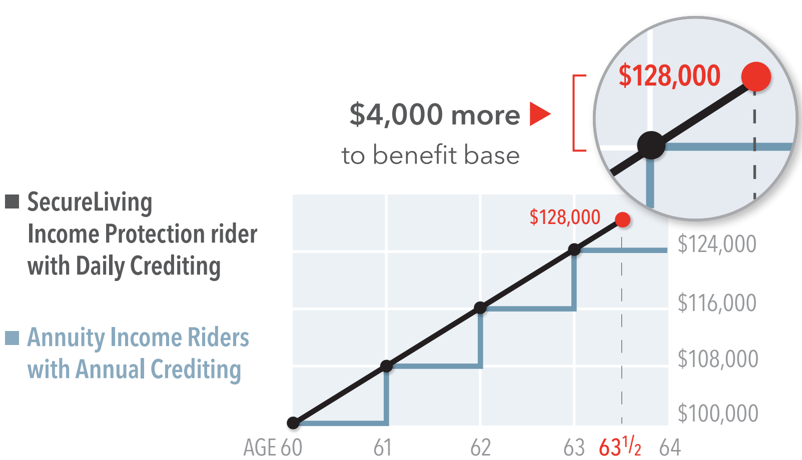
Meet Adam and Maria

Both Adam and Maria are 60 years old and expect to retire in the next ten years. Both have used $100,000 to purchase an index annuity with optional lifetime withdrawal rider which includes an 8% simple interest roll up. Adam purchases a SecureLiving Indexed Annuity which credits the benefit base daily and Maria decides to purchase a fixed index annuity with annual benefit base crediting.

Each year their contracts credit $8,000 to the benefit base of their respective contracts. At the end of the first contract year when they are both age 61, the benefit base on both contracts has grown to $108,000. If they wait to begin income on their contract date when they are age 65—the end of contract year five—both will have a guaranteed benefit base equal to $140,000. If they waited for ten years on their contract anniversary when they are age 70, their guaranteed benefit base will be $180,000, regardless of market volatility.

But, what happens if they decide to retire when they each turn age 63½, half-way through their third contract year?

As previously stated, at the end of the first contract year, both benefit base values will be $108,000; at the end of the second year, $116,000; at the end of the third year, $124,000. When Maria and Adam each turn age 63½ and decide that they would like to retire, Maria's benefit base will still be $124,000. Remember, her contract credits the roll up on her anniversary date each year. Adam's benefit base, however, will be $128,000. Adam gets to take advantage of six additional months of guaranteed growth, adding $4,000 more to his benefit base. Daily roll up crediting means his benefit base is growing every day and he will receive a greater income each year. Adam's benefit base increases every day, not just one day a year.



Hypothetical Example for Illustrative Purposes Only: 60 year old client, $100,000 initial purchase, 8% simple roll up on the benefit base, 5% annual income withdrawal. Annual income withdrawal $6400 with daily crediting. Annual income withdrawal $6200 with annual crediting. Excludes impact of any applicable premium enhancement.

Built for Reality, not Expectation: SecureLiving's Optional Income Protection Rider

To optimize clients' income withdrawal benefits, SecureLiving Index Annuities with the optional Income Protection rider includes:

- An 8% simple interest daily roll up[4]
- Daily crediting to the benefit base
- Annual rider cost of 0.80% guaranteed not to increase
- Dollar-for-dollar growth to the benefit base after 10 years[5]

Because the simple interest roll up is credited daily to the benefit base, the client has the potential for higher income payouts both each year they delay their retirement and when they actually begin their retirement income. This is accomplished because of the relationship between age-based withdrawal factors and daily crediting to the benefit base. A larger benefit base increases the annual income withdrawal guaranteed for the rest of the annuitant's life.

The optional Income Protection rider is available for annuitants between the ages of 55 and 80, at an annual cost of 0.80% of the benefit base, guaranteed not to increase.[6] With this rider, guaranteed income withdrawals never decrease unless the owner exceeds the withdrawal limit (the amount they are allowed to take each year, guaranteed). In addition, the owner has the flexibility to control the timing of income withdrawals based on their schedule and may choose to defer one year's worth of income payments to be taken at a future date.

Whether or not they choose this rider, all SecureLiving Index Annuity contract holders have the opportunity to take advantage of the potential upside of the S&P 500 Index without the downside of market volatility.

Conclusion

While the income riders of most fixed index annuities can help create guaranteed income, only income riders that credit the benefit base daily, like those available with Genworth's SecureLiving Index Annuities, can offer clients more value by maximizing income potential on their schedule. Ultimately, this can create higher client satisfaction both with the product and their financial professionals.

> Because SecureLiving's simple interest roll up is credited to the benefit base each day, the client has the potential for higher income payouts both each year they delay their retirement and when they actually begin their retirement income.

[4] For a period of ten years or until income withdrawals begin, whichever comes first
[5] If income withdrawals have not already begun
[6] Optional riders may not be available in all states.

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 GA3003-0711, GA3004-0711, GA300R-0511, et. al. In AK,MN,MO,OR,PA, and WA, policy form series ICC11GA3001, ICC11GA3002, and ICC11GA300R 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.

All guarantees are based on the claims-paying ability of the Genworth Life & Annuity.

This is a brief product description. Consult the annuity contract for a detailed description of benefits, limitations, and restrictions.

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

The optional Income Protection rider benefit base equals the initial premium (and premium enhancement if applicable). During the roll up period it will be increased by the roll up credit and may be stepped up if your contract value is higher than the benefit base at any time prior to beginning income withdrawals.

The benefit base is used only to calculate the rider income withdrawals and is not a representation of the contract value or surrender value. Prior to taking income withdrawals, any withdrawal will reduce the benefit base and roll up base proportionally by the percentage that the withdrawal decreases the contract value. After starting income withdrawals, any excess income withdrawal will decrease the benefit base by the same proportion that the excess amount reduces the contract value. A new withdrawal limit will be calculated on the next contract anniversary.

An annual rider cost of 0.80% of the benefit base is deducted annually in arrears from the contract value.

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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