# With retirement income, a bird in hand may be worth two in the bush.

By: Ruth Williams Talking Points Living Benefits, retirement income, variable annuities

A variable annuity with an optional living benefit can help give investors the security they need to feel more confident about the future because it lets them lock in a guaranteed withdrawal rate as opposed to taking a chance on the market or interest rates.

## Traditional asset allocation models: Tried and true—but not always able to produce the income investors want.

The current environment for fixed income investments is presenting new challenges for traditional asset allocation strategies, particularly for investors who may be at or near retirement.

As people get closer to retirement age, their needs change and they often value stability in their investment portfolios more than they do growth potential. In the past, it was generally enough for most investors to transition toward a more conservative stance by simply increasing their exposure to fixed income investments while reducing their allocations to stocks. Most of the time, the benefit was twofold as investors were able to achieve less risk and greater stability in their portfolios, and generate income.

But more recently, traditional asset allocation models haven't been as effective at producing the same levels of income like they used to.

## Different times call for different measures.

There was an unprecedented bull market in fixed income investments that lasted for about

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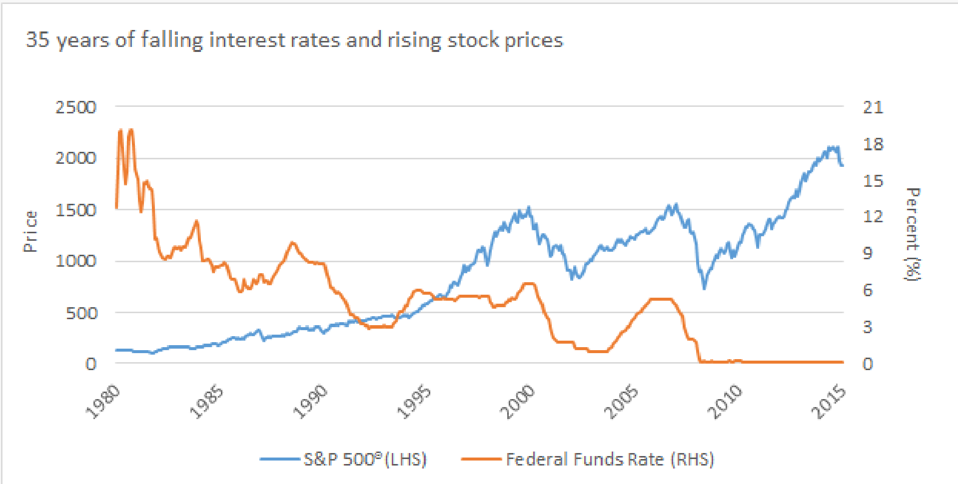
30 years as steadily falling interest rates created a strong tailwind for many income-oriented investors. But ever since 2008, the federal funds rate has hovered at just above zero, leaving little room for yields to fall much further without going into negative territory. As a result, it's been more difficult for investors to find income.




Source(s): Yahoo Finance and Board of Governors of the Federal Reserve System. Stock prices are represented by the S&P 500 and interest rates by 10-year U.S. Treasury yields for the 35 years beginning October1, 1980 and ending October 1, 2015. Past performance does not guarantee future performance.



And while it may seem as if we've been spinning our wheels with persistently low yields for some time now, we may be closing in on an inflection point as the economy is improving and the **labor market continues to pick up**.[1] **Consensus is growing that the Federal Reserve (Fed) will raise interest rates in December for the first time in almost a decade.**[2] But the impact of a shift to a tightening bias by the Fed at this point may be muted and largely symbolic as the majority of pundits believe a 0.25% rate hike has already been priced into the markets. In addition, most are also anticipating a slow and steady rise, which means interest rates could stay low for longer.

Regardless of whether the Fed raises rates in December or if it waits until 2016, one thing is clear—interest rates are still a long way off from normal.

Despite being more than six years into a rising stock market, many investors are still gun-shy from the Great Recession and afraid to take on risk. Instead they prefer financial certainty–and what many want, especially those who are near or in retirement, is predictability and reliability of income. But in a changing rate environment like the one we're in, there aren't a lot of relatively safe income options available for investors—Dividend-paying stocks can expose investors to market risk while investing in bonds in a low interest rate environment may have other risks too. For example, low interest rates may cause some investors to stretch for yield by investing in otherwise riskier investments just to get the income they need. Or when interest rates do begin to rise, some investors may find their bond investments may be worth less than what they originally paid for them as bond prices generally fall when interest rates go up.

## Expanding the retirement toolkit to include a variable annuity with an optional living benefit.

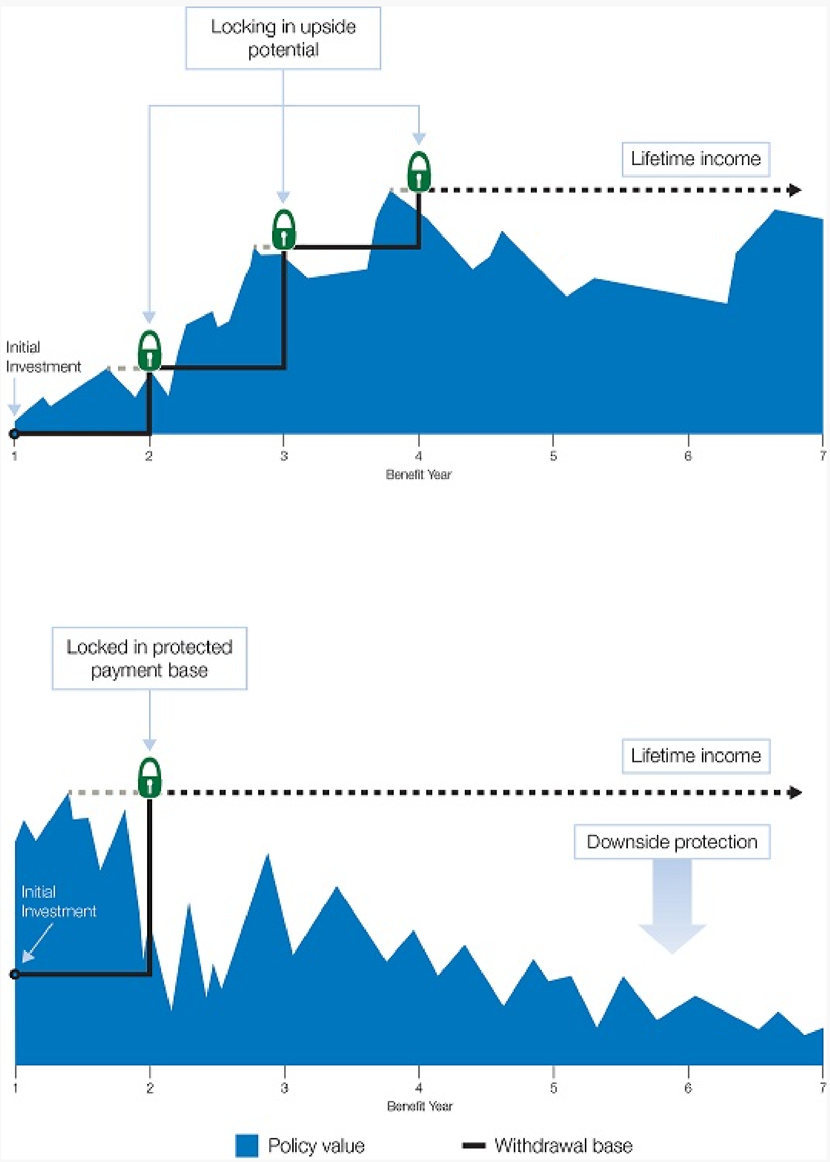
Many people purchase variable annuities with optional living benefits because they have features that can offer tax deferral, principal protection and guaranteed growth.

But a key benefit that is often overlooked is the steady and reliable income they can provide, which can help keep a retirement on track even when other investments may be yielding less.

## Upside participation and downside protection.

A variable annuity with an optional living benefit can offer protected growth potential by letting investors participate in up markets while providing downside protection against both market volatility and loss of principal.

The charts below show how the withdrawal base and guaranteed withdrawal amount of a variable annuity with an optional living benefit is protected during different market cycles:




*These examples are hypothetical and do not guarantee or predict actual performance. The withdrawal base is the basis for calculating the guaranteed withdrawal amount. Note that the withdrawal base is not a cash value and does not guarantee a return on the investment.*

When a variable annuity with an optional living benefit is used to replace a portion of a fixed income allocation in a retirement portfolio, investors can feel better knowing that they'll be able to generate income that can help cover their need-to-haves, and if they're lucky, some of their nice-to-haves too.

Investors approaching retirement and who need income, but are worried about the effect that an uncertain market or an interest rate hike could have on their retirement savings, may want to consider giving a **variable annuity with an optional living benefit** a closer look.

# With a variable annuity and an optional living benefit, investors can count on steady and reliable income for life.

While a variable annuity with an optional living benefit can't prevent people from saving too little, it can help investors manage two of the biggest concerns they have when it comes to saving for retirement—that market volatility will wipe out their retirement savings or that they'll outlive their investments.

Learn more about **Variable Annuities**.

2. Ben Leubsdorf, Economists Overwhelmingly Expect Fed to Raise Interest Rates in December, *The Wall St. Journal*, November 12, 2015.

***For more information on a variable annuity please go to transamerica.com for a free contract and fund prospectus. You should consider the objectives, risks, charges, and expenses of an investment carefully before investing. Read them carefully before you invest.***

*All guarantees, including optional benefits, are backed by the claims-paying ability of the issuing insurance company.*

*Annuity fees and charges include mortality and expense risk fee and administrative charge, surrender charges, annual fee, and investment option management fee. Additional fees may apply to optional benefits selected, including living benefit riders.*

*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.*

*Variable annuities are long-term, tax-deferred vehicles designed for retirement purposes and are subject to investment risk, including possible loss of principal.*

*Annuities issued in all states except New York by*

*References to may pertain to one or all of these companies.*

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