

Planning With Certainty: A New Strategy for Retirement Income

A 65-YEAR OLD SINGLE LIFE MALE STUDY POINTS TO A BETTER PRODUCT ALLOCATION FOR DECUMULATION PORTFOLIOS

For nearly two decades, financial advisors subscribed to the notion that their clients could spend 4% to 5% annually of accumulated savings in retirement and not run out of money. No more. Between market volatility, low interest rates, and an unhealthy economic environment, advisors are questioning traditional approaches to retirement income.

Simply put, today's retirement portfolios demand a smarter balance of growth and safety to effectively achieve a stream of lifetime income. The good news is that answers to the challenge are emerging in the form of improved strategies that promise to generate more income at less cost with less market risk.

Doug Wolff
President of Security Benefit Life Insurance Company

Al Dal Porto
Vice President of Security Benefit Life Insurance Company,
Product Development and Market Research



A GUGGENHEIM PARTNERS COMPANY

Table of Contents

| | |
|---|--------|
| Executive Summary | pg. 3 |
| Introduction | pg. 4 |
| Challenges Toward a Viable Income Solution | pg. 5 |
| A Growing Lack of Confidence | pg. 6 |
| Quantifying a New Retirement Frontier | pg. 7 |
| Methodology | pg. 8 |
| Construction of Efficient Frontier Success | pg. 9 |
| Base Case | pg. 10 |
| Add a Variable Annuity | pg. 11 |
| Add a Fixed Indexed Annuity | pg. 12 |
| Summary of Results | pg. 13 |
| The Rise of Fixed Indexed Annuities | pg. 14 |
| Conclusion | pg. 15 |
| | |
| About the Authors | pg. 16 |
| Appendix A | pg. 17 |
| Appendix B | pg. 18 |
| Appendix C | pg. 19 |

Retirement Income: Planning With Certainty

Pre-retirees in their 50s and 60s are moving toward retirement amid a set of circumstances that differ almost completely from those their parents faced. Fewer have access to guaranteed pensions, and more can expect a decades-long retirement that will require significant funding from personal savings.

Further complicating the issue, the forward-looking returns potential of long-established investment strategies is no longer enough to cover the costs of a retirement that could last decades.

The once widely accepted 4% withdrawal rule has been modified, reinterpreted, and recalculated.

After spending decades working to accumulate wealth, those entering retirement must prepare for a different and more complex challenge. They need a plan to overcome these mounting obstacles if they are to sustain income for 20, 30 years or more, not to mention potentially leave a legacy.

Providing a path to retirement income has never been more challenging. New approaches combining traditional vehicles with new and innovative guarantees are needed in order to reduce the risk of failure and improve the odds of success.

Security Benefit engaged Milliman, Inc., one of the world's largest independent actuarial and consulting firms, to study outcomes of popular retirement income generation strategies. Milliman explored the success rates of a mutual fund spend-down strategy alone, combining a mutual fund

spend-down strategy with a variable annuity, and combining a mutual fund spend-down strategy with a fixed indexed annuity.

The study that follows – more specifically, the analysis of various options for a 65-year-old male – shows that combining the traditional mutual fund spend-down strategy with a new generation of fixed indexed annuities may significantly increase the potential for retirement success.

“... we just calmly laid out all the options, and failure was not one of them.”

Jerry Bostick, Flight Controller, APOLLO 13

Introduction

For generations, retirees had access to reliable pension payments, and more disciplined savings behavior contributed to income security in retirement. More recently, the notion of replacing a paycheck after leaving the workforce was boosted by the nearly uninterrupted bull market of the 1980s and 1990s.

Retirees for the most part could reasonably expect to maintain their wealth.

Now, just when the largest number of prospective retirees in history prepares to leave the workforce, nearly every aspect of the environment has changed. A combination of anemic market returns, the bursting of the housing bubble, and the increasing risk of national and international debt has painfully demonstrated the risk of retiring in a down market. Traditional pension plans are available to fewer workers and retirees, and personal savings have remained largely underfunded.

Not too surprisingly, the current landscape has caused a great deal of pessimism concerning the retirement years. This new retirement reality is reflected in the fact that only 14% of Americans polled in the 2012 Retirement Confidence Survey conducted by the Employee Benefit Research Institute said they were “very confident they will have enough money to live comfortably in retirement.”¹

As a result, financial advisors and their clients are considering a far more complex retirement income picture than in the past, and one that includes a variety of scenarios, investment alternatives, and trade-offs to reach specific goals. With no illusion of certainty, there is little room for unrealistic expectations, irrational behavior, or ineffective strategies. **For the financial advisor creating retirement income for his or her clients, failure is unacceptable.**

¹The 2012 Retirement Confidence Survey: Job Insecurity, Debt Weigh on Retirement Confidence, Savings, March 2012 EBRI Issue Brief #369.

Challenges Toward a Viable Income Solution

At this point, the one-size-fits-all notion of retirement has been blurred, if not shattered, for many of today's workers. The idealistic vision of retirement that included unlimited time and resources for leisure and travel has become a victim of the Great Recession and its collateral damage to investment portfolios, home values, and job security. And the threats keep coming, both individually and collectively.

An effective lifetime income solution must address a number of *retirement-specific issues*, including longevity, rising health care expenses, inflation and unplanned circumstances; a plan must also address *investment-specific issues* as well. Collectively, these individual risks roll up to create a whole that is much greater than the sum of its parts.

Volatility, or Sequence of Returns Risk

By definition, the sequence of returns refers to the chronology of when the market imparts positive and negative returns on a portfolio. Volatility is one of the biggest, and often least appreciated, risks that clients face in retirement.

The ebb and flow of the market during the so-called 'decumulation phase' of a portfolio has an outsized impact on the *longevity* of accumulated savings. There is simply less opportunity to recover from loss. So, if a portfolio's investment returns are 'sequenced' so that poor returns are experienced early on in retirement, the sustainability of the income strategy will be threatened. A successful income strategy must be designed to sufficiently protect against downside market risk early without sacrificing the opportunity for upside growth later.

Longevity Risk

With rising life expectancies and earlier retirements, the notion of 'living too long' has become an increasingly great concern. According to Ronald Lee, an economic demographer at the University of California, Berkeley, the average life expectancy will rise to 85 in the U.S. by 2065.² **For a couple aged 65, there is a 50% chance that one partner will be alive at age 92 and a 25% chance one will be alive at age 97.**³ From a retirement income perspective, those longer life spans mean that we must have effective income strategies so that we do not outlive our assets no matter how long we live.

Inflation Risk

Despite years of witnessing the effects of inflation, many retirees fail to realize that even a very low inflation rate can have a detrimental effect on their purchasing power several years into retirement. According to the Society of Actuaries in its report, "The Process of Planning and Personal Risk Management," **only 72% of early retirees and just 55% of retirees are calculating the effects of inflation on their retirement planning.**⁴

²*Death and Taxes: How Longer Life Will Affect Social Security*, Ronald Lee, Demography and Economics, University of California.

³*Planning for a 30 Year Retirement*, Foundation for Financial Education, Helen Modly, CFP, and Sandra Atkins, CPA/PFS.

⁴*2009 Risks And Process Of Retirement Survey Report: Process of Planning and Personal Risk Management*, Society of Actuaries, 2010.

A Growing Lack of Confidence in the Process

Even as the collective retirement income challenge grows, investors' confidence in their primary sources of retirement income dwindles. Beyond the deteriorating prospects of Social Security, still the cornerstone of retirement income for most Americans, investors' faith in the markets has been severely shaken. Fear of loss dominates retirees' thought processes, and the focus is shifting from return *on* investment to return *of* investment.

Long-Lasting Damage

Well known is the financial destruction wrought by the market meltdown in 2008 and early 2009. Less known, perhaps, is that a good percentage of those losses occurred in retirement accounts. By some estimates, **401(k) plans and individual retirement accounts lost \$2.8 trillion in value during the financial crisis.**⁵

As an unhappy consequence, Americans are less prepared for retirement. The Center for Retirement Research at Boston College, arguably the nation's leading research group on the issue, estimates that 51% of U.S. households are at risk of not having enough to maintain their living standards after retirement.⁶ Products and financial strategies designed to support people in the retirement income phase need to adapt to this reality.

⁵Returns On 401(K) Assets By Cohort, Center for Retirement Research at Boston College, Alicia H. Munnell and Jean-Pierre Aubry.

⁶The National Retirement Risk Index: After The Crash, Center for Retirement Research at Boston College, Alicia H. Munnell, Anthony Webb, and Francesca Golub-Sass.

Not-So-Safe Withdrawal Rate

Not only did the historic downturn in the financial markets cause retirees to question their confidence in where to *place* their retirement investments, it upset a long-standing notion about how to *spend* their retirement savings. The validity of the so-called 'Safe Withdrawal Rate,' for years assumed to be a maximum of 4% of a retiree's nest egg, is being questioned more and more.

The '4% rule' was the product of work done by financial planner William P. Bengen in 1994. His analysis determined that a retiree could live off a portfolio of 50% stocks and 50% bonds for at least 30 years if he or she made 4% annual withdrawals adjusted for inflation. Now, against a backdrop of a persistently low-yielding bond environment and stock market volatility virtually unimaginable 20 years ago, advisors are not only questioning the 4% number, they are questioning any kind of a 'safe' rate at all. If nothing else, advisors are resigning themselves to the notion that there is no such thing as a one-size-fits-all answer to withdrawals.

Shrinking Product Benefits

The same harsh economic realities weighing on the accumulation and decumulation phases have also led product providers to reduce returns and benefits. Nowhere has the combination of slumping interest rates and rampant volatility weighed heavier than the variable annuity space. Simply put, variable annuities do not have the rich income benefits they once had.

Today's variable annuity guarantees are less robust than five years ago. For those products with guarantees, investment menus are more limited or have included pre-packaged asset allocation. Guaranteed living benefits, meanwhile, which provide income or withdrawals over a lifetime, have been ratcheted down. Fewer insurance carriers are actually in the annuity business and those left are dramatically shrinking guarantees on new products to minimize cost and risk. And it is likely guarantees on future variable annuity products will be cut back further as insurers pay out rich benefits on existing policies that they promised years ago.

Quantifying a New Retirement Frontier

Collectively, these abrupt and severe changes to the retirement landscape have dramatically increased the risk of failure for what we have described as the traditional approaches to planning. Today's retirement portfolios clearly demand a smarter balance of growth and security to effectively achieve a stream of lifetime income.

Against that backdrop, a new approach combining reliable mutual fund spend-down strategies with next-generation insurance products and innovative guarantees may significantly increase the potential for achieving retirement income success.

To that end, Security Benefit commissioned Milliman, Inc., one of the world's largest independent actuarial and consulting firms, to determine the optimal allocation between three modern strategies:

- **Mutual fund systematic withdrawal (base case)**
- **Variable Annuity (VA) combined with mutual fund systematic withdrawals, and**
- **Fixed Indexed Annuity (FIA) combined with mutual fund systematic withdrawals**

The study's methodology was designed to understand where various allocations would lie on the 'efficient frontier' (to be addressed later in this study) and to determine what would be the best allocation to optimize chances for success, specifically not running out of income and leaving assets behind.

This analysis used a 65-year-old male as the contract owner. The starting level of assets was \$1 million, and the income needed from those assets was chosen to be 4.5% or \$45,000 per year, increasing at 1.5% annually for inflation. (This level of income was chosen because it is within the range of a typical recommended level of withdrawals for systematic withdrawals and even exceeds some target income levels.) No attempt was made to incorporate the effect of taxes.

Methodology

For the base case, the study assumed that retirement income was funded through mutual fund withdrawals for the entire projection period. **The mutual fund allocation consisted of a mix of equity and bond allocations with the equity share ranging from 0% to 100% and the remainder allocated to bond funds.** The equity/bond mix remained constant throughout the projection period.

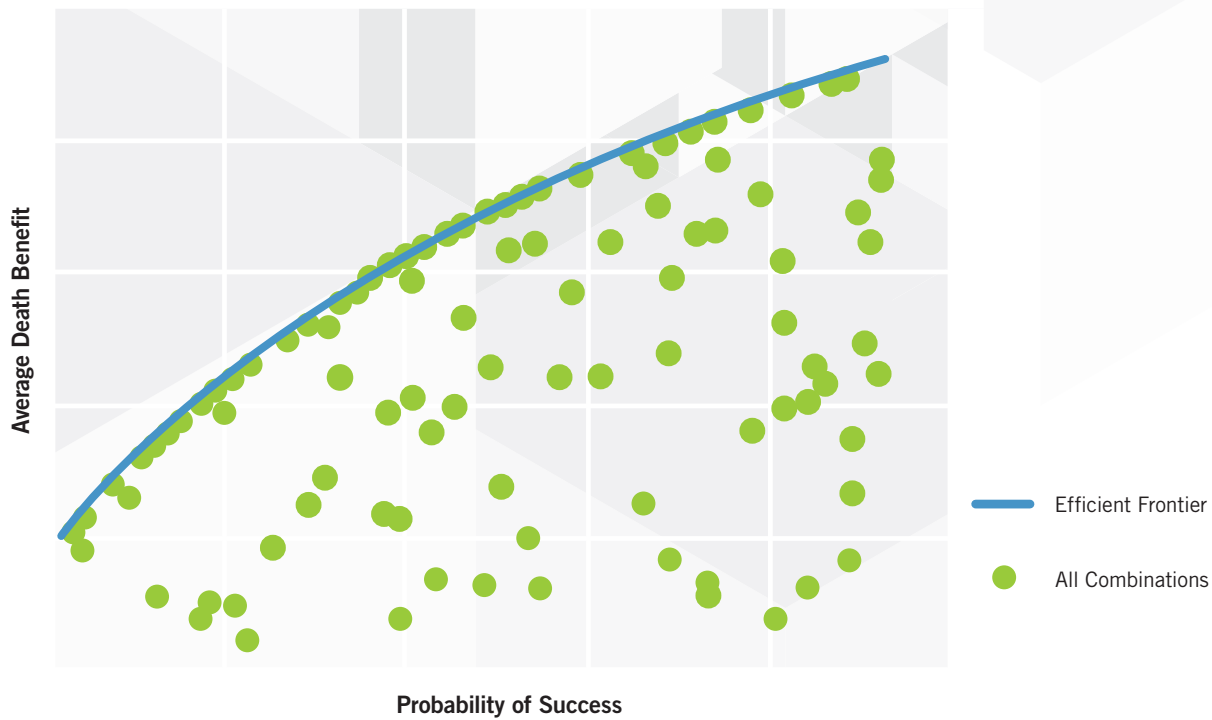
For strategies that included either an FIA or a VA with a Guaranteed Lifetime Withdrawal Benefit (GLWB), retirement income was funded by mutual fund withdrawals for the first 10 years of each projection period, and then from the GLWB. This allowed the GLWB to roll up for a full 10 years before income was used from that contract. If GLWB income exceeded retirement income, the difference was assumed to be reinvested in the mutual fund.

The maximum allocation to an annuity was assumed to be 60%. (The assumptions behind both the VA and the FIA are described in Appendix B and C, respectively.)

The stochastic scenarios were run for each of the assumed annuity/equity/bond allocations. An income shortfall was calculated in each scenario. A shortfall occurred if the mutual fund balance was less than the amount of the required annual withdrawal from the mutual funds. For each GLWB/equity/bond allocation, the probability of meeting the income goal was determined by dividing the number of scenarios that had an income shortfall by the total number of scenarios (1,000). This “Probability of Success” is depicted as the “X” axis on the efficient frontier.

A bequest (death benefit) was also calculated for each stochastic scenario. The death benefit equals the mutual fund value plus the VA/FIA cash value at the end of the year of death. The incidence of the payment of the death benefit was based on the same stochastic mortality and stochastic mortality improvement factors that drove the determination of longevity. For each GLWB/equity/bond allocation, an average death benefit was calculated. The bequest was then averaged over the 1,000 stochastic scenarios for each annuity equity/bond allocation. This “Average Death Benefit” is depicted as the “Y” axis on the efficient frontier.

Figure 1



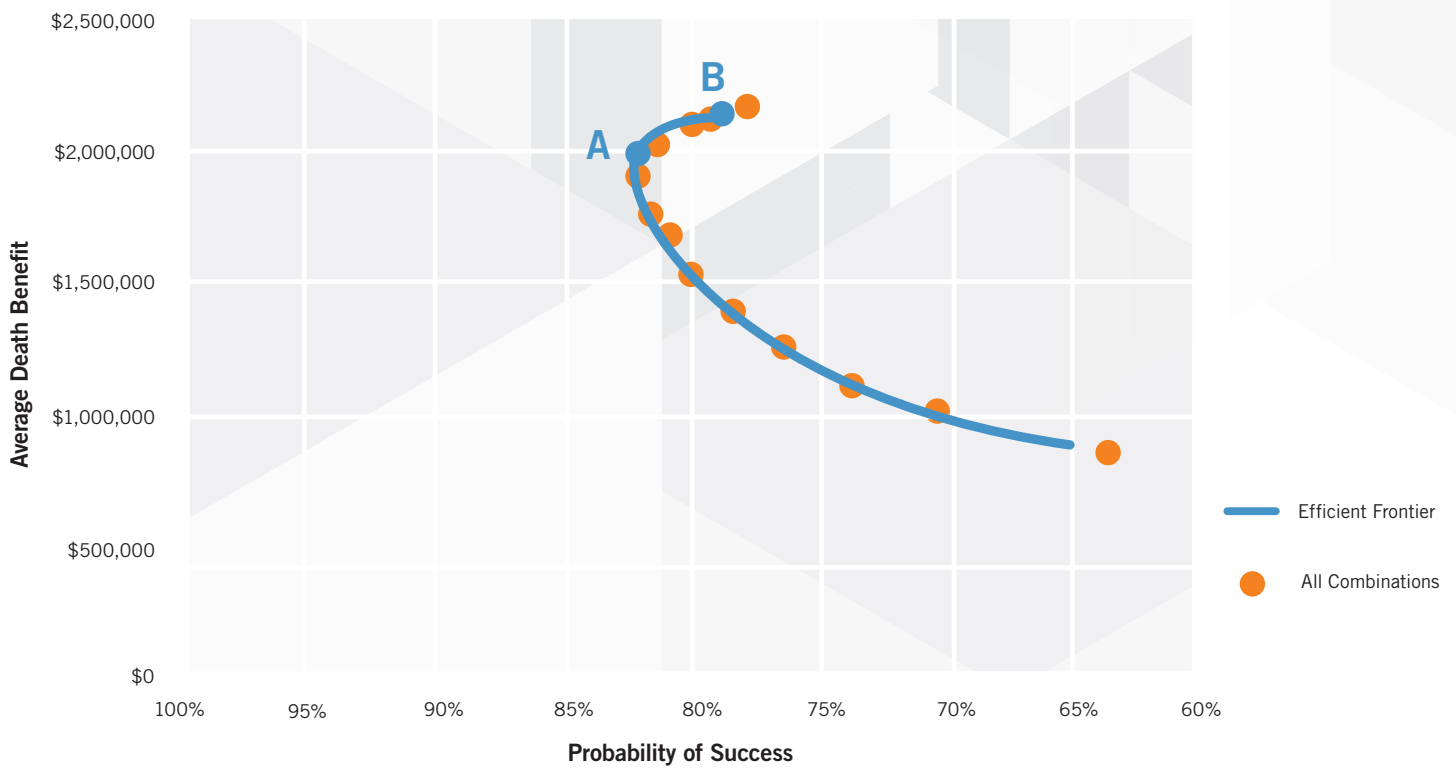
Construction of Efficient Frontier

Once a probability of success and a death benefit was calculated for each annuity/equity/bond allocation, these points were used to find the efficient frontier. The efficient frontier represented those points with optimal risk/return tradeoffs. Examining the efficient frontier in a graph of death benefit and probability of success (Figure 1) gives the clearest illustration of this definition.

In this generalized graph, each ● point reflects a death benefit and probability of success for a particular annuity/equity/bond allocation. For all points below and to the right of the efficient frontier, there is another allocation that improves either the death benefit or probability of success without hurting the other. In other words, as the combinations move closer to the efficient frontier, the risk/return tradeoff improves.

Mutual Fund Only

Figure 2



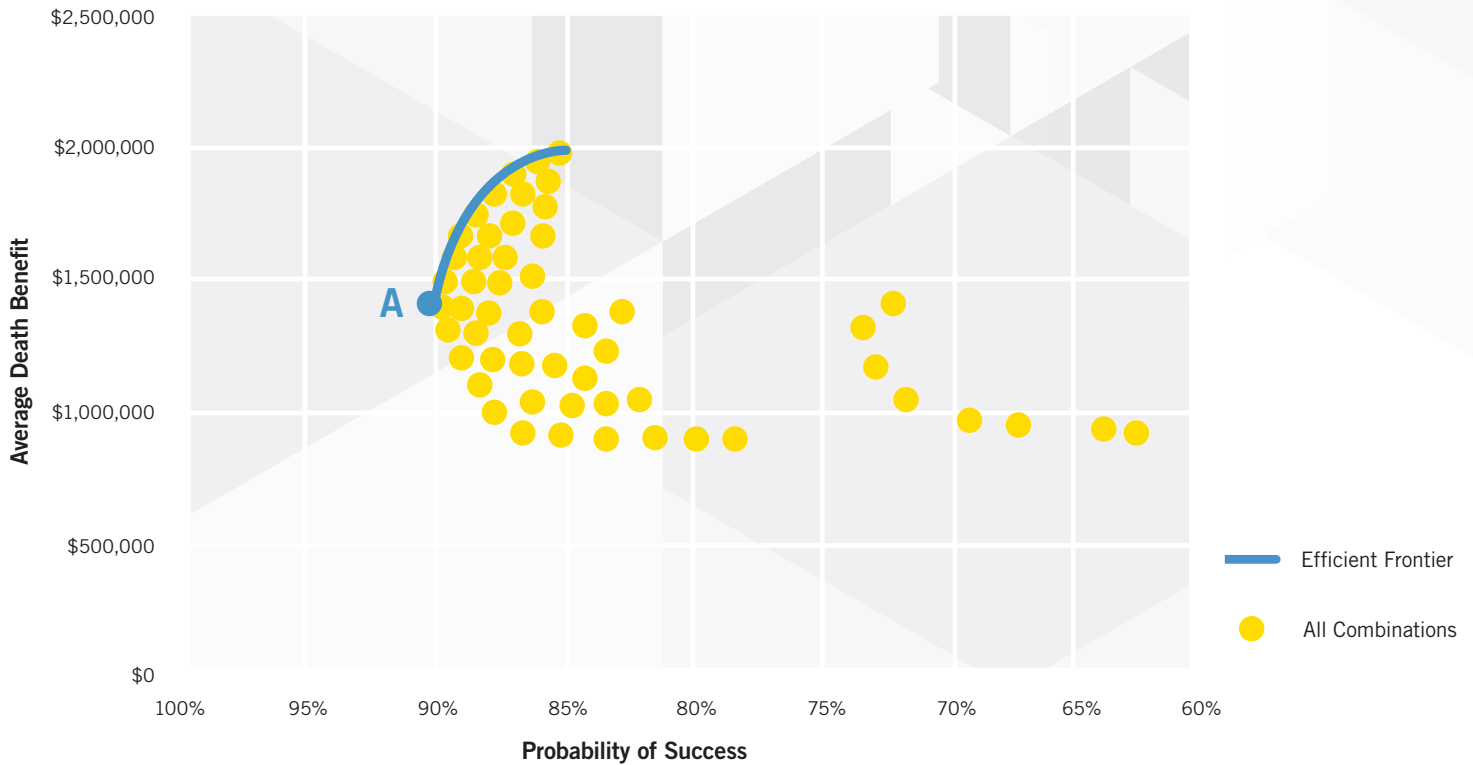
Base Case

Figure 2 above shows the efficient frontier for a mutual fund-only withdrawal strategy. The blue line shows that the highest probability of success that can be achieved with a mutual fund-only strategy is roughly 82%. This point is labeled A. The allocation that achieves this point is 70% equity/30% bond. The average bequest for this point is \$2,050,000 based on a \$1 million initial amount invested.

Points below the blue line are not in fact efficient points on the efficient frontier because there are points above them (higher death benefit) with the same probability of success. Retirees willing to take more risk by moving to 100% equity could achieve a higher average death benefit by moving to point B, a 79% probability of success and a \$2,173,000 average bequest.

Variable Annuity Single Life Age 65 with 10-Year Income Deferral

Figure 3



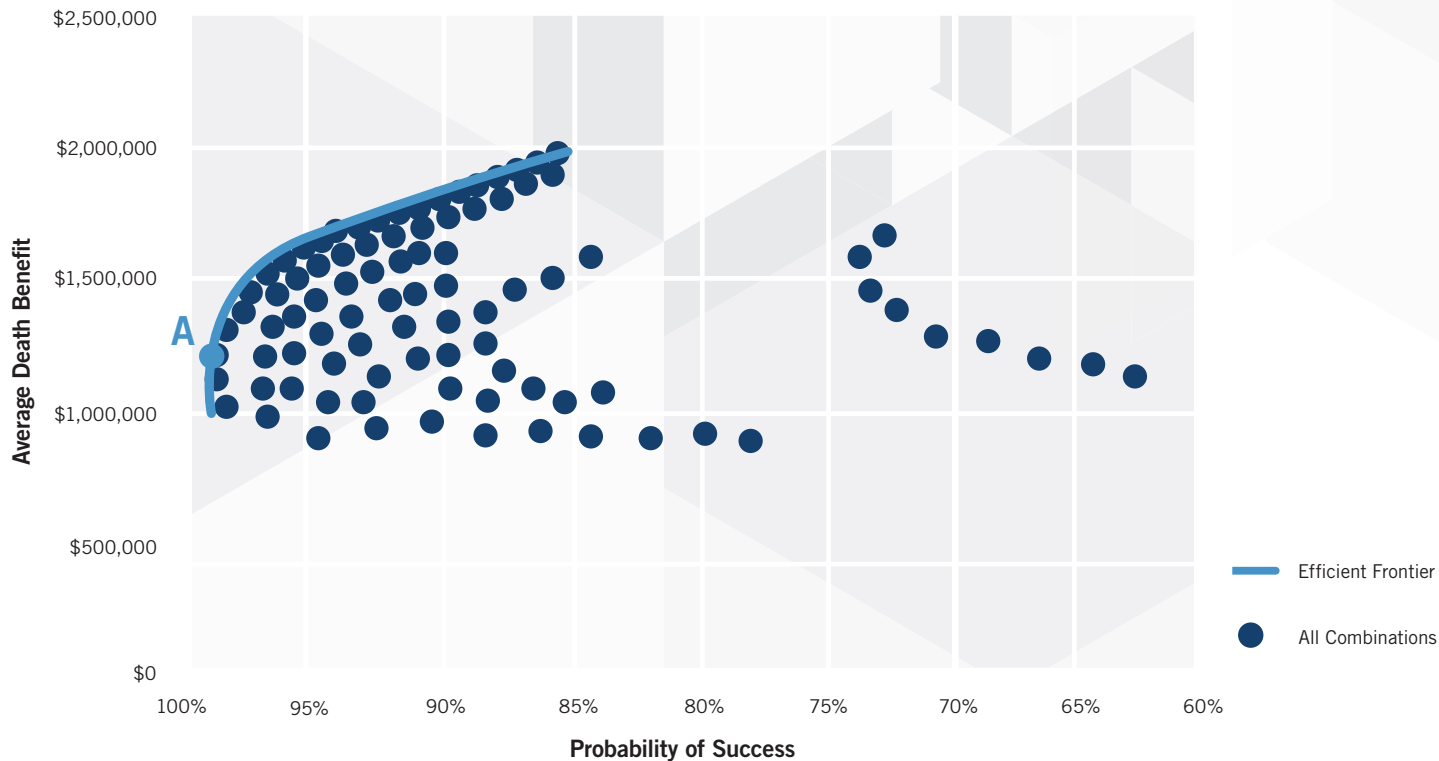
Add a Variable Annuity with a GLWB to the Allocation Choices

Figure 3 above adds the VA with the GLWB to the investment choices for the retirees. The graph shows additional choices that lead to an increased probability of success. A 90% probability of success (point A) can result in an average death benefit of \$1,437,000. The allocation that makes up this point is a 20% allocation to the VA and an 80% allocation to a mutual fund mix of 50% equity/50% bond.

The retiree would fully fund the income stream with withdrawals from the mutual fund portfolio for 10 years and then start taking GLWB withdrawals from the VA. To the extent these withdrawals do not cover the future income requirement, the mutual fund portfolio would cover the rest.

Fixed Indexed Annuity Single Life Age 65 with 10-Year Income Deferral

Figure 4



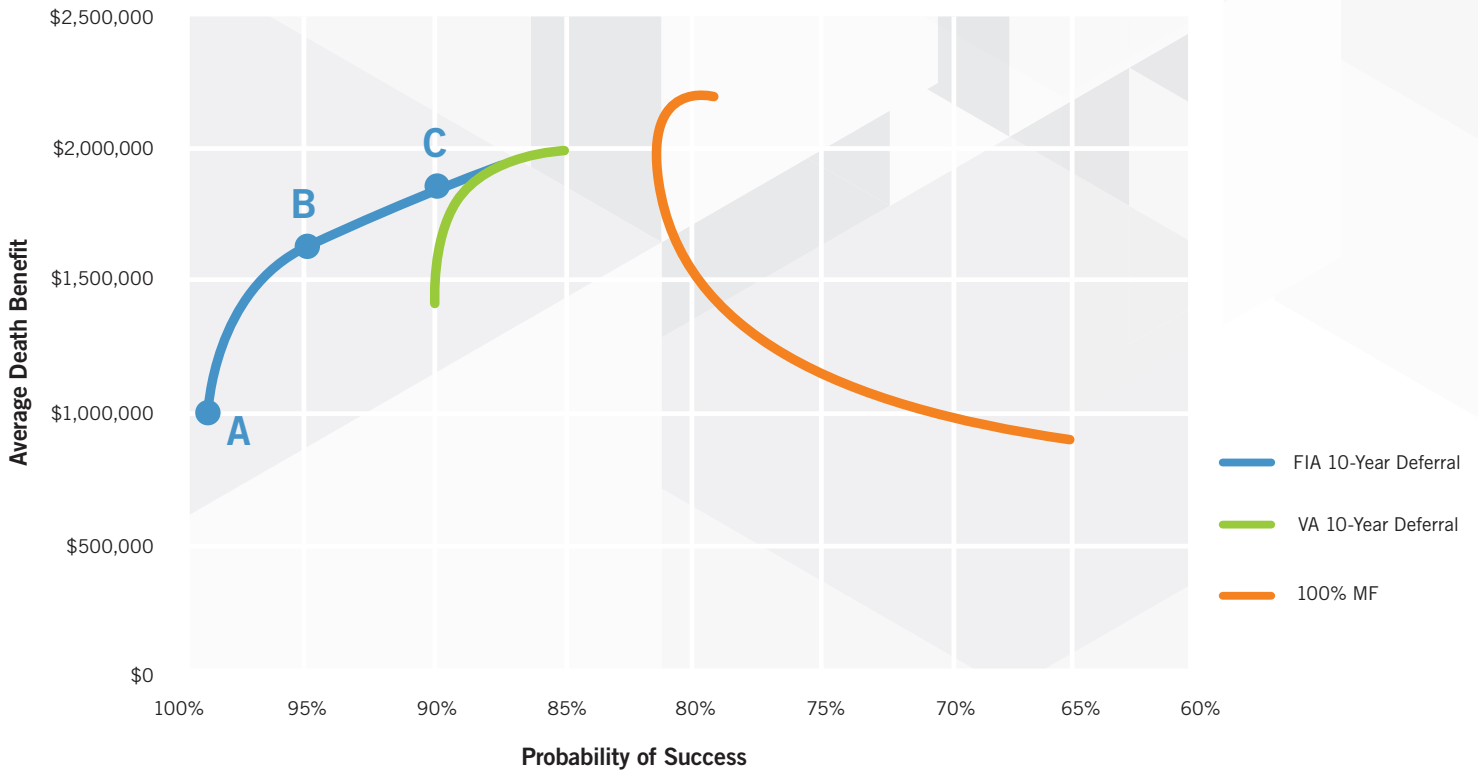
Add a Fixed Indexed Annuity with a GLWB to the Allocation Choices

Figure 4 above adds the FIA with the GLWB to the investment choices for the retiree. The graph shows that the retiree now has additional choices that can lead to a higher probability of success. A 99.5% probability of success (point A) can result in an average death benefit of \$1,105,000. The allocation that makes up this point is a 45% allocation to the FIA and a 55% allocation to the mutual fund mix of 20% equity/80% bond.

The retiree would fully fund the income stream with withdrawals from the mutual fund portfolio for 10 years and then start taking GLWB withdrawals from the FIA. To the extent these withdrawals do not cover the future income requirement, the mutual fund portfolio would cover the rest.

Summary of All Efficient Frontiers

Figure 5



Summary of Results

Figure 6 below summarizes the results shown on the prior graphs. In general, the probability of success improves with each additional investment option.

- **The greatest probability of success for mutual funds only is 82%.**
- **The greatest probability of success including the VA with mutual funds is 90.2%.**
- **The greatest probability of success including the FIA with mutual funds is 99.5%.**

The trade-off for these higher success rates is a lower death benefit. One can move along the efficient frontier, however, and take on more risk in order to increase the death benefit value (points B and C in Figure 5 above).

Figure 6

| | Data Point | Success Rate | Average Death Benefit | Mutual Fund Allocation | Mutual Fund Equity% / Bond% | VA with GLWB Allocation | FIA with GLWB Allocation |
|----------------------|------------|--------------|-----------------------|------------------------|-----------------------------|-------------------------|--------------------------|
| Mutual Fund Only | | 82% | \$2,050,000 | 100% | 70% / 30% | | |
| Mutual Funds and VA | | 90% | \$1,437,000 | 80% | 50% / 50% | 20% | 0% |
| Mutual Funds and FIA | A | 99.5% | \$1,105,000 | 55% | 20% / 80% | 0% | 45% |
| | B | 95% | \$1,613,000 | 60% | 80% / 20% | 0% | 40% |
| | C | 90% | \$1,811,000 | 75% | 100% / 5% | 0% | 25% |

The Rise of Fixed Indexed Annuities

Based on the optimal retirement income allocations, the point along the efficient frontier that best reduces the risk of failure and heightens the odds of success includes a Fixed Indexed Annuity (FIA) in the portfolio mix. In this market environment, where the future risks to retirees' already damaged capital are as great as they have ever been, FIAs have become the natural beneficiary.

Exactly what, then, are fixed indexed annuities?

FIAs, which have been providing credited interest since the first one was purchased on February 15, 1995, are a type of annuity that, depending on the owner's allocations, credit interest through a fixed account and based on the changes in the return of a specified index, like the S&P 500®. In a robust stock market, investors will not usually achieve the actual performance of the index due to the formulas, spreads, participation rates, and caps applied to most index accounts in fixed indexed annuities. In a down market, however, the investor can never lose principal due to market risk. In the case of a down market and the index experiences negative returns, 0% is credited to the account and no market loss is incurred in the contract.

Arguably, FIAs offer retirees the best of both worlds: a guarantee of principal and the potential of market-linked growth with no risk

of loss of principal due to market downturns and volatility.

Based on the numbers, financial advisors and their clients are coming to believe these products deliver a viable solution for retirement income. According to AnnuitySpecs.com, total sales for indexed products jumped to a record \$32.3 billion in 2011.⁷ Even more telling, indexed annuities, the majority of which included guaranteed lifetime income withdrawal benefits (GLWB), represented 48% of all fourth quarter fixed annuity sales, a record high for the product line.

Real World Success

Fixed indexed annuities have not been without their detractors over the years. Typically, FIA criticisms center on crediting rate formulae, spreads, simulations of stock market and interest rate behavior, complexity, higher commissions, bonuses and surrender charges compared to other financial products.

A 2009 study by Wharton Financial Institutions Center, which analyzed actual policy data from 1997 to 2007, put to rest many of the market's misconceptions.⁸ Based on actual contracts that were sold and actual interest that was credited on those contracts, the Wharton study found that:

- **FIA accumulation was competitive with alternative portfolios of stocks and bonds,**
- **FIA design limited the downside associated with declining markets, and**
- **FIAs achieved respectable accumulation in more robust equity markets.**

Not too surprisingly, the study found that fixed indexed annuities were particularly desirable for consumers especially concerned with avoiding losses.

Additionally, new generations of fixed indexed annuities with lower commissions, lower surrender charges, and no to low bonuses are entering the market.

⁷AnnuitySpecs.com Indexed Sales & Market Report, March 4, 2012, Sheryl Moore.

⁸Real World Index Annuity Returns, Wharton Financial Institutions Center Personal Finance, Jack Marrion, Geoffrey VanderPal, David F. Babbel.

Conclusion

The analysis strongly suggests that retirees will not be able to finance a sustainable retirement income with only one traditional product class, such as mutual funds.

Indeed, at least two product categories, mutual funds and fixed indexed annuities, mixed and matched in various combinations will be required in order to maximize the sustainability of one's retirement income. Implementing a framework on this basis can be an effective way to utilize available resources to generate lifetime income, protect against expenses related to unforeseen events, and help maintain purchasing power over the life of the retiree.

The task of meeting cash-flow needs throughout retirement very likely represents the greatest challenge individuals have faced in their financial lives. It is, to say the least, very different from previous generations that experienced the benefits of defined benefit plans and better market environment.

For advisors, working through a retirement needs analysis or retirement priority questionnaire with clients will be an excellent place to start. In the end, it will take an analysis of each individual situation to determine the exact product allocation strategy that will balance the clients' retirement risks and legacy planning goals. Research confirms that a solution including fixed indexed annuities is indeed a viable option and one that results in improved outcomes for generating and sustaining retirement income.

For more information about creating the optimized retirement income portfolio and to access a tool that models the efficient frontier, go to [RetirementIncomeChallenge.com](https://www.RetirementIncomeChallenge.com).

About the Authors

Doug Wolff

President of Security Benefit Life Insurance Company

Mr. Wolff oversees product development, pricing and operations of Security Benefit Life and Security Financial Resources. He brings 25 years of experience in investments, financial consulting, actuarial pricing, product development, marketing, and strategy formulation to his role.

Prior to joining Security Benefit in 2001, Mr. Wolff worked at Allstate Life Insurance Company where he held various product development and investment oriented roles. He began his career as an actuary with Ernst & Young in Chicago.

Mr. Wolff earned his Bachelor of Science in Finance from the University of Illinois, where he graduated with honors. Mr. Wolff is a Chartered Financial Analyst and a Fellow in the Society of Actuaries.

He is a Member of the Association of Investment Management and Research, a Member of the Investment Analysts Society of Kansas City, and a Member of the American Academy of Actuaries. Mr. Wolff recently finished serving two terms as a Governor Appointed Trustee for the Kansas Public Employees Retirement System.

Al Dal Porto

Vice President of Security Benefit Life Insurance Company, Product Development and Market Research

Mr. Dal Porto is responsible for design of annuity and mutual fund-based products distributed through independent channels including Education Market, Retirement Plans, Independent Agents, and Financial Institutions. He is also responsible for the firm's primary and secondary market research departments.

With more than 25 years of experience in distribution and actuarial fundamentals, Mr. Dal Porto came to Security Benefit from Ernst & Young LLP where he served as Senior Actuarial Advisor. He previously worked with Prudential Annuities as a Senior Strategic Account Manager and Allstate Distributors, LLC, where he served as Senior Vice President, Strategic Account Manager. His career also includes roles with Tillinghast Consultants and Cigna Insurance.

Mr. Dal Porto earned his bachelor's degree in Actuarial Science from the University of Illinois at Urbana-Champaign, where he graduated with honors. He is a Fellow of the Society of Actuaries and a Member of the American Academy of Actuaries. He holds a FINRA Series 6 and has held a Series 26 license.

Appendix A

General Study Assumptions

The study used a variety of assumptions to create the analysis and efficient frontiers.

- For this particular study, a male age 65 owner was assumed. Income begins at age 65 and in the cases where an annuity was used; the annuity was purchased at age 65.
- An initial amount of \$1 million of investable assets was used at start of the projection period.
- Mortality assumed 87% of the Annuity 2000 table as the base assumption and included a stochastic improvement factor.
- An initial withdrawal amount of 4.5% of the investable assets was used to determine the initial amount of income in the study. The withdrawal amount was increased each year by an inflation rate of 1.5%.
- In those cases where an annuity produced a guaranteed income and there was a waiting period before the annuity paid out the income, the mutual fund portion of the portfolio funded the income of the waiting period. In addition, the mutual fund portion of the portfolio also funded whatever shortfall may have been produced between the inflation rate adjusted income and the guaranteed income from the annuity.
- Equities were modeled as the S&P 500® Index with dividends.
- Bonds were modeled as the Salomon Broad Investment Grade (BIG) index.
- Analysis of the mutual fund portion of a portfolio was done using a mix of equity to bond allocations ranging from 5% to 100%.
- Taxes were not recognized in the analysis.
- For the variable and fixed indexed annuities, no actual annuities were used for the study. Instead Milliman, Inc., based upon their experience, created annuities that reflected the current competitive set of attributes of the annuities at the time of the study. The attributes for the variable and fixed indexed annuities type are listed in the Appendix B and C, respectively.

Appendix B

Variable Annuity Product Specifications

| Premiums and Deposits | | |
|---|--|------------|
| Premium Bonus | None | |
| Contract Features | | |
| M&E Charge | 135 bps | |
| Investment Management Fee | 100 bps | |
| Asset Allocation | 60% S&P 500®, 40% bond | |
| Base Contract Assumptions | | |
| Surrender Charges (% AV) | 7%, 6%, 5%, 4%, 3%, 2%, 1%, 0% | |
| Free Withdrawal | 10% all years | |
| GLWB | | |
| GLWB Benefit Base Structure | Premium accumulated with interest | |
| GLWB Roll-up | 5.0% per year | |
| GLWB Step-up | Annual step-up that continues for the life of the rider | |
| GLWB Charge | 115 bps of the Non-Decreasing Benefit Base | |
| GLWB Partial Withdrawal Reduction Type | Excess partial withdrawals reduce the benefit on a Pro-Rata base | |
| GLWB Benefit Percent (based on the attained age at the time of first withdrawal) | Individual | |
| | Attained Age | Percentage |
| | 60 | 5.0% |
| | 65 | 5.5% |
| | 70 | 6.0% |
| | 75 | 6.5% |
| | 80 | 7.0% |
| | 85 | 7.5% |
| 90+ | 8.5% | |

Appendix C

Fixed Indexed Annuity Product Specifications

| Premiums and Deposits | | |
|---|--|------------|
| Premium Bonus | 5% | |
| Crediting Strategies | | |
| Assumed Net Investment Earned Rate | 5.00%, after investment expense and defaults | |
| Fixed | 2.00% (guarantee of 1.0%) | |
| S&P® 1-yr Point-to-Point | 4.5% Annual Cap | |
| Base Contract Assumptions | | |
| Surrender Charges (% AV) | 10%, 9%, 8%, 7%, 6%, 5%, 4%, 3%, 2%, 1%, 0% | |
| Bonus Recapture by Year | 100%, 90%, 80%, 70%, 60%, 50%, 40%, 30%, 20%, 10%, 0% | |
| Free Withdrawal | 5% year 1, 10% thereafter | |
| GLWB | | |
| GLWB Benefit Base Structure | Premium accumulated with interest | |
| GLWB Roll-up | 7.0% per year | |
| GLWB Step-up | Annual step-up that continues for the life of the rider | |
| GLWB Charge | 95 bps of the Non-Decreasing Benefit Base | |
| GLWB Partial Withdrawal Reduction Type | Excess partial withdrawals reduce the benefit on a Pro-Rata base | |
| GLWB Benefit Percent (based on the attained age at the time of first withdrawal) | Individual | |
| | Attained Age | Percentage |
| | 60 | 4.5% |
| | 65 | 5.0% |
| | 70 | 5.5% |
| | 75 | 6.0% |
| | 80 | 6.5% |
| | 85 | 7.0% |
| 90+ | 8.0% | |

In all states except New York, annuities are issued by Security Benefit Life Insurance Company ("Security Benefit"). Security Benefit is not authorized in and does not transact insurance business in New York. Security Benefit is indirectly controlled by Guggenheim Partners, LLC.



A GUGGENHEIM PARTNERS COMPANY

800.888.2461

One Security Benefit Place, Topeka, KS 66636-0001
SecurityBenefit.com

99-00464-76 08/13/2012