



Advisor Perspectives Releases Comprehensive Analysis of Variable Annuities with Guaranteed Minimum Withdrawal Benefits

New Study Finds Flaws with Previous Analysis by Ibbotson/Morningstar

BOSTON – MARCH 1, 2011 – Advisor Perspectives, the leading interactive publisher for financial professionals, today released the most comprehensive analysis to date of variable annuities (VAs) with guaranteed minimum withdrawal benefits (GMWBs). The study found that the VA+GMWB offers only modest opportunities for income growth over time, which is unlikely to keep pace with inflation.

Advisor Perspectives' study found flaws with a previous analysis by Ibbotson Associates, a subsidiary of Morningstar, which claimed that income could be increased and longevity risk decreased by replacing a portion of the fixed-income assets in a retirement portfolio with a VA+GMWB.

“The VA+GMWB is a complex product, and only by examining it within a rigid framework can investors and advisors truly understand the costs and benefits of the longevity insurance it offers,” Advisor Perspectives CEO Robert Huebscher said. “Variable annuities have grown in popularity, but we wanted to examine if they could deliver on their promise of income growth.”

The VA+GMWB's popularity is fueled in part by its potential for increased annual income over a lifetime without requiring investors to formally annuitize. Its popularity was also aided by Ibbotson's study, which has been widely published in journals and presented at industry conferences.

Advisor Perspectives' study used a Monte Carlo simulation to compare the investment performance of the VA+GMWB to that of a similarly allocated passive portfolio, providing the necessary framework to compute the costs and benefits of the longevity insurance provided by the VA+GMWB.

Key findings of the study include:

- Over the average life expectancy of a 60-year old who invests in a VA+GMWB, there is only a 9.5% probability that the VA+GMWB would provide superior performance over the passive account.
- The median (50th percentile) income from the VA+GMWB increases at a rate of approximately 0.5%, failing to keep pace with 3% inflation, which has been the average in the U.S. over the last century.
- There is a 21% probability that the income from the VA+GMWB will never increase.



- Although the VA+GMWB offers the possibility for a bequest, the median value of a potential bequest drops precipitously and is zero after age 88.
- For an investor whose sole goal is to maximize total lifetime income, the single-premium immediate annuity is superior to the VA+GMWB.

The primary methodological improvement in Advisor Perspectives' study over Ibbotson's was that it used a mortality-based framework. Each simulation in the Monte Carlo analysis took into consideration the life expectancy of the investor. Ibbotson's analysis focused on only one outcome where the investor lived to age 90.

“Our goal as a publisher is to always challenge presumptions and provide financial professionals with independent, objective advice that helps them better serve their clients,” Mr. Huebscher said. “In the case of VA+GMWB, our analysis shows that the income-generating growth of this product has been overstated.”

A copy of the study is available [here](#).

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