



The difference a variable annuity can make

At Capital Group, we believe variable annuities can play an important role in a client's investment portfolio. Variable annuities can help to mitigate a number of risks that retirement investors face, including market risk and volatility, longevity risk and harmful sequence of returns.

Let's look at an example of how a variable annuity with a protected lifetime income benefit can help:

	Investor: Male, age 65 \$1 million investment portfolio Desired annual income of \$60,000 per year	Issue: With non-protected investments alone, $\frac{1}{3}$ of the client's income is vulnerable to market risk and volatility, which could cause an investor to have to change their lifestyle in retirement.	Option: Invest a portion of the portfolio in a variable annuity with a protected lifetime income benefit to mitigate risk.
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	No variable annuity	With an annuity	
Investment portfolio	\$1,000,000	\$700,000	
Annuity purchase	\$0	\$300,000	
Social Security income (annual)	\$20,000	\$20,000	Protected income
Variable annuity w/ 5% guarantee	–	\$15,000	
Investment portfolio withdrawals	\$40,000	\$25,000	Subject to market volatility
Portfolio withdrawal rate	4%	3.57%	Without a variable annuity the investment portfolio (such as mutual funds) must fund the entire \$40,000 need. Shifting \$300,000 of the portfolio into a variable annuity with a 5% guarantee accomplishes two important objectives:
Protected income %	33%	58%	
Total annual income	\$60,000	\$60,000	

Be careful not to over-insure your client's retirement income plan. Things to consider:

Higher potential fees – Variable annuities may impose a variety of fees that may affect the growth of your client's portfolio.

Lower flexibility/liquidity – Variable annuities have investment and/or withdrawal limitation requirements. Early withdrawals may incur a fee. About the guarantee: Guarantees are subject to the claims paying ability of the issuing insurance company.

Without a variable annuity the investment portfolio (such as mutual funds) must fund the entire \$40,000 need. Shifting \$300,000 of the portfolio into a variable annuity with a 5% guarantee accomplishes two important objectives:

1. Reduces the investment portfolio withdrawal rate from 4% to 3.57%, thus putting less stress on non-guaranteed investments.
2. Increases the amount of protected income by 25 percentage points from 33% to 58%. With an annuity in place less than half of the client's income is subject to market fluctuations.

Investments are not FDIC-insured, nor are they deposits of or guaranteed by a bank or any other entity, so they may lose value.

Hypothetical example shown for illustrative purposes. Does not represent any actual investment. Source: Capital Group, 2019

Why American Funds Insurance Series®

Capital Group established the American Funds Insurance Series in 1984 – one of the first and largest insurance-dedicated fund suites. With more than \$130 billion under management, we lead mutual fund companies in variable annuity assets¹ and offer a suite of 28 insurance-dedicated funds. We believe in the value that protected lifetime income can play in an overall retirement strategy.

¹Simfund VA, Capital Group. As of 12/31/18.

American Funds Insurance Series serves as an underlying investment option for multiple insurance products, including variable annuity contracts and variable life insurance policies. Availability of funds will vary based on the insurance contract offered.

Variable annuities are long-term investment products designed for retirement purposes and are subject to market fluctuation, investment risk, and possible loss of principal. Variable annuities contain both investment and insurance components and have fees and charges, including mortality and expense, administrative, and advisory fees. Optional features are available for an additional charge. The annuity's value fluctuates with the market value of the underlying investment options, and all assets accumulate tax deferred. Withdrawals of earnings are taxable as ordinary income and, if taken prior to age 59½, may be subject to an additional 10% federal tax. Withdrawals will reduce the death benefit and cash surrender value.

Investors should carefully consider investment objectives, risks, charges and expenses. This and other important information is contained in the fund prospectuses and summary prospectuses, which can be obtained from a financial professional and should be read carefully before investing.

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