Overcoming Interest Rate Risk

Protect your money. Secure your income.

There are many good reasons to put some of your money in fixed income options like bond funds, including diversification, offsetting market volatility, and interest income potential. Over the past three decades, market conditions have made bond funds even more attractive to many investors. Interest rates have generally fallen from 1981 through mid-2014, resulting in strong historical returns.

However, today, the potential for a rising bond interest rate environment can be detrimental to traditional bond funds. When new bonds are issued with higher rates, the value of existing bonds with lower rates goes down. And that can have a negative impact on the value of bond funds. Conversely, when new bonds are issued with lower rates than existing bonds, the value of those existing bonds rises.

Traditional bond funds can lose value in a rising interest rate environment. Protect your income with a fixed index annuity.

2.2% **Current yields on Barcap Index***

DECLINING BOND YIELDS

*Source: Barcap US Aggregate Intermediate Bond Index, 1/1/76 through 6/30/14

Bank/Firm
Financial Professional
Phone number
Email address

Fixed Index Annuities are issued by
Genworth Life & Annuity Insurance Company, Richmond, VA
160890C 11/03/14

Genworth®

The average current yield on the Barclay's Capital Intermediate Bond Index is 2.2%. With most bond funds, a good indicator of return potential over the medium term is the current yield of the fund (less expenses). However, total return can be impacted significantly if interest rates rise while you hold the bond fund. Immediate declines in value would be made up slowly over time by higher yields.

With interest rates still low, but on the rise from recent historic lows, you may be concerned about how to protect the value of your fixed income portfolio without the interest rate risk associated with bond funds. Indeed, as interest rates rise, bonds, particularly those with a low interest rate – such as those issued in the past few years – may experience a significant decrease in value.

How does an interest rate increase impact your portfolio?

Do you know the duration of your bond mutual fund? Although stated in years, duration is not simply a measure of time. Rather, "duration signals how much the price of your bond investment is likely to fluctuate when there is an up or down movement in interest rates."[1]

Duration risk is equal to the sensitivity of a bond's price to a 1% change in interest rates. For instance, for a traditional bond fund with a 5-year duration, a 1% rise in interest rates would result in a 5% drop in value. For a bond fund with a 10-year duration, a 1% rise in interest rates would result in a 10% drop in value.

88%

Percent of Traditional Bond Funds that lost money in 2013[2]

BOND FUND RISK FOR 10-YEAR DURATION

Interest Rates	Traditional Bond Fund Value
↑ +1%	↓ -10%

If you are looking for protection against potential bond fund losses in a rising interest rate environment, a fixed index annuity can be a solution.

Meet James and Rebecca

Although they have a well-diversified portfolio containing 40% bond mutual funds, James and Rebecca have already experienced loss in their fixed income portfolio when interest rates rose in the third quarter of 2013. James and Rebecca are planning to retire in three to five years, and want to protect the value of their fixed income assets against the potential for future losses by repositioning a portion of their money into an alternative that offers protection and lower interest rate risk.

James and Rebecca have a long-standing relationship with their financial professional, Alan, a licensed insurance agent and registered representative, and decide to schedule time to discuss their options.

Developing a strategy

James and Rebecca share their concerns about the fixed income portion of their portfolio with Alan. Alan explains that it may make sense for clients with a longer time frame to hold their existing bond fund portfolio. However, given the fact that James and Rebecca have plans to retire and begin a systematic withdrawal plan in the very near future, Alan suggests an alternative approach. In particular, he wants to help James and Rebecca better prepare for the potential of higher rates interest rates and protect that portion of their fixed income portfolio.

To accomplish the goals of protection while providing for future income, Alan recommends moving a portion of their fixed income portfolio with the longest duration (and highest interest rate risk) to a fixed index annuity. This shift achieves the objectives of reducing volatility, and generating the potential for interest income, with the added benefit of 100% principal protection from market losses and lower interest rate and duration risk.

Action plan

James and Rebecca decide to allocate a portion of their fixed income money to a fixed index annuity to further balance their retirement portfolio.

This move provides:

- ☑ Principal protection
- ☑ Guaranteed growth
- ☑ Higher interest rate crediting opportunity
- ☑ Lower interest rate risk

Work with your financial professional to create a solution that meets your retirement needs.

Important Information

Only a registered securities representative or an investment advisor representative is allowed to make recommendations to purchase or sell securities such as bond funds.

1 FINRA Investor Alert, Duration, What an Interest Rate Hike Could Do to Your Bond Portfolio

2 Morningstar Direct, as of 12/31/13

All guarantees are based on the claims-paying ability of the issuing insurance company.

Withdrawals / surrenders have the effect of reducing the contract value and death benefit. Withdrawals/surrenders of taxable amounts are subject to ordinary income tax and if taken prior to age 59½ an additional 10% federal penalty tax.

Although the contract value may be affected by the performance of an index, it is not a security and 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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There is no additional tax deferral benefit for annuities purchased in an IRA, or any other tax-qualified plan, since these plans are already afforded tax-deferred status. The other benefits and costs should be carefully considered before purchasing an annuity in a tax-qualified plan.

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Are not deposits.	May decrease in value.
Are not guaranteed by a bank or its affiliates.	Are not insured by the FDIC or any other federal government agency.