RILA Sales Surge as Investors Seek Growth and Protection

Tony Compton

Vice President B/D & RIA Sales

Great American Life Insurance Company

330 percent. That's the growth in the registered index-linked annuity (RILA) channel since 2016. Guaranteed rate annuities, fixed-indexed annuities (FIAs) and variable annuities (VAs) have all seen periods of substantial growth, but the acceptance and adoption of this newest product type drove total RILA sales volume to more than $24 billion in 2020.*

So why have RILAs become so popular so quickly?

RILAs are quickly becoming an industry favorite partly because of the innovative design, but also due to economic conditions affecting more traditional types of annuities.

For example, FIAs have been a staple in retirement planning for years; however, in recent years we have seen interest rates continue to fall. These lower interest rates negatively affect the caps that carriers can offer on FIAs. As a result, over the last two years, we've seen historically low earning potential from these types of products.

Additionally, new and updated regulations continue to put a spotlight on the fees that consumers are paying to own some types of annuities, such as traditional VAs. These fees may not be as acceptable today as they were in the past.

"RILAs are quickly becoming an industry favorite partly because of the innovative design, but also due to economic conditions affecting more traditional types of annuities."

Insert RILAs. RILAs offer a mixture of FIAs and VAs. With a RILA, the client can experience loss in the account value (similar to a VA), but there is some downside protection through either a floor or buffer, which we'll get into shortly. Because the client is taking on additional risk, there is more upside potential than a traditional FIA. In many situations, the additional earning potential is 300 percent higher with RILAs.

Straightforward protection options

There are a few different ways RILAs provide clients with downside protection. A floor option protects against losses that exceed a certain amount, commonly -10% each year. So, if the applicable index declines between 0 and -10%, the client would incur the full loss that year. However, if the index decreases by more than -10%, the client is protected from the amount that exceeds -10%. In other words, a floor is the maximum annual loss the client can incur.

The other common strategy is a buffer option. A buffer protects from losses up to a certain amount each year, commonly -10%. If the index goes down more than -10%, the client would incur the loss that exceeds -10%. So, if the index decreases by -22%, the client's loss would be -12% that year.

Market-linked growth opportunity

For the growth component, RILAs credit interest based on the positive performance of a market index. The amount of interest credited is equal to the index change, up to a cap or multiplied by a participation rate. Again, because of the potential loss exposure, caps and participation rates for RILAs are higher than those for FIAs to offer more of an upside reward.

No or low fees

The construction of RILAs often gives the client a reprieve when it comes to an account fee. Many of these products are offered with no fee, or a low client fee in comparison to traditional VAs – adding to their appeal.

Just like we've seen great evolution when it comes to FIAs and VAs, it's exciting to see where the RILA industry will go. This product type is new, but we're already seeing design progress.

What does all this mean for you and your clients?

The bottom line is this: Whenever clients have more choices for their retirement assets, they are able to choose something that best fits their needs. It also gives advisors more opportunity to tailor their offerings specifically to their individual clients.

As with any product, you should take the time to review the details and the competition to ensure you have a complete understanding of the features. I believe that once you do, you will realize why you want to add this newest annuity type to your solutions for 2021 and beyond.

*Source: LIMRA 12-31-2020

Great American® appearing with the Great American Logo is a registered trademark of Great American Insurance Company and is used under license.