

5 Reasons RILAs Are So Hot

By Allison Bell

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What You Need to Know

- o Registered index-linked annuities are regulated as variable annuities.
- o A client can use them to pay for just enough protection against market risk.
- o An issuer can hedge away the market risk.

Robin Raju, the chief financial officer at Equitable, wants to talk about the company's efforts to add **lifetime income options** to the nation's 401(k) plans.

He wants to talk about the value the company gets from its **AllianceBernstein** asset management arm.

But the conversation often turns to the rise of the U.S. individual registered index-linked annuity market.

Equitable created the modern U.S. market for RILAs, or variable annuities with crediting rates that depend on the performance of one or more investment indexes, rather than on the performance of funds that resemble mutual funds.

Equitable was the leader in the RILA market in the first quarter. Its RILA sales increased to \$3.4 billion in the latest quarter, from \$2.2 billion in the year-earlier quarter,

according to **LIMRA issuer survey data**.

Why is the RILA market so strong?

Raju gave Wall Street securities analysts a short introduction to RILAs during a recent conference

call that the company held to go over first-quarter results. Here are five things he said about the popularity of the products during the call and an interview afterward.

1. The products can help clients prepare for retirement.

Raju said offering RILAs is a way to provide a solution that can help protect a retirement saver against an adjustable level of investment market risk.

"We allow clients to still participate in the equity market but with downside protection*," he said.

** You are protected from some downside risk; if the negative return is in excess of the protection level, there is a risk of substantial loss of principal because you agree to absorb all losses to the extent they exceed the protection provided.*



2. An issuer can use derivatives to handle exposure to changes in stock or other investment indexes.

Raju sees RILA products as “spread-based” products. That means that Equitable’s results depend mainly on the difference, or spread, between the rates it’s paying the annuity holders and the yields it gets on the portfolio supporting the annuities.

“The equity market exposure is fully hedged at the time of issuance,” Raju said. “All the assets are invested in the general account, and a fixed maturity date and short average duration enable tight asset-liability management matching.

“We reprice the product every two weeks based on current interest rates and option costs, ensuring we can deliver a consistent IRR [internal rate of return] of at least 15%,” he explained.

3. For the issuer, hedging can make a RILA perform roughly similar to a traditional fixed annuity.

Managing the general account assets behind a RILA can be similar to managing the assets behind a fixed annuity, but the asset

value guarantees tend to be more limited, and the issuer can charge separately for whatever level of value it chooses to protect.

Because offering a well-hedged RILA product can be a relatively low-risk endeavor, “RILAs are capital-light for Equitable and have less than half the required capital of a fixed annuity,” Raju said.

4. An issuer with its own asset-management team can help improve product performance and profitability by managing the assets itself.

Some asset managers buy life insurers to get access to their assets.

Other life insurers hire outside managers to manage most or all of their annuity assets.

Raju said Equitable can maximize investment yields and product profitability by having AllianceBernstein manage much of the portfolio supporting the RILA contracts.

5. All of the headwinds can support strong income growth.

At Equitable, Raju said, RILAs helped produce an 8% year-over-year increase in individual retirement income in the first quarter.

Robin Raju. Credit: Equitable

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If you are purchasing an annuity contract to fund an IRA or employer-sponsored retirement plan, you should understand that such annuities do not provide tax-deferral benefits beyond those already provided by the Internal Revenue Code.

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