Retirement Income
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Calamos Structured ETFs: An alternative to FIAs

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There are non-insurance alternatives to fixed indexed annuities (FIAs) as savings vehicles For cautious who want to eliminate all risk of investment loss on part of their portfolio but fear “missing-out” on a stock market rally, there’s a non-insurance solution.

So-called “structured ETFs” deliver “protected growth” through the purchase of a bracket of options on an equity index that’s stripped of its dividend yield, such as the S&P 500 Price Index. (The cost of options on price indexes is less than the cost of options on total return indexes).

The Calamos Structured Protection ETFs suite from Calamos Investments claims to do that. The one-year contract issued on May 1, 2024 provided 100% principal protection and a maximum credited interest of 9.81% at the end of the term, less a 0.69% expense ratio.

The options strategy of a structured ETF works a bit differently from the options strategy of an FIA. When building an FIA, a life/annuity insurance company invests most of a client’s principal in the company’s general account; it uses only about 4% of principal (depending on prevailing corporate bond rates and other factors) to buy options on an equity index.

With the Calamos structured ETF, most of the client’s principal goes to the purchase of options on the S&P 500 Price Index. The options strategy has three steps:

- Purchasing a one-year near zero-strike (i.e., deep in-the-money) call on the S&P 500, at a pre-determined strike price. This achieves full exposure to the price return of the S&P 500. It costs about 98% of portfolio value.
- Purchasing an at-the-money put option. This protects the principal against loss. It costs about 4% of portfolio value.
- Selling an out-of-the-money (OTM) call that sets the cap rate and brings in enough added revenue to finance the purchase the deep-in-the-money call and the at-the-money put.

Calamos claims that saving with its Structured Protection ETFs is more tax-efficient than saving with FIAs. While FIA gains are subject to ordinary income tax (up to 37%) when withdrawn, gains on one-year structured ETFs are taxed at long-term capital gains tax rates (up to 20%).

ETFs are also more liquid than FIAs; are not subject to counterparty risk; have explicit, transparent pricing; have no investment minimums are price and are generally easier to trade and incorporate into a portfolio, according to Calamos.