Retirement Income
JOURNAL

June is Index Month at RIJ

By Kerry Pechter *Thu, Jun 4, 2020*

In June, Retirement Income Journal dedicates most of its coverage to the world of indexed annuities. This year we're concentrating on the indexed variable annuity, for two reasons. Its sales are growing, despite the repressive rate environment. It also defies easy understanding.

The yen to earn a slightly higher (but safe) rate of return, especially in a world where 10-year Treasury bonds yield six-tenths of a percent per year, sends investors and their advisers on some strange journeys into some odd locales.

Everyone knows that better bond returns live farther out on the yield curve and in weaker credit risks. Higher returns are also found through leverage, illiquity, emerging markets, and securitized loans. But older, more cautious investors don't always want to go there.

Where investor needs appear, financial products follow. A handful of life insurers are putting an increasing amount of their actuarial and quantitative talents behind a relatively new kind of insured investment called an indexed variable annuity.

You may not be familiar these products, which are sold mainly by securities-licensed advisers in banks and independent broker-dealers. Or you may know them as "structured variable annuities" or by the acronym "RILA," for registered index-linked annuities.

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An investor presented with the brochure for an indexed variable annuity (IVA) faces almost as many choices as a gambler at a roulette table or a sportsman at the track. On the upside, should they grab a chance to earn 80% over three years, or 200% over six? On the downside, should they agree to absorb all losses in excess of 10% per year, or all of the losses up to 10% a year? What are they *likely* to earn? That's a tough question, since issuers can alter these products in mid-stream.

In this week’s issue of *RIJ*, with the help of Wink Inc., the annuity sales and marketing consultant, we’re going to review the first quarter sales performance of IVAs. In the accompanying feature article (“Does Your Suffering Need Buffering?”), we’ll identify the leading manufacturers, the most popular contracts, and the busiest distribution channels for IVAs.

In the weeks ahead, we’re going to dive as deeply as we can into the ways IVAs are designed and priced. Promotional literature for IVAs touts their potentially high returns and simultaneous safety. How do they do that? We know they work like structured notes, relying on a combination of puts and calls to apportion risk between an investor, an insurer and an option writer. But how?

We will also inquire into the nature of the product’s “buffers” and “floors.” In return for a chance at higher returns, buffers require investors to accept the rarest, largest risk of loss, while the floors require them to absorb the smaller, but more likely losses. How can an investor assess that trade-off?

Also this month, we’ll look at a new venture by a Midwest brokerage firm that involves a new retirement planning software and a novel type of single premium immediate annuity that uses indexing to produce the opportunity for rising income for life.

As always, we aim our content at two main audiences. We write for the creators of retirement income solutions. We also write for what we call “ambidextrous” advisers—advisers who want to become more adept at combining investment and insurance products to maximize their retirees’ incomes at minimum risk.

For advisers who prefer to avoid annuities but are still curious about products that manage risk with index options, take a look at today’s story about the structured ETFs that are offered by Allianz Life and by Innovator Capital Strategies.

I know that some readers will always believe that the Jack Bogle method—buy and hold a bond index fund and an equity index fund, with the equity portion equal to 100 minus the investor’s age—is the only risk management technique that most investors will ever need. But demand (and supply) is clearly growing for more creative (and complex) palliatives for investor anxiety.