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## **Lincoln Financial joins the index-linked variable annuity (ILVA) party**

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By Editorial Staff     Thu, May 17, 2018

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*'Lincoln Level Advantage' comes with four index options, two term lengths and four levels of protection. It also offers variable subaccounts and a living benefit.*

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Lincoln National Life, a unit of Lincoln Financial, is the latest life insurer to enter a product into the flourishing category of index-linked variable annuities (ILVAs, aka index-linked structured annuities or “buffered” products).

The new product, [Lincoln Level Advantage](#), is a flexible premium contract with a \$25,000 initial premium. It comes in a non-commission-paying Advisory version, a B share and a B class. Unlike most other products of this type, it offers a living benefit option, Lincoln’s unusual i4Life variable income annuity.

In five years, the market for ILVAs has grown from zero to \$9.2 billion a year, making it the bright spot in an otherwise dim annuity sales picture. The product offers more upside than a fixed indexed annuity and more downside protection than a variable annuity.

AXA pioneered this type of registered annuity, which works like a structured note. MetLife, Allianz Life, CUNA, Great-West and Great American have followed. Protective is said to have a product in the works.

“The ILVA is reaching a different demographic than a traditional indexed annuity,” said one annuity sales vice president whose company offers an ILVA. “It’s a younger audience.” Because the products are SEC-registered, they also have greater appeal than indexed annuities to wirehouse advisors, he said.

Level Advantage comes in two term lengths, a one-year and a six-year, with three both variable and index-linked investment options. The six-year term has two flavors, one that locks in gains each year and one that doesn’t. In the prospectus, the examples given of performance caps are 7.25% for the one-year term and 82% for the six-year term.

The available indexes are the S&P 500 Index (large-cap), the Russell 2000 Index (small-cap), the MSCI-EAFE Index (global) and Capital Strength Net Fee Index, a 50-security index offered by NASDAQ.

Level Advantage offers buffers against losses, not loss floors. Depending on the term and

the type of index used, Lincoln National absorbs the first 10%, 20% or 30% of losses in a given contract year (and every contract owner experiences a different contract year) and the contract owner suffers any net losses beyond the buffer.

For instance, if you have a 10% and your index drops 17% in your contract year, then your account value drops by seven percent. A product with a 10% loss floor would allow the client to lose up to 10% in a year but no more.

In the one-year product, contract owners can get 10% or 100% protection against loss for the S&P 500 Index, and a 10% buffer on the other three indexes. For the six-year product with a point-to-point crediting formula, 10%, 20% and 30% buffers are available for the S&P 500 and the Russell 2000, but only up to 10% for the MSCI-EAFE and Capital Strength Net Fee Index.

For the six-year “Annual Lock” version, only 10% buffers are available. According to the prospectus, “an Indexed Account with Annual Locks is a multi-year account in which the performance is calculated on each Indexed Anniversary Date, but the performance is not credited to or deducted from the Indexed Segment until the End Date.” In other words, each year’s gains or losses are locked in but the accumulated gains do not become available until the end of the term.

There’s a return-of-account value death benefit for 10 basis points per year and a return-of-principal death benefit for 30 basis points per year. The fund operating expenses are listed at 49 basis points per year (with a 120 basis point maximum). The i4Life living benefit rider costs 40 basis points per year.

The variable subaccounts offer the insurance versions of a variety of funds from American Funds, AIM, BlackRock, Fidelity, First Trust, Franklin Templeton, Lincoln and JP Morgan. Investments in these accounts are not protected from loss by buffers and their potential growth isn’t limited by caps.