
Roger Ibbotson embraces indexed annuities over bonds

By Editorial Staff *Fri, Mar 16, 2018*

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A new whitepaper from Annexus, the FIA design firm, and Zebra Capital Management, founded by retired Yale economist Roger Ibbotson, analyzes the potential of fixed indexed annuities (FIAs) as an alternative to bonds in retirement portfolios, according to a release by Zebra Capital.

The whitepaper, "Fixed Indexed Annuities: Consider the Alternative," is based on research suggesting that "uncapped FIAs help control equity market risk, mitigate longevity risk, and have the potential to outperform bonds in the near future," the release said.

Total returns from bonds may be low enough in the future to place many Americans at risk of outliving their retirement savings, the report said.

"Shifting market conditions, longer life expectancies, and uncertainties surrounding the future of Social Security have [an immense impact] on our U.S. economy," said Mr. Ibbotson in the release. "These conditions [may] result in a perfect storm where investors may be left with insufficient funds to carry them through retirement."

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Zebra Capital and Annexus used S&P 500 Index dynamic participation rates to simulate FIA performance over the past 90 years and presented the results in a fashion similar to Ibbotson's SBBI (Stock, Bonds, Bills and Inflation) chart.

Their findings, which considered historical volatility, interest rates, and dividend rates, showed that uncapped FIAs would have outperformed bonds on an annualized basis for the past 90 years. "Uncapped FIAs offer a more tailored risk profile than bonds, capturing a portion of the growth offered by large-cap stocks, while lowering overall market risk," the release said.

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