The life of RILAs is improving

By Editorial Staff *Thu, Oct 24, 2019*

Through the first half of 2019, sales of RILAs totaled $7.7 billion, up 63% over the same period in 2018, and accounted for nearly 16% of industry-wide variable annuity sales and 6.2% of all individual annuity sales, according to AM Best.

In a new Special Report, ratings service AM Best predicts that while the current sales volume of Registered Index-Linked Annuities (RILAs) is still small compared with sales of variable annuities (VA) and fixed-index annuities (FIA), RILA likely will outpace other individual annuity products over the near term.

Industry-wide RILA sales totaled $11.2 billion in 2018, representing 11% of all VA sales and 5.6% of total individual annuity sales (fixed and variable combined), according to industry sources. More importantly, RILA sales growth has accelerated since 2016, as sales of traditional VAs declined.

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VA sales peaked at $184 billion in 2007 and have declined since. In 2018, VA sales dropped to about $100 billion, down 46% from 2007. Today, fixed annuity sales, led by FIAs, surpass VA sales, thanks to the uncertainty created by past Department of Labor efforts, abandoned in 2017 by the Trump administration, to regulate VA sales more tightly.

VAs allow for unlimited upside growth potential, but are vulnerable to the risk of loss. FIAs participate indirectly in equity markets through the use of options on the performance of equity or hybrid indexes, so their upside potential is limited. But they provide protection against the risk of loss.

RILAs are a compromise. They offer more upside potential than fixed annuities in exchange for policyholders' willingness to absorb some risk of loss. Most current offerings feature a combination of guaranteed upside performance caps and downside absorption rates ("buffers" or "floors"). The guarantees are measured over periods as short as one year or as long as 10 years.

Only representatives registered with Financial Industry Regulatory Authority (FINRA) can sell RILAs, so they are likely to see limited penetration into the traditional Insurance

Marketing Organization (IMO) channels used heavily by fixed index annuity writers.

However, given the current pace of product introductions, as well as the emerging trend of offering an optional guaranteed minimum withdrawal benefit rider on these products, AM Best believes RILAs will become more popular and constitute a larger portion of individual annuity product sales.

Note: Some distributors dislike the acronym RILA and prefer to call these products “structured” annuities; they resemble structured notes.