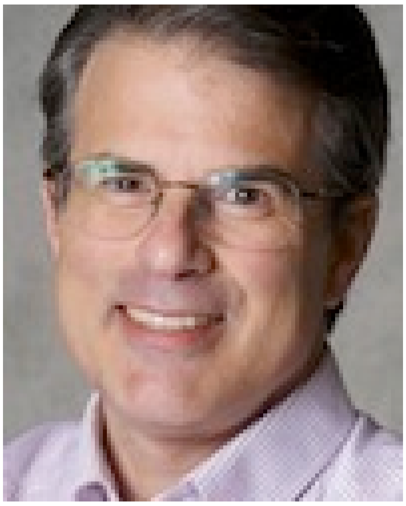
You've heard of RILAs, Now Meet FILAs

By Kerry Pechter *Wed, Jun 23, 2021*

F&G, a leading issuer of fixed indexed annuities (FIAs), has launched an FIA that gives contract owners the option to reach for higher gains without losing principal protection. They call it a FILA, or fixed index-linked annuity.



High-end sneakers and fashionable sportswear—that's what FILA means to pro soccer players and armies of amateur athletes. In the financial world, FILA now has a new meaning: a Fixed Index-Linked Annuity.

You can thank F&G, the life insurance subsidiary of FNF for coining a new acronym for a new product niche. A FILA is a bit like a registered index-linked annuity (RILA). But RILAs are registered securities, and FILAs are insurance products that insurance agents can sell.

The new contract, called Dynamic Accumulator, has just been issued by F&G (whose corporate DNA traces back to US Fidelity & Guaranty Life as well as Old Mutual. F&G's CEO is Chris Blunt, a former group president at New York Life.)

The contract, which should help differentiate F&G in the crowded FIA marketplace, is built on a fixed indexed annuity chassis. But on any given contract anniversary, contract owners who have already booked gains can then switch to a RILA-type crediting strategy that offers more upside potential than the FIA crediting.

How can the contract owner put his whole account–principal and gains–at risk without risking any loss of principal? Because his losses are stopped at a floor that ensures that his losses in a given year will never exceed his previous gains. The floor of the account protects the principal. If a person loses all of his gains in a given year while using the crediting method with the floor, he has to go back to the FIA. He can't go back to the negative floor method until he has gains again. This product, I'm told, is unprecedented, at least among annuities, if not structured products.

Since principal is never at risk, F&G can file the product as an FIA and insurance agents can sell it, said Ron Barrett, senior vice president at F&G, in an interview. So far Dynamic Accumulator offers only the S&P 500 Price Index (i.e., the S&P 500 Index without dividends) as its only indexing option.

Ron Barrett

"We are constantly soliciting feedback from distributors, and we asked them, What are investors' unmet needs? That helped us formulate the FILA concept, which provides a unique blend of upside opportunity in the equity market and principal protection," Barrett told *RIJ*.

"Having that principal protection makes the contract a safe place to be without the owner having to give up control or flexibility. The client and the adviser have the ability to adjust their risk exposure without completely jumping out of the product. What we heard was, 'I want to be able to dial my risk up or down, depending on need at that time. That's the unmet need.'"

Fidelity & Guaranty Life was listed as the fifth biggest seller of fixed indexed annuities in the US for 2020, with sales of $3.46 billion and a 6% market share. Athene led the field, followed by Allianz Life, AIG, and Sammons. Its FG AccumulatorPlus 10 contract ranked seventh in overall sales in 2020.

F&G is one of several index-linked annuity issuers with varying current or past connections with a major asset manager. Athene is tied to Apollo and Global Atlantic to KKR. Todd Boehly, former president of Guggenheim Partners, is CEO of Eldridge Industries, the holding company that owns Security Benefit. F&G has close ties to Blackstone; Blunt was CEO of Blackstone Insurance Solutions before he became CEO of F&G. (See RIJ **story**).

F&G has put out a product **sheet** describing exactly how the Dynamic Accumulator works. The less protection, the higher the cap or participation rate on the S&P 500. In F&G's hypothetical example, there's a 4% cap on the 0% floor, a 5.25% cap on the minus-2.5% floor, a 7.5% cap on the minus-5% floor and a 10% cap on the minus-10% floor. (Notice that this product can offer only floors, not downside "buffers," because the contract owner can only afford to lose an amount equal or less than the gains he puts at risk. There's a vesting schedule for gains, starting at 90% in the first contract year and reaching 100% in the seventh year.

Once you've tried a structured account (with a floor below 0%), lose your gains, and retreat to the FIA crediting method, you must wait until you have gains to return to a higher-yielding structured account. As long as you have gains, you can change the amount of gains you want to risk–zero, if you choose–at beginning of each new contract year.

"The client is allowed to allocate between the two structured account options annually (cap or participation strategy). Within the structured account strategies, the client can dial up or dial down their tracks based on the index gains available. Once the client chooses the fixed option, they lock in previous vested gains until the end of the contract to term," Barrett told *RIJ*.

Note that this contract has one-year point to point crediting periods. The investor locks in index gains, if any, at contract anniversaries. The contract term is 10 years, which means the investor can take out only 10% of the account value (including vested gains) each year penalty-free.

The asset management partners of FIA issuers prize these long-dated liabilities, which give them enough time to invest the underlying funds in relatively illiquid, relatively high-yielding senior tranches of collateralized loan obligations (CLOs) and other alternative assets.