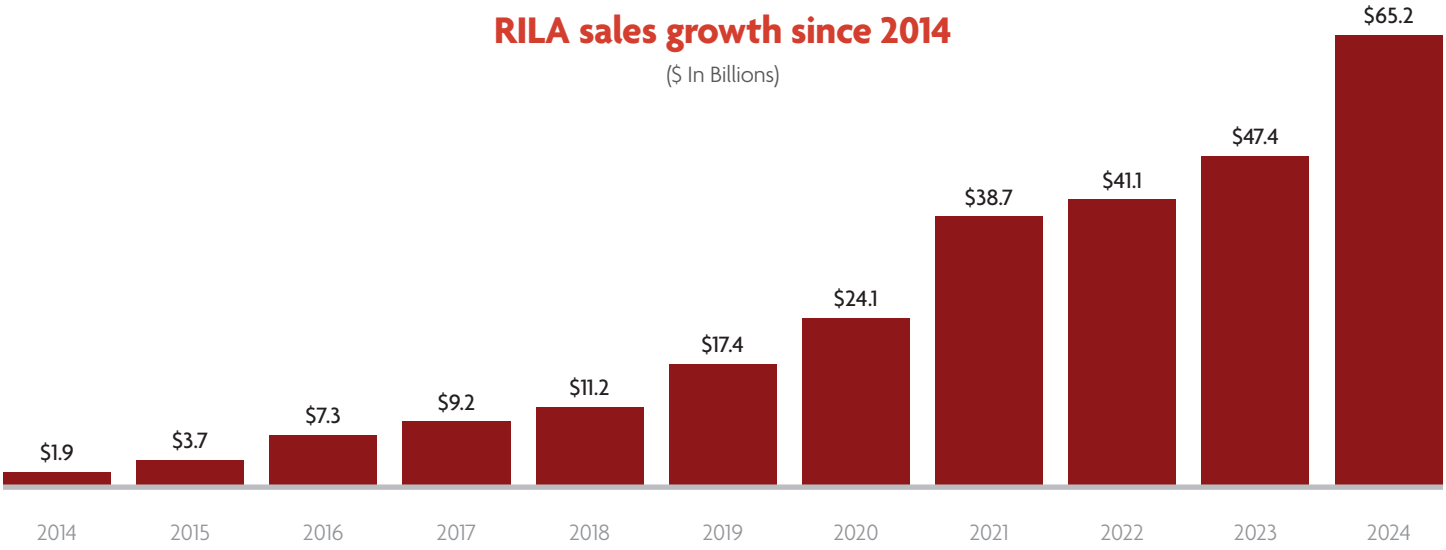
SAMMONS RETIREMENT SOLUTIONS®

Historical market guide of registered index-linked annuities (RILAs)

Overview of RILAs



Source: LIMRA, Secure Retirement Institute.

The market for registered index-linked annuities (RILAs) has grown dramatically in recent years. As with any new and growing market, there is a strong desire from broker-dealers and financial professionals to learn more about the market, its product features, and index options to help evaluate where the product makes the most sense for consumers. This paper is designed to assist distributors in their understanding of RILAs, historical market returns, and various protection strategies.

While there are many different crediting strategies, cap strategies are the most common. This is where index gains over a term are credited (generally 100%) up to a predetermined cap limit. For simplicity, this paper will only address cap strategies.

RILAs have characteristics in common with variable annuities (VAs) and fixed index annuities (FIAs).

- Like VAs, RILAs are considered securities, sold by a prospectus, and many offer subaccounts.
- Like FIAs, RILAs have options that credit interest based on the performance over a specified term, such as one, three, or six years.
- RILAs differ from FIAs in that they generally don't protect the entire premium amount. Instead, RILAs partially protect the investor and offer either buffers and/or floors in order to give some downside protection. The protection offered by buffers or floors can vary from a small amount of protection to significant levels of protection.

Downside protection and growth potential vary among the three products.

The chart below isn't a full list of comparisons, but it can help provide a general overview of the high-level differences and similarities.

FIAs	RILAs	VAs
• Provide full principal protection. • Upside growth potential is linked to index performance. • Because consumers are guaranteed to never lose the premium they put in, their upside growth potential is limited, often by a cap. Note: Rider fees and withdrawal charges (including market value adjustments) may reduce principal.	• Provide a level of principal protection through floors and/or buffers (more on page 4). • Upside growth potential is linked to index performance, but many RILAs offer subaccounts to help boost growth potential. (Subaccounts have no downside protection.) • Upside growth potential is linked to the level of protection chosen. Generally, the more protection provided, the less upside potential allowed because of lower caps.	• Provide no principal protection (without riders). • Upside growth potential is linked to the performance of variable subaccounts. • Upside growth potential is uncapped.

Risk profile of RILAs falls between VAs and FIAs

The risk variance between products is not linear. The representation shown is for illustrative purposes only.

Who might benefit from a RILA?

RILAs may be beneficial for three types of clients:

1. *Equity investors*

Equity markets historically have done well over time. However, events overseas, wariness around inflation, uncertainty around future taxes, concerns around fiscal and monetary policies, and general economic issues lead to volatility, which may cause some equity investors to dial back risk.

At the same time, they may not be content with potential returns in other investments, so they still desire upside potential tied to equities.

2. *Fixed income investors*

With current interest rate levels, some fixed income investors may find the upside potential of RILA options combined with some downside protection appealing.

3. *Conservative clients*

Other low to moderate risk alternative yields may be unattractive to individuals concerned about significant risk to their principal. Floor options or larger buffers may give conservative clients the confidence to seek higher potential returns.

Of course, customers who may be interested in RILAs should also find the general aspects of an annuity appealing, such as tax deferral, lifetime income availability, etc.

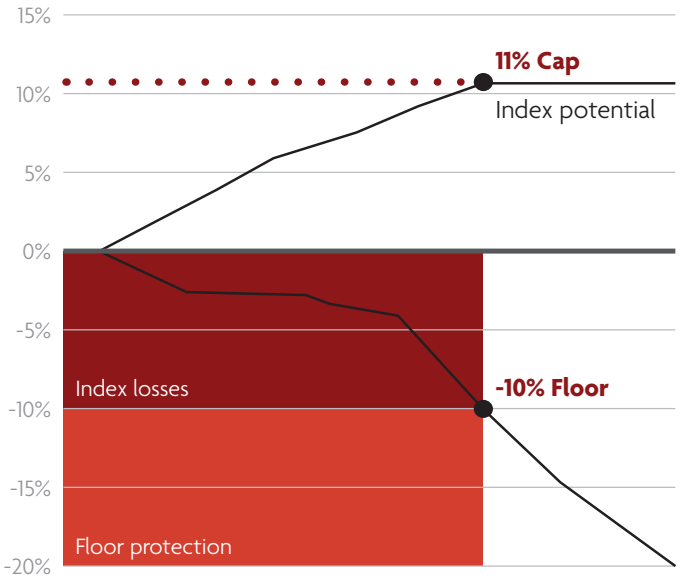
What are floors and buffers?

Floors: A predetermined limit of loss the consumer absorbs. If losses extend beyond the floor, the insurance company absorbs any additional losses. In other words, a floor is the maximum amount of loss a consumer can experience. Floors protect against large market downswings.

Buffers: Protection against first loss that the insurance company absorbs. If losses extend beyond the buffer percentage, the consumer absorbs any additional losses. Buffers provide some level of protection, but generally do not protect against catastrophic loss.

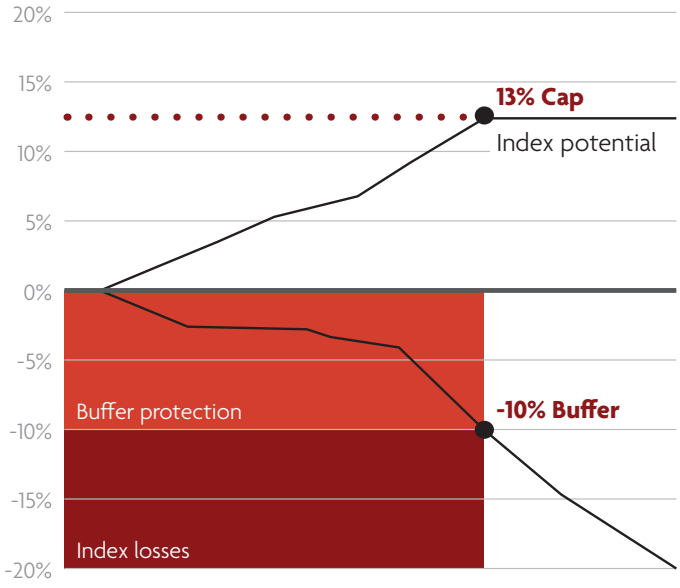
Floor

The floor acts as a 'stop-loss', protecting the investment when index losses exceed the floor.



Buffer

The buffer protects investments when index losses are less than or up to the buffer, but the client bears losses past the buffer.



Hypothetical examples only.

Any potential losses are reduced by a buffer and limited by a floor.

Why do buffers usually have higher caps?

Generally, the greater the protection offered, the lower the caps. This is because when greater protection is selected, more of the amount invested is used to provide the desired protection. This leaves less money to purchase the options that provide upside potential.

Because they offer less total protection, buffers typically have higher caps than floors.

All else being equal, buffers typically have higher caps than floors. This should be expected, since buffers usually offer less total protection to the investor than floors. The difference in values in extreme scenarios results in the overall cost of coverage being more for floors.

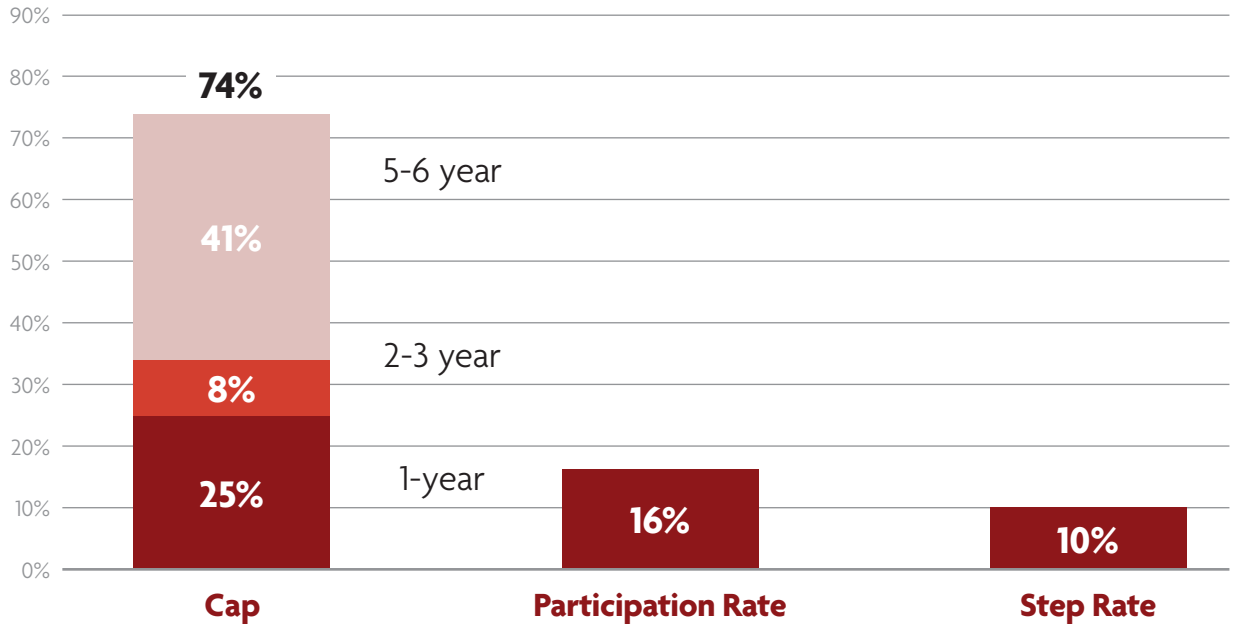
Since buffer losses to the insurer are limited to the buffer percentage (even in extreme scenarios), the costs are lower to hedge this risk. These lower costs allow the insurance company to offer additional upside by buying more options.

	Principal at Risk
30% buffer →	70%
20% buffer →	80%
10% buffer →	90%
10% floor →	10%

Floors provide more protection from catastrophic markets.

Crediting methods

RILAs offer various terms, crediting methods, and levels of protection, with the most popular being one- and six-year terms, cap strategies, floors and buffers.



Source: LIMRA Secure Retirement Institute; Registered Index Linked Annuity, Preliminary Deep Dive Results, Year End 2023

Summary of one- and six-year floor and buffer advantages

One-year and six-year terms can each offer advantages. No one crediting method or term is the right choice for every circumstance.

	10% Buffer		10% Floor	
	Advantages	**Disadvantages**	**Advantages**	**Disadvantages**
1-year	• Locks in gain after one year • Buffer may reduce losses, allowing the next year to start with a higher value • Greater protection than same % multi-year buffer, since buffer is available each year	• Lower total upside relative to multi-year options	• Locks in gain after one year • Floor may reduce losses, allowing the next year to start with a higher value	• Lower total upside relative to multi-year options • Floor is exposed each year, which results in lower total protection than multi-year options
6-year	• Higher upside potential	• Index gains remain exposed to loss throughout term • Relatively low level of total protection over the term	• Greater upside potential than one-year floors • Greater total protection than other long-term options and one-year floors	• Index gains remain exposed to loss throughout term

Any floor or buffers that differ from 10% would provide the same advantages and disadvantages with a relative change in the amount of protection.

The S&P 500 is the Dominant Index

While a variety of indices can be used with RILAs, the S&P 500® is the most popular.

Indices	
S&P 500	76%
Russell 2000	7%
Other	6%
MSCI EAFE	3%
Nasdaq 100	4%
Fixed/Subaccount/Other	4%

Source: LIMRA Secure Retirement Institute; Registered Index Linked Annuity, Preliminary Deep Dive Results, Year End 2023

Historical market data

One of the most important questions facing RILA investors is the appropriate level of protection to meet their risk tolerance needs. This guide provides historical market data going back to February 1928 with annual returns of the S&P 500® (dividends excluded) through December 2024 and compares them to various levels of protection offered in RILAs. While prior returns are no indication of future results, they may help inform investors of the various protection levels available.

S&P 500® annual returns from February 1928 to December 2024 (dividends excluded)*

One-year term			
Return	**% of times**	**Positive returns**	**% return above threshold**
< -30%	3.47%	–	–
-20% to -29.9%	3.39%	–	–
-10% to -19.9%	10.24%	–	–
0 to -9.99%	13.98%	–	–
0.01 to 9.99%	20.23%	> 0	68.92%
10% to 19.99%	23.35%	10% +	48.70%
20% to 29.99%	14.84%	20% +	25.35%
30% to 39.99%	6.51%	30% +	10.50%
40% +	3.99%	40% +	3.99%

Highest return	Worst return	Median return	Mean return
146.28%	-70.13%	9.59%	8.01%
(July 1932 – June 1933)	(July 1931 – June 1932)		

10% Buffer		20% Buffer		10% Floor	
% of times loss exceeds 10%	**Worst loss**	**% of times loss exceeds 20%**	**Worst loss**	**% of times negative**	**Worst loss**
17.10%	-60.13%	6.86%	-50.13%	31.08%	-10.00%

*Source: Morningstar Direct. Annual returns are based on rolling 12 calendar month returns, so there are 12 return periods per year that are included in the data. Returns are rounded.

Six-year cumulative S&P 500® annual returns from February 1928 to December 2024 (dividends excluded)*

Six-year term			
Return	**% of times**	**Positive returns**	**% return above threshold**
< -40%	3.21%	–	–
-20% to -39.9%	2.29%	–	–
-19.9% to -10%	3.11%	–	–
0 to -9.99%	6.32%	–	–
0.01% to 19.99%	16.03%	> 0	85.07%
20% to 39.9%	10.35%	20% +	69.05%
40% to 59.9%	12.82%	40% +	58.70%
60% to 79.9%	14.74%	60% +	45.88%
80% to 99.9%	11.90%	80% +	31.14%
100% to 119.9%	7.69%	100% +	19.23%
120% to 125%	1.10%	120% +	11.54%
125% to 140%	3.66%	125% +	10.44%
140% to 159.9%	2.20%	140% +	6.78%
160% to 179.9%	1.74%	160% +	4.58%
180% to 199.9%	1.74%	180% +	2.84%
200% to 219.9%	0.82%	200% +	1.10%
220% to 239.9%	0.27%	220% +	0.27%
240% +	0.00%	240% +	0.00%

Highest return	Worst return	Median return	Mean return
236.18%	-66.82%	53.46%	55.31%
(April 1994 – March 2000)	(April 1929 – March 1935)		

10% Buffer		20% Buffer		10% Floor	
% of times loss exceeds 10%	**Worst loss**	**% of times loss exceeds 20%**	**Worst loss**	**% of times negative**	**Worst loss**
8.61%	-56.82%	5.49%	-46.82%	14.93%	-10.00%

*Source: Morningstar Direct. Annual returns are based on rolling 12 calendar month returns, so there are 12 return periods per year that are included in the data. Returns are rounded.

What are the interim values, and when can the investor access them?

An interim value is usually calculated each business day during the term. **It's designed to provide an approximation of the value of an allocation to the index term.** The value will vary based on economic conditions, the type of protection (buffer, floor, etc.), the level of protection (10%, 20%, etc.), the cap rate, interest rates and other factors. While this value is designed to give the investor a sense of the current value of the term, this interim value often cannot be realized except at death, full surrender or annuitization. This limited use of the interim value during a six-year, multi-year crediting term may be another consideration for investors.

In some cases, the interim value can be "locked in" or even transferred to other options prior to the end of a term. With this feature, it's important to understand transfer restrictions (if any), how the interim value is calculated, and whether the company will impose a reduction of the interim value if a transfer occurs prior to the end of a term. The interim value calculation is often based on an internal company formula or procedure and may have inputs that could cause the interim value to be meaningfully different than the fair value. Note: Various companies may use a different name for the interim value.

The ability to lock in gains with the interim value can be important, given that 31.08% of one-year returns from February 1928 to January 2024 have been negative.* An investor who has gains may consider the additional upside potential compared to the potential for giving up some of these gains. A negative market event late in a term could have a significant impact on the overall results for an investor.

The following market is a good example of a negative market event late in a six-year term.

S&P 500® Index (dividends excluded)*

2003 Returns	2004 Returns	2005 Returns	2006 Returns	2007 Returns	2008 Returns
26.38%	8.99%	3.00%	13.62%	3.53%	-38.49%
Cumulative gain from 2003 – 2007 = 66.89%					
Cumulative gain from 2003 – 2008 = 2.66%					

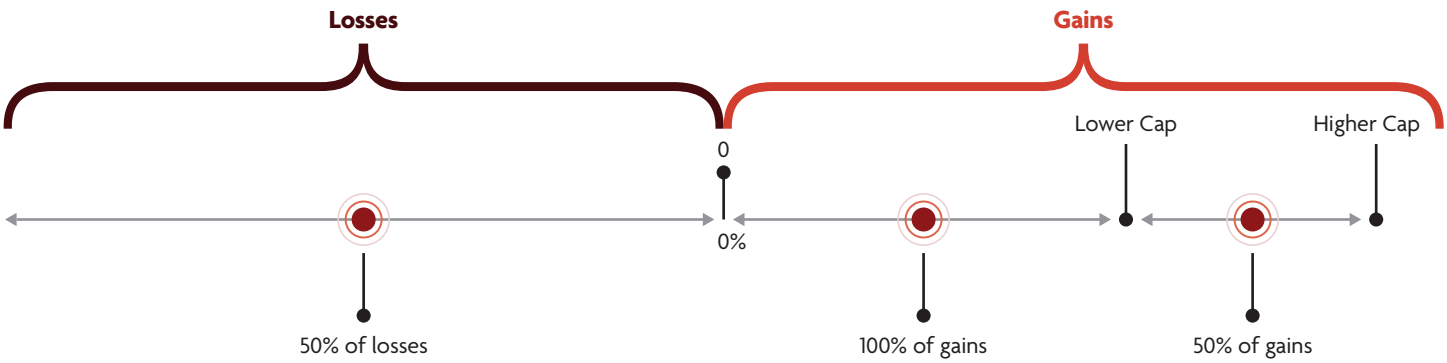
*Source: Morningstar Direct. Annual returns are based on rolling 12 calendar month returns, so there are 12 return periods per year that are included in the data.

Combining floors and buffers to manage risk

While there are many different ways to allocate funds among the various options, one combination a consumer may consider is a 50% allocation to a buffer and a 50% allocation to a floor with cap strategies.

A 10% floor combined with a 10% buffer means:

- Losses are limited to 50% of the index decline.
- Gains are 100% of the index up to the lower of the floor strategy cap and the buffer strategy cap.
- Gains are 50% of the index above the lowest cap of the two strategies up to the higher cap of the two strategies.



Examples: Loss

Index Loss 5%		Allocation
10% buffer	Loss = 0	50%
10% floor	Loss = 5%	50%
	Total of loss = 2.5%	100%

Index Loss 15%		Allocation
10% buffer	Loss = 5%	50%
10% floor	Loss = 10%	50%
	Total of loss = 7.5%	100%

Index Loss 30%		Allocation
10% buffer	Loss = 20%	50%
10% floor	Loss = 10%	50%
	Total of loss = 15%	100%

The 10% buffer protects the first 10% loss, while the 10% floor protects losses greater than 10%. The combination reduces losses to 50% of the index.

Examples: Gains – one-year cycle

Hypothetical caps	
10% floor	11%
10% buffer	13%

Index gain	10%	Allocation
10% buffer gain	10%	50%
10% floor gain	10%	50%
Total gain	10%	100%

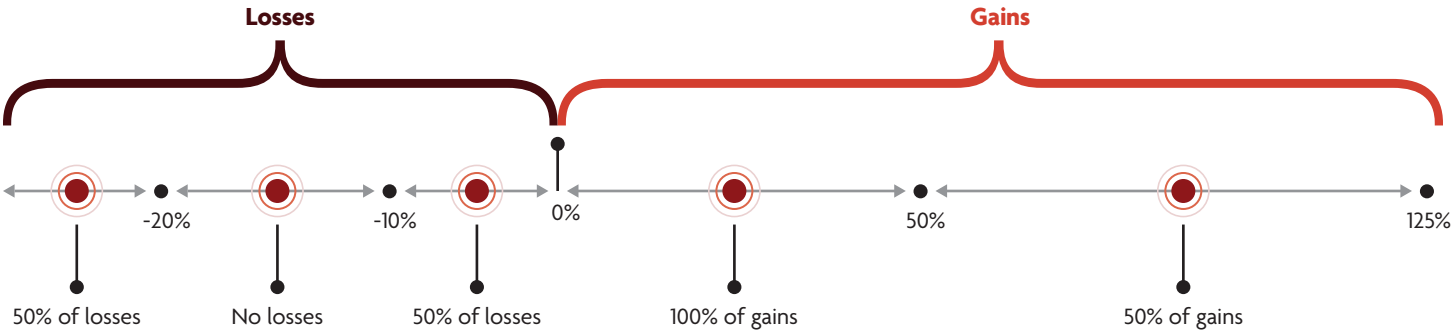
Index gain	15%	Allocation
10% buffer gain	13%	50%
10% floor gain	11%	50%
Total gain	12%	100%

To limit catastrophic losses even more, consider a 20% buffer combined with a 10% floor on a six-year strategy.

Hypothetical caps	Six-year
10% floor	50%
20% buffer	125%

The combination would result in losses being:

Losses
50% from -0.01% to -10%
0% from -10.01% to -20%
50% from < -20%



Conclusion

RILAs are a popular annuity product. They offer meaningful upside potential while giving consumers varying levels of downside protection. Registered representatives who are educated on the products and historical market returns may be better suited to meet the needs, objectives and risk tolerances of their clients.