Registered Index-Linked Annuities in Qualified Retirement Plans

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Motivation

• Saving for retirement is crucial --- what’s the best investment strategy?

• We study Target-date RILAs

• Registered Index-Linked Annuity (RILA)
  • Private retirement savings vehicle
  • Offered by U.S. life insurance companies
  • In and out of qualified retirement accounts
  • Investment linked to market index
  • With downside protection & upside limits each year

• RILAs offered at very low cost to investors
  • 0 – 20 bps p.a. (Moenig 2022; Moenig & Samuelson, 2023)
  • Lower than for the typical target-date fund (TDF): 15 – 75 bps
RILA -- Examples

• Example 1: 10% Floor and 8% Cap

<table>
<thead>
<tr>
<th>Index Return</th>
<th>-15%</th>
<th>-5%</th>
<th>5%</th>
<th>15%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credited to RILA Account</td>
<td>-10%</td>
<td>-5%</td>
<td>5%</td>
<td>8%</td>
</tr>
</tbody>
</table>

• Example 2: 10% Buffer and 12% Cap

<table>
<thead>
<tr>
<th>Index Return</th>
<th>-15%</th>
<th>-5%</th>
<th>5%</th>
<th>15%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credited to RILA Account</td>
<td>-5%</td>
<td>0%</td>
<td>5%</td>
<td>12%</td>
</tr>
</tbody>
</table>

• RILAs are ideal long-term investment product
  • Investors can choose level & type of downside protection (each year)
  • Insurers can fully hedge equity risk fully & adjust Cap rates if needed
Target-Date Products

• We propose a **Target-Date RILA** (TD-RILA)
  • Automatically reduces equity exposure as investor nears retirement

• Results from theoretical model:
  1. Target-date feature is valuable
  2. TDF > TD-RILA at equal cost, but:
  3. TD-RILA preferable with cost advantage
  4. Buffer vs. Floor: undecided

• Results consistent across various starting ages, contribution patterns, risk aversion, financial markets
Experiment

• Online questionnaire administered on survey website *Prolific*
• 813 respondents
• Choose between various investment allocations
  • *Within* each target-date product (high risk, medium risk, low risk)
  • *Between* products
• Consider impact of:
  • Fees
  • Default investment
  • More detailed information about fund choices
Allocation Choice within Product

Target Date Fund

Target Date RILA with Buffer

Target Date RILA with Floor
Cross-Product Choices (Aggregate, Equal Cost)

![Bar Chart]

- **Buffer RILA**
- **Floor RILA**
- **TDF**

Count
Cross-Product Choices (Per Group, Equal Cost)
Additional Experimental Takeaways

• Fees Matter
  • Participants sensitive to costs across all groups
  • At current product costs: equal preference for TDF and Target-Date RILA
  • Consistent with theoretical predictions

• Distributional information affects/improves decision-making
  • Participants chose products with more equity exposure
  • Participants showed greater sensitivity to fees
  • More informative than a default investment choice
Implications

• For suppliers and consumers:
  • New Product: Target-Date RILAs
  • Competitive with TDFs at current cost (cap rate)

• For plan sponsors and policymakers:
  • Consider Target-Date RILAs as investment alternative within qualified retirement plans (or even QDIA)
  • Role of information
  • Selection of default investment (SECURE 2.0 Act of 2022)
  • Importance of financial literacy (ongoing)