Registered Index-Linked Annuities in Qualified Retirement Plans

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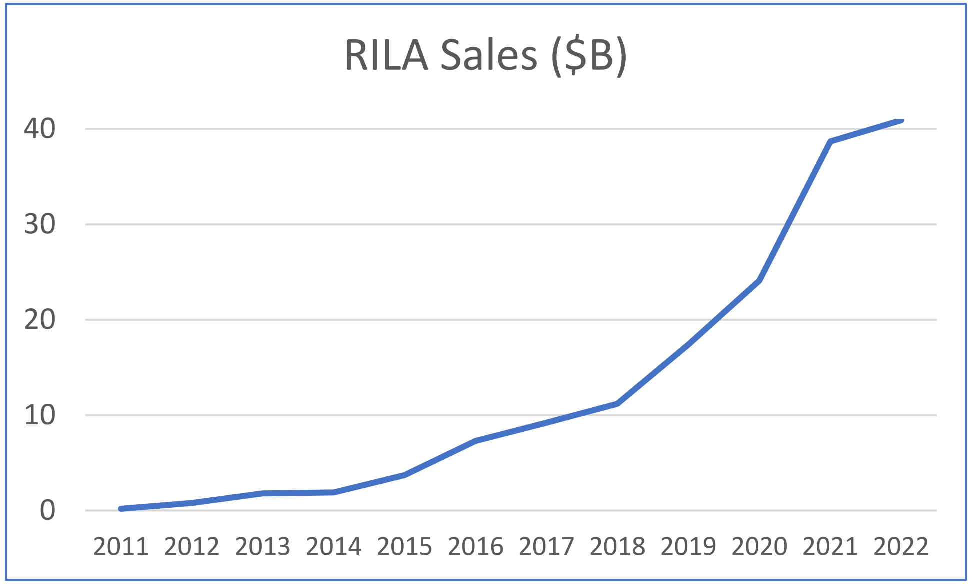
Motivation

- 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

Index Return	-15%	-5%	5%	15%
Credited to RILA Account	-10%	-5%	5%	8%

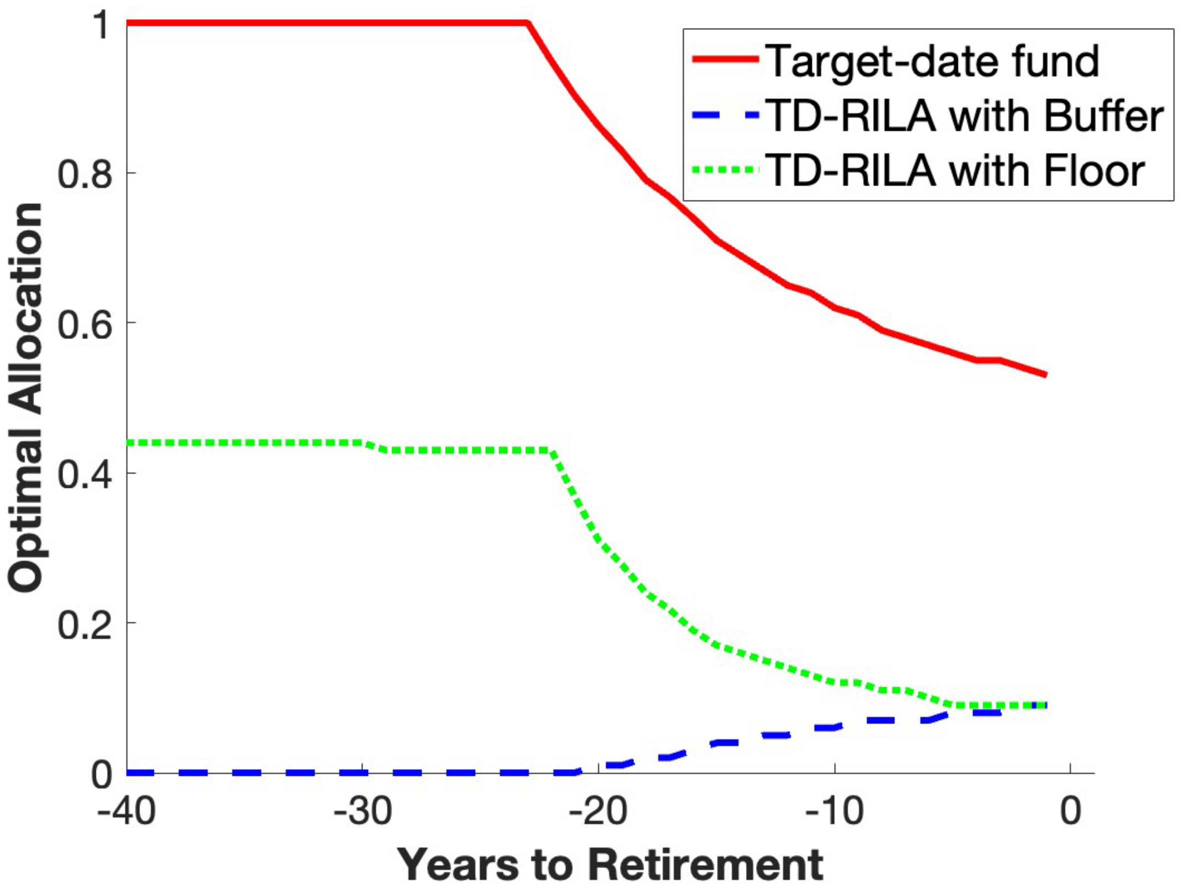
- Example 2: 10% Buffer and 12% Cap

Index Return	-15%	-5%	5%	15%
Credited to RILA Account	-5%	0%	5%	12%

- 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

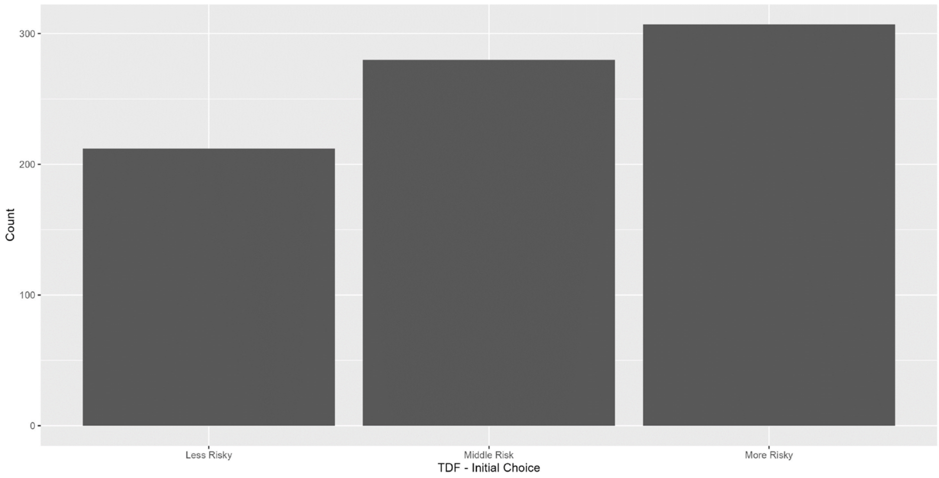
- We propose a **Target-Date RILA** (TD-RILA)
  - Automatically reduces equity exposure as investor nears retirement
- Results from theoretical model:
  1. Target-date feature is valuable
  2. TDF > TD-RILA at equal cost, but:
  3. TD-RILA preferable with cost advantage
  4. Buffer vs. Floor: undecided
- Results consistent across various starting ages, contribution patterns, risk aversion, financial markets



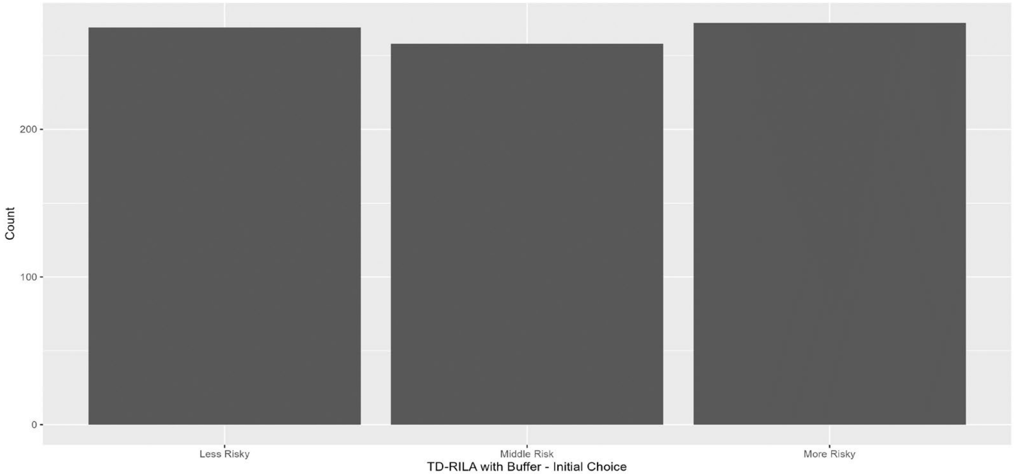
Experiment

- 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

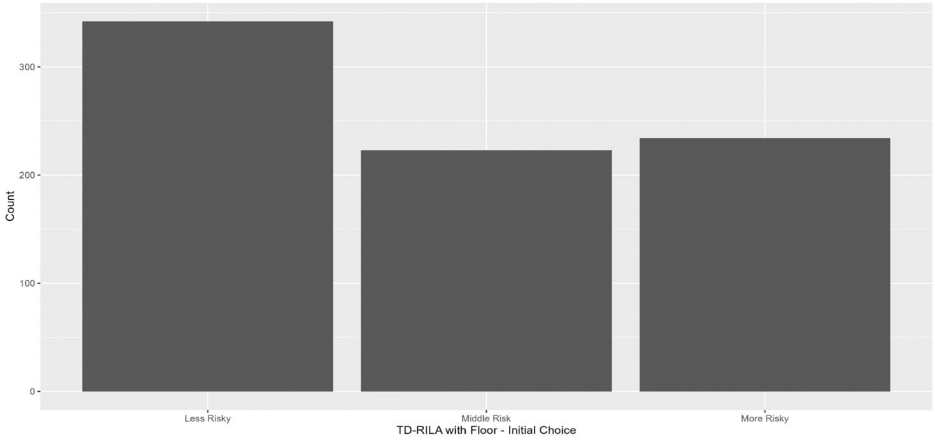


Target Date Fund

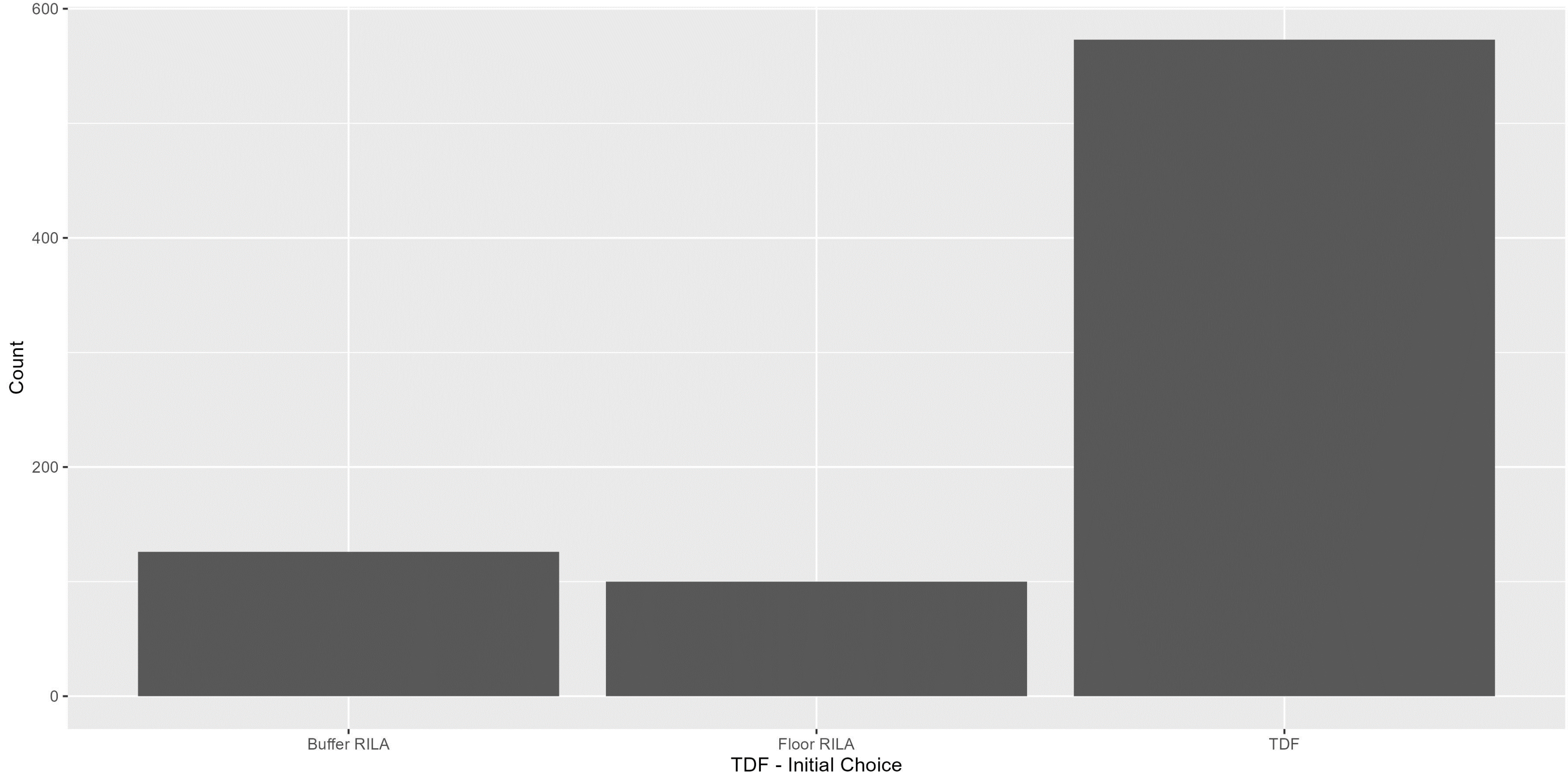


Target Date RILA with Buffer

Target Date RILA
with Floor

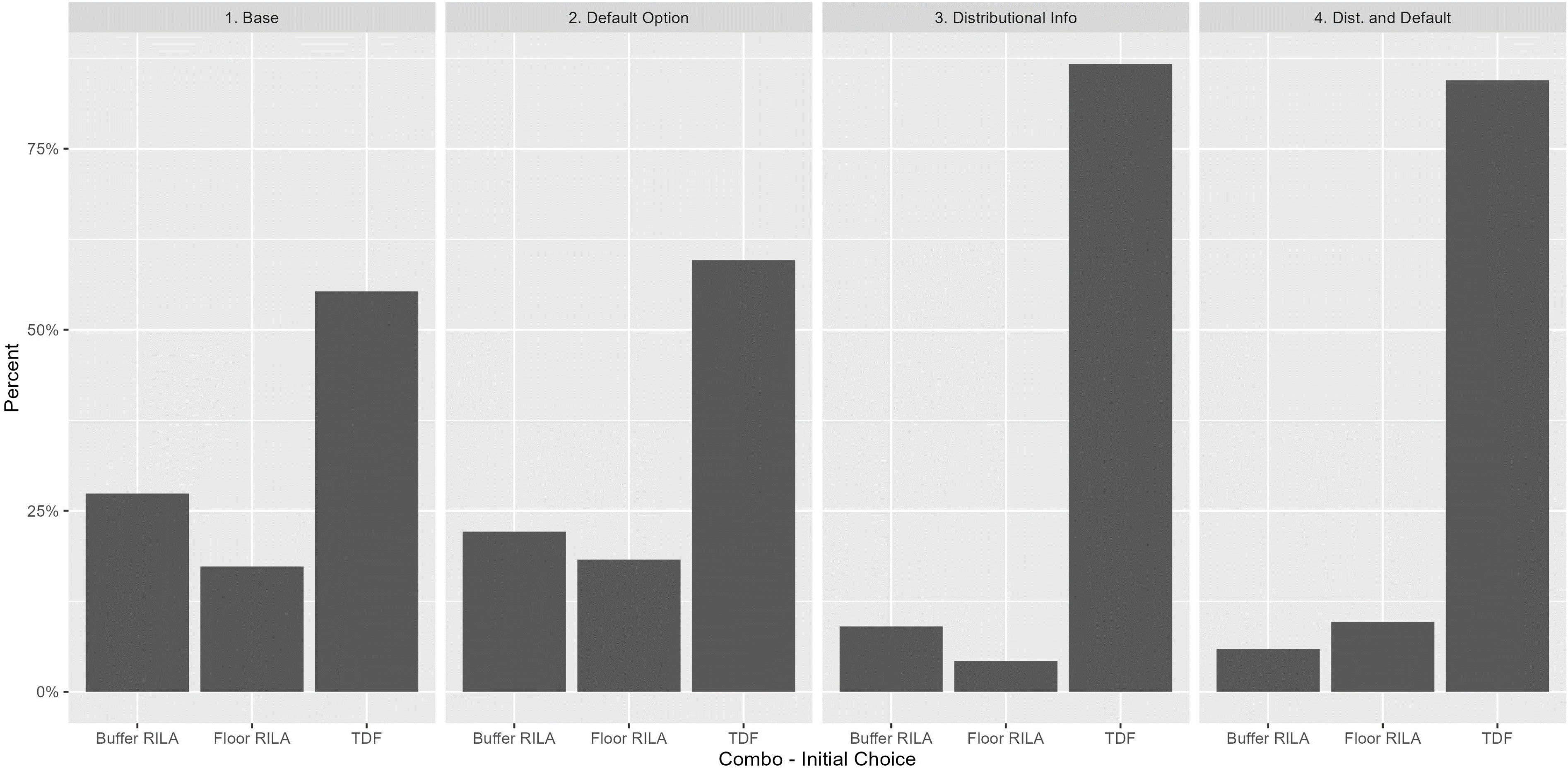


Cross-Product Choices (Aggregate, Equal Cost)



Buffer RILA Floor RILA TDF

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)