Registered Index-Linked Annuity (RILA) vs. Fixed Index-Linked Annuity (FILA)

The Expanding RILA Market

When Equitable released Structured Capital Strategies (SCS) in 2010, the product was so innovative that the industry couldn't even settle on the proper name for the category that it created. Over time, the industry coalesced on a name for this growing product category that chalked up its first billion in cumulative sales in 2012 – the Registered Index-Linked Annuity, or RILA. Equitable was soon joined by CUNA Mutual and MetLife in 2013 and the RILA category nearly hit $10 billion in annual sales in 2017. Since then, several companies have entered the space, including stalwarts like Prudential and Lincoln. Sales have exploded, topping $24 billion in 2020 on the back of a staggering 41% increase in sales over 2019. There is no longer any question about it – RILA has arrived.

Where RILA Fits

What makes RILA such a powerful and timely story is that the product chassis offers significantly more upside potential than a traditional FIA with some level of defined downside protection, typically either in the form of a floor or a buffer. Because RILA is a registered securities product, it can be (and often is) positioned as a true equity alternative with downside protection rather than as a fixed income alternative with upside potential, long the territory of traditional FIA products.

But for clients who want the ability to protect their principal, many RILA products offer precious few options beyond the fixed account. If a RILA buyer wants to receive index-linked credits, typically their only choice is a strategy with a buffer or floor that exposes them to some level of downside risk. And for the companies that do offer a principal protected strategy, the rates tend to be uncompetitive in today's environment. Take a look at the top RILA products on the market ranked by 2020 sales:

	A	B	C	D	E	F	G	H	I	J	K
0% Floor Option	Yes	No	Yes	No	Yes	No	Yes	No	No	Yes	Yes
0% Floor Upside	0.5% Cap		2.1% Cap		2.0% Cap		3.0% Cap			3.0% Cap	10% Par + 1.5% Spread

Sources: Sales data from Wink, rate data from carrier websites as of 6/22/2021. All accounts S&P 500.

Bringing a RILA to Market

RILA, as a product category, is still in its nascent phase and regulations surrounding filing, structuring and even product pricing are in the process of being solidified. What we know is that RILA requires life insurers to use a non-unitized, non-insulated separate account – something they've probably never had to build before. We also know that RILA currently requires an S-1 Filing for the issuing company which, again, is something that many life insurers have never had to do. For life insurers focused on traditional fixed products, RILA also requires creating infrastructure to wholesale their products through broker-dealers, something that some life insurers haven't had to do with a variable product in a very long time. Building a new RILA product is a massive effort compared to developing a new FIA or VA product on existing infrastructure and, in order for life insurers to justify the investment, the sales potential has to be significant.

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Carving a Piece of the RILA Sales Pie

With a market that is growing at a 41% year-over-year clip, it would seem that there is plenty of volume to justify life insurers entering the RILA space. But that's only half the story – the RILA market is incredibly concentrated compared to other annuity markets. The top 5 RILA sellers command an 88% share of RILA sales compared to just 41% for the top 5 sellers in the FIA market. Many new RILA entrants have seen lackluster sales despite offering ultra-competitive rates. The exceptions to the rule are companies that have established brands and deep experience wholesaling into banks, wire houses and broker-dealers. Success in RILA, it seems, is as much or more about distribution than product.

The Fixed Index-Linked Annuity (FILA) Alternative

FILA offers a compelling alternative to RILA by retaining most of the elements of its core value proposition but within a fixed insurance chassis with competitive 0% Floor rates. Because FILA is a fixed product, it does not require agents to have a securities license, does not require an S-1 filing for the life insurer, does not require a separate account and can be distributed through traditional fixed insurance channels, including IMOs and fixed-only insurance agents. FILA distribution spans the entire annuity market, not just registered channels.

Compared to RILA products that offer principal protected accounts, FILA rates – from what we can tell from F&G's Dynamic Accumulator product – are superior to the rates offered in RILA for otherwise identical strategies.

	RILA A	RILA C	RILA E	RILA G	RILA J	RILA K	F&G Dynamic Accumulator	F&G Dynamic Accumulator
0% Floor Upside	0.5% Cap	2.1% Cap	1.5% Cap	3.0% Cap	3.0% Cap	10% Par Rate + 1.5% Spread	**3.5% Cap**	**26% Par Rate**
-10% Floor Upside	5.5% Cap	6.0% Cap	N/A	10.75% Cap	9.25% Cap	40% Par	**11.5% Cap**	**65% Par Rate**

Sources: Sales data from Wink, rate data from carrier websites as of 6/22/2021. All accounts S&P 500.

The downside for FILA, of course, is that policyholders can only access index-linked strategies with more risk and more upside potential if there are previously tracked gains to put at risk. At no point in time can the policyholder put more than their previously tracked gains at risk, which is how FILA guarantees principal protection. By contrast, RILA allows the policyholder to put their principal at risk and have greater upside potential from day one – and with strategies that wouldn't work on a FILA, such as downside buffers, downside participation rates, annual coupons and other crediting strategies that are proving to be wildly popular in the RILA chassis.

FILA offers a unique choice for consumers. Traditional FIA products are perpetually locked into 0% Floors. RILA products generally don't offer competitive 0% Floor strategies, requiring the client to take downside risk in order to fully take advantage of the chassis. FILA, by contrast, offers both strong 0% Floor and downside risk strategies within an FIA chassis, arguably creating a product category all its own.

Both RILA and FILA allow for greater downside risk in exchange for greater upside participation, but the principal protection required in FILA places it clearly as a fixed insurance product – and with better rates than RILA competitors.

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