

Registered Indexed-Linked Annuities Provide Limited Downside Protection



There are times when stock market volatility leaves some investors worried about meeting their retirement goals. This has left many of these individuals seeking products that can provide downside protection with upside potential. A product that can help give investors some degree of piece-of-mind in turbulent times is a Registered Indexed-Linked Annuity.

Registered Indexed-Linked Annuities (RILA) are typically designed with a combination of variable and index-linked investment options that can balance both personal risk tolerance with growth potential as well as provide a protection of principal.

How it works

This annuity type typically allows investors a choice of one or more investment segments to invest in, each providing a return that is linked to the performance of an underlying market index. Some common

examples of these indexes include the S&P 500, the NASDAQ 100, and the Russell 2000.

Once an investor has chosen a suitable index to track, a segment duration (usually 1-6 years) and strategy or strategies can also be selected. A buffer strategy can provide built-in protection that can absorb the selected percentage (ex. -10%, -15%, -20%, -25%, or -30%) of loss. The investor then absorbs any loss exceeding the buffer limit, that is more than that, should the underlying index perform more poorly in a given period. A flooring strategy will limit the percentage of loss over the segment term (ex. 0%, 5%, or 10%). A participation rate strategy with multiple the index performance by a specified strategy rate.

What this means to an investor is that their account can be insulated from market loss, but it's important to understand that a limit on earnings will be placed on that money. When a selected index increases, typically there will be a limit on earnings based on the strategy selected. The strategy rates will vary, but generally the longer the cap segment duration the better the rate for the particular index allocation selected.

It is also important to realize that this annuity can still be exposed to extensive market downturns – and along with that, investors can still suffer the loss of principal. With that in mind, risk tolerance should be reviewed prior to moving forward with this particular annuity type.

Financial Planning

Access to the Funds

Most of these contracts have no ongoing annual fees, however most do restrict access to the funds.

Typically, if a withdrawal is made from a variable indexed annuity within a certain period after a purchase payment (typically within three to six years, but sometimes longer), the insurance company usually will assess a withdrawal charge, which may also be called a contingent deferred sales charge. Most contracts will allow you to withdraw 10% of your account value without paying a withdrawal charge. Also, any withdrawals prior to age 59 1/2 (an age set by law) may be subject to additional fees and penalties.

Annuities can be complex products and you should understand the features, risks and costs prior to

making a purchase. Your Benjamin F. Edwards financial advisor can help you analyze your situation and discuss various annuity options to consider as a complement to your portfolio.

Variable annuities are subject to investment risk, including loss of principal, and contract/policy values fluctuate daily. Investment returns and principal value will fluctuate with market conditions so that units, upon distribution, may be worth more or less than the original cost. Any guarantees are backed by the financial strength and claims-paying ability of the issuing company. Variable annuity guarantees do not apply to the performance of the variable subaccounts, which will fluctuate with market conditions. ■

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