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RETIREMENT STRATEGIES GROUP | FEBRUARY 2025 RETIREMENT PLANNING

RILAs: An Evolved Approach to Help Prepare for Retirement

Looking for a strategy that helps balance market growth potential with a level of downside protection for clients? Registered index-linked annuities (RILAs) can help you tailor an investment for clients' growth goals and risk-tolerance levels.

RILAs were first introduced more than 14 years ago, and innovation has shaped this investment vehicle into a flexible retirement-planning tool. RILAs today are taking the industry by storm, experiencing double-digit growth with sales forecast to surpass $65.2 billion in 2024, according to LIMRA.[1] Offering a unique blend of growth potential tied to the market and a level of downside protection, RILAs can help clients mitigate volatility while safeguarding their retirement incomes. Unlike many variable annuities, RILAs can provide accumulation potential while also giving clients the flexibility to choose how much protection against market losses they'd like to have. This innovative product helps bridge the gap between investing in the market and the protection many retirees seek, which can make it an attractive strategy for those aiming to grow their assets while managing risk.

Key Features of a RILA: Growth and Protection Mechanisms

Before we dive into which clients might benefit from a RILA, let's dig deeper into some key features

Growth

- RILAs offer the potential for growth through crediting options that link to the performance of one or more stock market indexes and/or exchange-traded funds (ETFs) that track the performance of an index. Rather than investing directly in the market, clients earn interest based on index price returns. Caps (maximum interest) or participation rates (interest based on a portion of the index return) are typically used to determine interest crediting, offering clients the opportunity for higher returns compared to traditional fixed annuities. Interest crediting also may exceed that of fixed indexed annuities, given that with the RILA, the client does take on a measure of risk in exchange for potentially higher rates. (Note that with fixed and fixed indexed annuities, clients cannot lose principal.)
- Index performance is measured over a term, and interest is credited at the end of the term. Multiple terms may be offered, and a RILA also might include a traditional fixed-interest account.
- Another feature you may see in a RILA is performance lock, which gives clients the ability to lock in a value midterm (which may not be the same as the value of the index return at that point). You might recommend that clients do this if the index return is closing in on a cap or other limit before the end of the term, and/or if you believe that the market returns will be heading lower. Typically, interest is credited at a predetermined fixed rate of return after lock-in until the next contract anniversary, when clients can reallocate. The predetermined rate is not based on the index return.
- Since the investment is within an annuity, clients benefit from tax-deferred growth, even if the assets are nonqualified or not part of an IRA. This enables earnings to compound over time, enhancing the potential for long-term growth.

[1]LIMRA, 2024 Retail Annuity Sales Power to a Record $432.4 Billion." January 28, 2025.

Protection

- RILAs typically offer a buffer for protection, which absorbs a certain amount of negative index performance. If the buffer percentage is 10% and the index drops by 25%, the buffer absorbs 10%, and the client would realize a 15% loss on the investment value.
- You also may see a floor as a protection option. A floor sets a maximum downside limit on the loss a client may absorb. So, with a –10% floor and the same index drop of 25%, the client would realize a 10% loss on the investment value.

In a steep index loss situation, the risk of substantial losses to the account value is higher on a buffer than a floor where the rates are identical.

Companies may provide guaranteed income riders on a RILA for an additional cost, with features that can grow future income and guarantee it for life.

What Types of Clients Might Find This Product Appealing?

- **Clients who are close to retirement and worried about market downturns.** These individuals typically know they need some participation in market growth leading up to and during retirement but seek protection from significant market downturns. RILAs allow them to benefit from market upside to a degree while limiting potential losses, helping to mitigate both market volatility and sequence-of-returns risks.
- **Conservative investors who will accept some limits on upside returns to ensure a level of protection against downturns**. Regardless of age, those uncomfortable with full exposure to equities but looking for potentially higher returns than bonds or CDs offer may appreciate RILAs as a middle ground between variable and fixed annuities.
- **Cost-conscious investors looking for tax deferral.** Like all annuities, RILAs offer the advantage of tax-deferred growth, allowing earnings to compound without current taxes, which can help accelerate growth. In addition, most RILAs don't have explicit fees[2], which means less or no fee drag on accumulation as compared to some other products.

RILAs: A Potential Solution for Meeting Your Clients' Needs

Registered index-linked annuities (RILAs) have evolved into a compelling option for investors seeking a balance between growth potential and protection. By offering index-linked returns with downside protection through features such as buffers and floors, RILAs provide a flexible and customizable strategy that helps mitigate risk while still allowing for participation in market growth. This versatility can make them an attractive option for pre-retirees, conservative investors (even if not yet close to retirement), and those looking for tax-deferred growth of their retirement savings. As part of a well-rounded retirement strategy, RILAs offer the opportunity to navigate market volatility with confidence, making them a powerful tool to help build a secure financial future.

ACTIONS YOU CAN TAKE RIGHT NOW

- **Reach out to clients in the three groups.**
- **Evaluate whether a RILA might alleviate concerns and manage risks.**
- **Implement a RILA strategy where appropriate.**

[2]Explicit fees are generally base contract fees related to administrative and mortality & expense risk fees. If these fees are not charged on the product, they are instead factored into crediting strategy rates. Other expenses and adjustments may apply, such as withdrawal charges, market value adjustments, and interim value adjustments.

Additional Resources and Links

How Can Tax Deferral Help Clients in High-Rate Environments?

In a Rising Interest-Rate Environment, Deferral Can Help Clients Who Are High Earners Manage the Impact to their 1099s

Protection Features in an Annuity Can Help Clients Stay Invested

For more information about retirement planning, please contact our Retirement Strategies Group at RSG@PacificLife.com or (800) 722-2333, ext. 3939.

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Annuity withdrawals and other distributions of taxable amounts, including death benefit payouts, will be subject to ordinary income tax. For nonqualified contracts, an additional 3.8% federal tax may apply on net investment income. If withdrawals and other distributions are taken prior to age 59½, an additional 10% federal income tax may apply. A withdrawal charge and a market value adjustment (MVA) also may apply. Withdrawals will reduce the contract value and the value of the death benefit, and also may reduce the value of any optional benefits.

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