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THE EVOLVING SECURITIES REGULATORY FRAMEWORK FOR REGISTERED INDEX-LINKED ANNUITIES

Registered index-linked annuities represent the fastest-growing category of SEC-regulated insurance contracts in the annuity marketplace. This article explores the evolving SEC RILA regulatory landscape. It begins with an explanation of these innovative securities, including their general design, feature functionalities, and risk/return profiles. This article then provides an overview of the new SEC RILA registration and disclosure framework, which was adopted in July 2024 at the direction of Congress. As part of this discussion, the authors compare this new tailored framework to the ill-fitted prior regulatory regime. The article concludes by proffering further SEC regulatory reforms that may be on the horizon for RILAs, as well as certain other types of registered insurance contracts.

By Dodie C. Kent and Ronald D. Coenen, Jr. *

Registered index-linked annuities ("RILAs"), also known as index-linked variable annuities or "ILVAs," represent the fastest growing category of insurance contracts that are registered as securities with the U.S. Securities and Exchange Commission (the "SEC"). These innovative contracts include index-linked investment options that function somewhat akin to many structured notes.[1] Like many structured notes, RILA investment options link to the performance of a designated market index or other benchmark for a defined time period, usually with an "upside" feature (such as a cap) that may limit participation in market gains, and a "downside" feature (such as a buffer or floor) that provides some protection from market losses. However, unlike structured notes, RILAs include a combination of additional benefits that are unique to deferred annuities, *e.g.*, tax deferral, the ability to receive a guaranteed stream of income, and the possibility of a death benefit. In addition, RILAs often include a host of other standard or optional benefits, such as guaranteed living benefits.

RILAs were developed by insurance companies primarily in response to the 2008 financial crisis, with the first RILAs coming to market in the mid-2010s. Insurers wanted to provide investors with a product choice that fills a gap in the risk/return spectrum between fixed index annuities ("FIAs") and variable annuities ("VAs"). In that regard, RILAs can be especially attractive to retirement savers and other investors who are willing to assume some investment

[1] Structured notes are debt instruments issued by banks, financial institutions, or corporate borrowers. Their returns are often based on the performance of one or more designated market indices or other benchmarks for a fixed term. They may come with a wide variety of payoff structures, which, depending on their terms, may limit an investor's gains or losses.

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