Structured Variable Annuities (SVAs)
Advisor Insights

Structured Variable Annuities

A tax-deferred insurance vehicle that provides a defined degree of upside potential with a defined degree of downside protection from potential downturns in the market. Assets are primarily invested in fixed income with an allocation to derivatives, such as options contracts, futures, and swaps, to provide the potential for higher returns. SVA cap rates tend to be higher than a fixed indexed annuity, affording the potential for greater participation in market gains. The risk tends to be higher since the investor assumes the portion of the market risk that is in excess of the "buffer" or the initial losses before reaching the "floor".

The Market[1]

Structured Variable Annuities (SVAs) were first introduced in 2010, and are now offered by multiple carriers with a variety of configurations to meet investor needs.

In 2020, sales of Structured Variable Annuities increased totaled $4.8B between Q1 and Q2, more than any other annuity product type. Concerns about equity market volatility may be one of the key factors contributing to this significant increase in SVA sales.

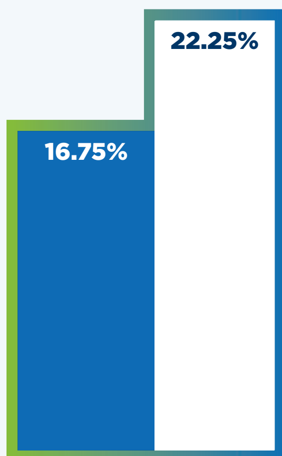
How Structured Variable Annuities Work

SVAs can be thought of as a hybrid between indexed and variable annuities, as most of a client's premium is allocated to fixed income instruments, while a small portion is allocated to other derivative investments. Because of the unique nature of investing a portion of the assets into derivative instruments, the insurance company is often able to generate higher yields, allowing for higher cap rates and, thus, providing the potential for greater returns to the client.

Depending on the product structure, SVAs may offer both a buffer or floor option, where the insurance company either *covers* a specific percentage of the market downside (buffer) or the insurance company *caps* a specific percentage of market downside (floor). For example, if the market were to fall 15% and the product has a 5% buffer feature, the client would lose 10%, as the insurance company covers the first 5%. If the product has a 5% floor option, the client's losses would be capped at 5%, and the insurance company would take on the rest of the 10% loss.

Problems with SVAs

Commissioned vs. Commission-Free SVAs Average Cap Rate Comparison*



Commissioned　Commission-Free

COMMISSIONED SVAs

- High commissions tend to keep cap rates low thereby reducing growth potential.
- Long and expensive surrender periods are typically found in commissioned structured variable annuities.

COMMISSION-FREE SVAs

- Eliminating commissions results in higher cap rates than the equivalent commissioned product.
- Many of DPL's offerings are free of surrender periods. For those that have surrender periods, they are reasonable, and designed to maximize the benefit of the product.

*Averages taken from the cap rates of AXA's commissioned buffer annuity vs. AXA's commission-free buffer annuity as of 7/22/2020.

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SVAs: DPL's View [These measures are created within the context of insurance products.]

How to Think About Commission-Free SVAs

SVAs are fairly new to the market with the first product launched in 2010. They fall in the middle of variable annuities and fixed indexed annuities in terms of risk tolerance. Positioned for the conservative to moderately aggressive investor, SVAs offer a level of downside market protection, while offering higher cap rates than most fixed indexed annuities. However, in exchange for the higher cap rates, clients may share some losses with the insurer in the event of a market loss. Investors may utilize SVAs as a means of de-risking portfolios from equity positions, as these products allow for market participationand cushion against major market losses.

When your client needs:

PRINCIPAL PROTECTION: Structured variable annuities are typically used for clients nearing retirement. They offer a level of protection against sequence of returns risk, while also providing the potential for higher returns due to higher cap rates than other protection-type products.

EQUITY REPLACEMENT: Structured variable annuities allow investors to participate in the market via indexed strategies with customizable levels of upside crediting and downside protection.

To learn more about our low-cost, Commission-Free structured variable annuity solutions, call 888.327.0049 and speak to a DPL Consultant.

[1] Wink - "FIRST QUARTER 2020 ANNUITY SALES." May 2020.
[2] Difference taken from the average cap rates of AXA's commissioned SVA vs. AXA's commission-free SVA as of 7/22/2020.

Investing in variable annuities involves risk, including potential loss of principal. There are risks, fees and charges associated with variable annuities and clients should be instructed to read the prospectus and/or summary prospectus carefully and to consider the investment objectives of the variable annuity as well as the underlying investment options carefully before making a purchasing decision.

Variable annuities are designed for long-term investing, such as retirement investing and are subject to market risk, including loss of principal.

Purchasing a variable annuity within a retirement plan that provides a tax deferral under sections of the Internal Revenue Code results in no additional tax benefit. A variable annuity should be used to fund a qualified plan based upon the variable annuity's features other than tax deferral. All variable annuity features, risks, limitations, and costs should be considered prior to purchasing a variable annuity within a tax-qualified retirement plan.

Guarantees are backed by the financial strength and claims paying ability of the issuing insurance company.

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