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## Study: FIA Returns “Competitive”

- By LINDA KOCO

A new study on index annuity performance is countering some negative conclusions about this performance that have been circulating.

The negative conclusions have appeared in both in theoretical academic papers and in articles in the popular press, contend David F. Babbel, Geoffrey VanderPal and Jack Marrion in research findings the three have posted online at the Wharton Financial Institutions Center.

Babbel is a professor of insurance and finance at The Wharton School of Business, University of Pennsylvania, Philadelphia; senior advisor to Charles River Associates, Boston; and fellow of Wharton Financial Institutions Center of Wharton.

VanderPal is chief investment officer of Skyline Capital Management, Austin, Texas, and holds a doctorate in business administration. Marrion is a doctoral candidate in cognitive bias in decision-making and president of Advantage Compendium, St. Louis.

Some index annuities have produced returns that have been truly competitive with bank certificates of deposit, fixed rate annuities and taxable bond funds, the researchers write. In addition, articles that are critical of index annuities often contain dubious assumptions which lead directly to negative conclusions previously circulated, they say.

The three reached the following conclusions in their study:

- Annuity returns have been competitive with alternative portfolios of stocks and bonds.
- Their design has limited the downside returns associated with declining markets.
- The products have achieved respectable returns in more robust equity markets.
- Studies that have criticized FIAs are typically based on hypothesized crediting rate formulae, constant participation rates and caps, and unrealistic simulations of stock market and interest rate behavior, but when actual policy data are used, the conclusions change.

Most existing performance studies have two limitations, according to the researchers.

First, the studies “assume crediting formulae that are rarely used and crediting rates that are seldom observed,” say the researchers. This creates problems when readers assume the theoretical results are somehow representative of the index annuity world, they contend.

Second, many such studies make assumptions about stock market and interest rate behavior that the researchers say are not well supported. “This can lead people to make inferences about actual FIA behavior that are unjustified,” they write.

The three say their own study “examines these limitations and shows how actual index annuity returns are at odds with many of the hypothetical conclusions.”

The "Real World Index Annuity Returns" study is available [here](#).