



Partner Perspectives

CROCI Sectors III USD 5.5% Volatility Control Index Renewal Rates Update

In response to questions about changes in fixed index annuity renewal rates during the first quarter of this year, we released the attached “The Impact of Volatility on Fixed Index Annuity Rates.”

While that “Partner Perspectives” explained the market and pricing dynamics that impact FIA renewal rates, over the past few months we have continued to get questions. In particular, these often concern widening renewal spreads on FIAs issued in 2015 and 2016 that elected the CROCI Sectors III USD 5.5% Volatility Control Index (CROCI Index).

Short-term interest rates and CROCI Index spreads

The primary driver of increasing spreads on CROCI Index renewals is rising short-term interest rates. To credit interest on CROCI Index contracts, we purchase options on the Index. One of the factors in option pricing is a “risk-free interest rate.” The selling party commits to selling CROCI contracts to us at a future date. In doing so, the seller needs to earn at an interest rate that is “risk-free”—that is, at least equal to that of a 1-year U.S. Treasury.*

Rates on 1-Year Treasuries have risen from around 0.2% in 1Q 2015 to over 2.3% in 2Q 2018. This 2%+ rate increase has added to the cost of CROCI Index options, and therefore has made it necessary for us to increase spreads that your clients are offered at renewal.

Index type also matters

A second very important factor in CROCI Index spreads on our FIAs is the fact that it is not an Excess Return (ER) index. Most of the volatility-control indices sold in the FIA space today are ER indices. This means that the interest rate/cost of options is netted out of the returns of the index. That can result in lower spreads for crediting, but also lowers the net return of the index.

Does the index type matter? Whether an index is an ER index or not is basically a zero-sum game. The cost of options has to come from somewhere—either from the index performance or from the spread. Because the CROCI Index is not an ER index, the cost of options is reflected in the spreads we can offer, instead of decreasing the Index’s return for crediting purposes.

For more information

Delaware Life remains committed to providing pure value to you and your clients now and in the future. In terms of our FIAs, that means setting competitive rates—and the proof is in our history.

For more information on current FIA rates and our record for renewal rates, please contact your wholesaler or Delaware Life at **855-478-3673**.

Thank you for your continued commitment to your clients and for your support of Delaware Life.

* An FIA is not invested directly in the stock market or in any securities. Instead, your client’s account receives interest based on the performance of the index(es) selected.)

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