Demystifying Volatility Control

Helping fixed index annuities achieve smoother, more predictable returns

What Is Volatility?

Volatility is fluctuation—up or down. The price of an index—or a stock, bond, fund, etc.—may fluctuate over time. Indexes that are more volatile respond more dramatically to market swings, both up and down. Indexes that are less volatile generally produce smoother, more predictable returns which are often desirable. Volatility can change over time, so even relatively stable indexes can become more volatile in times of economic turmoil.

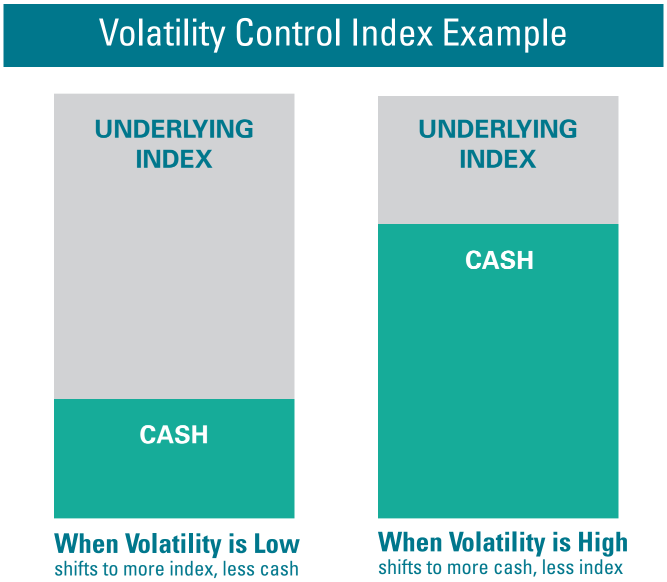
What Is Volatility Control?

In the context of fixed index annuities, volatility control (or "vol control") refers to any strategy or process used to reduce the fluctuations a particular index experiences.

How Is Volatility Control Accomplished?

While various strategies exist, one strategy commonly employed by volatility control indexes that are available in fixed index annuities, helps illustrate the basic mechanics. These indexes typically consist of two components: an underlying index and a stable asset, usually cash. They employ rules to rebalance assets between the index and cash, based on the level of market volatility, which can be measured. The underlying idea is to keep the overall amount of risk (as measured by volatility) of the index roughly constant.

Avoiding big swings during volatile times helps produce more stable, predictable returns. Returns may not be as high over time as the "pure" index, but the added stability can be a benefit.



Why Do Many Fixed Index Annuities Offer Volatility Control Indexes?

Fixed index annuities let owners earn interest based on the returns of one or more underlying indexes, rather than on the prevailing level of interest rates (which have been historically low for some time). Because indexes fluctuate, and because the annuity provides various interest and/or payment guarantees, the insurer typically only shares or "credits" a portion of the index return to the annuity account. Common interest crediting methods involve a set spread,participation rate or cap.

Using volatility control indexes generally allows the insurer to offer more generous spreads, participation rates, and caps, because they reduce the likelihood that the insurer will have to pay out guarantees at a time when the underlying index has experienced sharp declines.

What Do the Numbers in Many Volatility Control Index Names Mean?

The numbers generally refer to target levels of fluctuation above or below the indexes' average return that is expected in most scenarios over time. It is important to remember that they are targets, not guarantees. Generally, a higher number will allow more fluctuation before the vol control rules shift exposure away from the index and into cash, while a lower number reflects rules that reduce index exposure in response to smaller fluctuations.

Is a Volatility Control Index Right for Me?

There is no hard and fast rule to determine whether a vol control index will yield better crediting results over time than an index which does not employ vol control. However, vol control strategies will generally offer the opportunity to receive more generous caps, spreads, and participation rates than unconstrained indexes.

Vol control strategies will generally offer the opportunity to receive more generous caps, spreads, and participation rates than unconstrained indexes.

Many fixed index annuities offer both vol control indexes and unconstrained indexes and allow owners to "mix and match" index crediting strategies. Owners may typically reallocate among available indexes at the end of the crediting term (often, every year). The owner and their advisor may determine over time which strategy or combination of strategies makes the most sense for their particular set of goals and circumstances.

Delaware Life | www.delawarelife.com

Service Center: PO Box 758581, Topeka, KS 66675-8581
Sales Support: 844.DEL.SALE (844.335.7253)
Customer Service: 877.253.2323