Suze Orman on FIAs:

"Why, you might be asking, do you only get a percentage of what the index does up to a maximum? Why wouldn't it be better simply to invest in a mutual fund that buys the entire index and get 100% of the return? For some people, it would be better, but for others who do not want to take any risk at all this index annuity might be better. Here's why. When you invest in a regular index mutual fund, you get to participate 100% in all the upside--and any downward swerves as well. For instance, if the market went up 10% one year and the next year it went down 20%, you would participate in that downward movement as well. So lets say that you invested $20,000 in a good no load S&P index fund. The first year it went up 10%, now you would have $22,000. The next year it went down 20% now you would have only $17,600 or $2,400 under what you started with. That may make you too nervous. In many index annuities, you do not participate in any downside risk. To follow the same example, in a particular index annuity if you invested $20,000 and the market went up 10% you would end up with $21,000 for that year.(50% of 10% is 5% or $1,000) But the next year when the market went down 20%, you would not participate in that downside activity and you would still have $21,000 in your account. Within this particular index annuity, for example, your money can only go up; it cannot go down. In the long run I would rather have $21,000 after two years in my index annuity than just $17,600 in my S&P index fund. That is why the index annuity does not credit you with 100% of the return. It is set in reserve to protect you from the downside. Consider, too, one last safety feature. If you invest in an index annuity and the market goes down every single year, it still won't matter to you. Because it is an index annuity, the insurance company usually guarantees you that, after your surrender period is over, you will get at least 110% of what you originally put in. If you put in $20,000, the worst-cast scenario would leave you, after seven years, with $22,000, or about a 1.5% minimum guaranteed yearly return on your investment no matter what happens in the market. Bottom line: if you are willing to give up some upside potential, you can also protect yourself totally against downside risk with an index annuity."

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