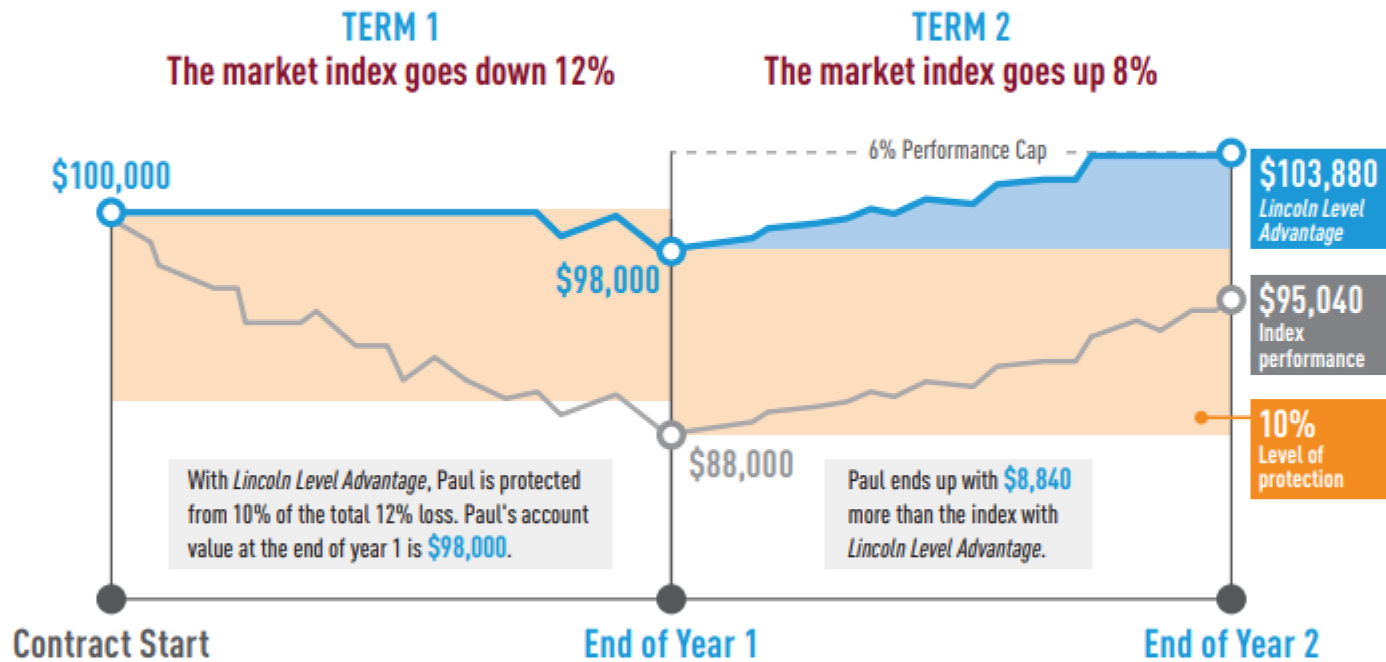
A fixed indexed annuity provides upside potential with downside protection. The marketing material usually looks like this:



How do they perform relative to a more traditional investment? This analysis compares the performance of one such product to the S&P 500 and a moderate portfolio of 60% S&P 500 index and 40% US total bond market index. Both of these indexes can be held through low cost mutual funds.

The chart below compares the Lincoln Level Advantage annuity using their SP 500 methodology to an SP 500 index fund and a moderate portfolio of 60% SP 500 index fund and 40% US bond index fund over the period 2000-2017. This allows performance to be observed during two bear markets. The columns show the account balances at the end of a six year term (2000-2005, 2001-2006, etc). $1000 is invested at the beginning of the term.

I am using the Lincoln 6 year term without annual locks methodology. That contract allows your account to grow no more than 250% over the six year term. That was never exceeded in the periods studied. Lincoln also absorbs the first ten percentage point decline in SP 500 price level. This happened once for the six year period ending 2005. The index **price** declined 11% but the contract only lost 1%. However, the SP 500 index **fund** only declined 1.4% over that same period and the moderate portfolio gained 19%. An obvious question: how did the SP 500 index **fund** decline only 1.4% when the SP 500 **price** declined 11%? Because the SP 500 index fund includes reinvested dividends that you'd receive if you bought and held the fund for six years. The Lincoln methodology doesn't include

dividends. It based on the SP 500 price level only. So, although no explicit cost is stated in this product there is indeed a cost as the contract holder will not get the SP 500 dividend yield which is currently 1.7%.