



Advanced
Capital & Investments

ADVANCED CAPITAL & INVESTMENTS · THE ANNUITY DRAG SERIES · NO. 1

The Index vs. What Gets Credited

A fixed indexed annuity is sold on the index it follows. What you receive is that index without its dividends, then capped, then reduced by any rider fee. Here is the same \$200,000, from age 60 to 85, every way.

01

How the crediting works

02

Price index vs. total return

03

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The case: age 60, \$200,000

05

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The tax on the way out

\$1,236,646

the S&P 500 total return at 85, our gross: no fee, no tax

\$460,648

of that came from dividends, which the price index leaves out

\$454,454

left at an 8% cap with a 1% income rider, after income tax on the gain

01 THE MECHANICS

How an indexed annuity credits

Your money is not invested in the index. The insurer credits interest based on how the index moved, using a formula. Each piece of the formula protects the insurer and trims what reaches you.

Floor

Usually 0%. In a down year you are credited nothing instead of a loss. This is the benefit the product is sold on.

Price index only

Crediting follows the S&P 500 price index, not the total return. Dividends are left out before any cap applies.

Cap

The most you can be credited in a year. If the index rises 25% and the cap is 8%, you get 8%.

Spread or participation

Some products have no cap but subtract a spread from each gain, or credit only part of it.

Why the cap costs more than the floor saves

The market goes up far more often than it goes down, and its up years are large. From 1928 through 2023, the S&P 500 (total return) rose in **73% of years**. The average up year was **+21.3%**; the average down year **-13.4%**. Most of the market's gain arrives in the big years, above where caps sit.

If the cap is	Share of all upside above the cap, 1928–2023	Years the index beat the cap
8%	66% given away	56 of 96
10%	58% given away	56 of 96
12%	51% given away	51 of 96

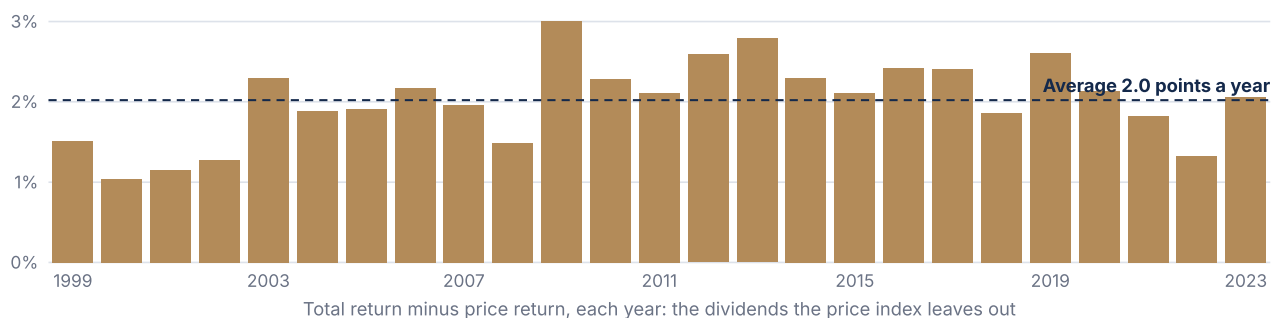
The trade in one line: the floor protects you in about one year out of four. The cap limits you in most of the other three, and at an 8% cap gives away about two thirds of the market's upside.

S&P 500 Total Return, dividends reinvested, 1928–2023. Index returns are not available to direct investment and do not reflect fees or taxes.

02 THE DIVIDEND GAP

Price index vs. total return

The S&P 500 is reported two ways. The total return includes the dividends the 500 companies pay. The price index is only the change in share prices. Indexed annuities almost always credit on the price index, so the dividends are gone before the cap is even applied.



2.0 pts

a year, the average dividend the price index left out, 1999–2023

\$1,236,646

\$200,000 in the total return index, 1999–2023

\$775,999

the same \$200,000 in the price index: \$460,648 less, with no cap and no fee

Why it matters more than it looks. Two points a year sounds small. Compounded over 25 years it removed 37% of the ending value. Dividends are also steady: they were paid in down years too, when the price index fell. An indexed annuity gives up that cushion before its floor ever comes into play.

Price returns: YCharts, S&P 500 Annual Return. Total returns: S&P 500 Total Return series. Both calendar-year.

03 THE EVIDENCE What caps really are

Illustrations are often run at a 10% or 12% cap. Actual caps on the plain S&P 500 one-year strategy are usually lower, they change every year, and the contract lets the insurer lower them much further.

8.12%

the median S&P 500 one-year cap across 74 indexed annuities with 2026 rates, in one of the better rate environments in years.

Retirement Literacy Foundation, October 2026

Year 1 only

Caps reset at each contract anniversary. The first-year cap is the only one guaranteed; insurers review them as often as monthly.

MyAnnuityStore; American Academy of Actuaries, 2026

5% to 11.5%

where most S&P 500 point-to-point caps fall today. The highest caps (12.5% to 14%) require \$150,000 or more and up to a 10-year surrender period.

MyAnnuityStore rate sheets, October 2026

7.75% → 6.75%

one real contract bought in 2008: its cap held at 7.75% until it was cut to 6.75% in 2015.

Wink, Inc., 2016

1% or less

the guaranteed minimum cap in 87% of indexed annuities that publish one. The insurer can lower your cap that far and stay within the contract.

Retirement Literacy Foundation, October 2026

3% to 5%

what indexed annuities credited on average from 2012 to 2022, when low interest rates kept caps low.

The Annuity Expert, 2025–2026

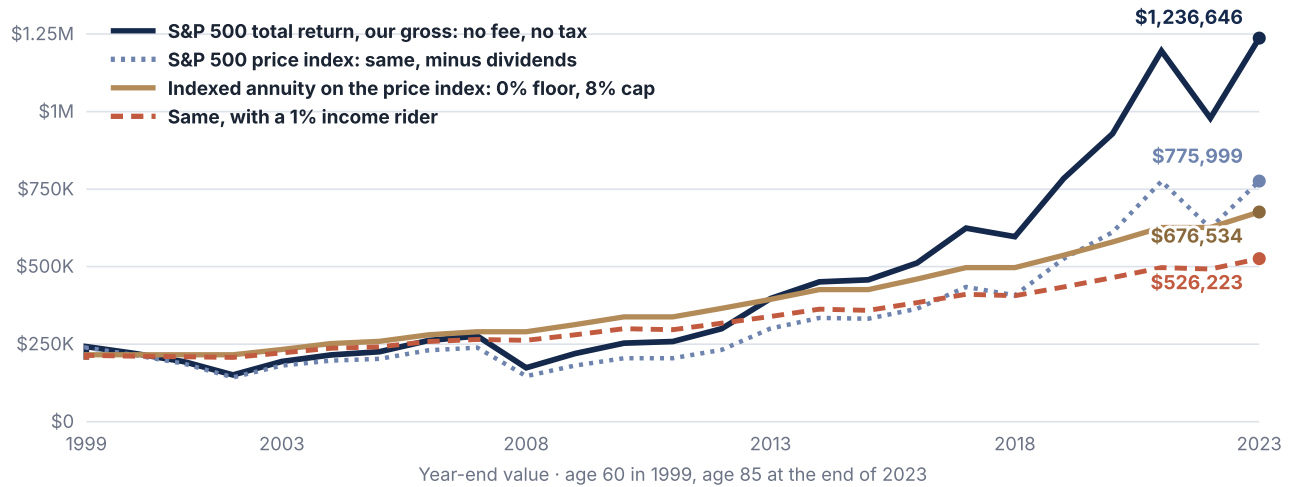
Why caps move: the insurer invests most of your premium in bonds and uses the interest to buy index options. Lower bond yields mean a smaller options budget and lower caps. Your cap is set by the insurer's budget, not by the market.

For that reason, the case that follows uses an **8% cap on the price index**, close to today's median, and shows 6% to 12% alongside.

04 THE CASE

Age 60, \$200,000, held 25 years

A 60-year-old man places \$200,000 at the start of 1999 and holds it to 85. The first line is our gross: the index itself, no fee, no tax. Then the price index, then what an indexed annuity on that price index would have credited.



End of	Age	Total return	Price index	8% cap	Cap + 1% rider	Index ahead by
2003	65	\$194,355	\$180,913	\$233,280	\$221,847	-\$27,492
2008	70	\$173,976	\$146,947	\$290,154	\$262,410	-\$88,434
2013	75	\$396,962	\$300,705	\$394,751	\$339,509	+\$57,453
2018	80	\$596,745	\$407,823	\$497,273	\$406,723	+\$190,022
2023	85	\$1,236,646	\$775,999	\$676,534	\$526,223	+\$710,423

7.56%

a year, total return gross, in a stretch that began with two crashes

5.00%

a year, credited at an 8% cap on the price index

3.95%

a year, after a 1% income rider

The floor did its job early. After 2000–2002 and 2008 the annuity was ahead; a minus in the last column means it led. Then the capped years added up, and from 2013 on the index stayed ahead. We chose 1999 on purpose: it is the kind of start a floor is built for.

05 THE DRAG Where the difference comes from

Year	Total	Price	Credited	Pts
1999	21.0%	19.5%	8.0%	-11.5
2000	-9.1%	-10.1%	0.0%	+10.1
2001	-11.9%	-13.0%	0.0%	+13.0
2002	-22.1%	-23.4%	0.0%	+23.4
2003	28.7%	26.4%	8.0%	-18.4
2004	10.9%	9.0%	8.0%	-1.0
2005	4.9%	3.0%	3.0%	—
2006	15.8%	13.6%	8.0%	-5.6
2007	5.5%	3.5%	3.5%	—
2008	-37.0%	-38.5%	0.0%	+38.5
2009	26.5%	23.4%	8.0%	-15.4
2010	15.1%	12.8%	8.0%	-4.8
2011	2.1%	0.0%	0.0%	—
2012	16.0%	13.4%	8.0%	-5.4
2013	32.4%	29.6%	8.0%	-21.6
2014	13.7%	11.4%	8.0%	-3.4
2015	1.4%	-0.7%	0.0%	+0.7
2016	12.0%	9.5%	8.0%	-1.5
2017	21.8%	19.4%	8.0%	-11.4
2018	-4.4%	-6.2%	0.0%	+6.2
2019	31.5%	28.9%	8.0%	-20.9
2020	18.4%	16.3%	8.0%	-8.3
2021	28.7%	26.9%	8.0%	-18.9
2022	-18.1%	-19.4%	0.0%	+19.4
2023	26.3%	24.2%	8.0%	-16.2

Credited: price index, 0% floor, 8% cap. Pts: red is price-index gain lost to the cap; plus is a price-index loss the floor avoided.

15 of 25 years

were capped, giving up 164 points of price-index gains, on top of every year's dividend

7 years

the floor helped, avoiding 111 points of price-index losses

Change the cap

On the price index	At 85	Rate	+1% rider	Rate
Total return gross	\$1,236,646	7.56%	—	—
Price index, no cap	\$775,999	5.57%	—	—
6% cap	\$511,118	3.82%	\$397,559	2.79%
8% cap · median today	\$676,534	5.00%	\$526,223	3.95%
10% cap	\$879,018	6.10%	\$683,719	5.04%
12% cap	\$1,104,982	7.08%	\$859,479	6.01%

Rider fee taken from the account each year. Many riders charge on a larger income base, so the real cost is often higher.

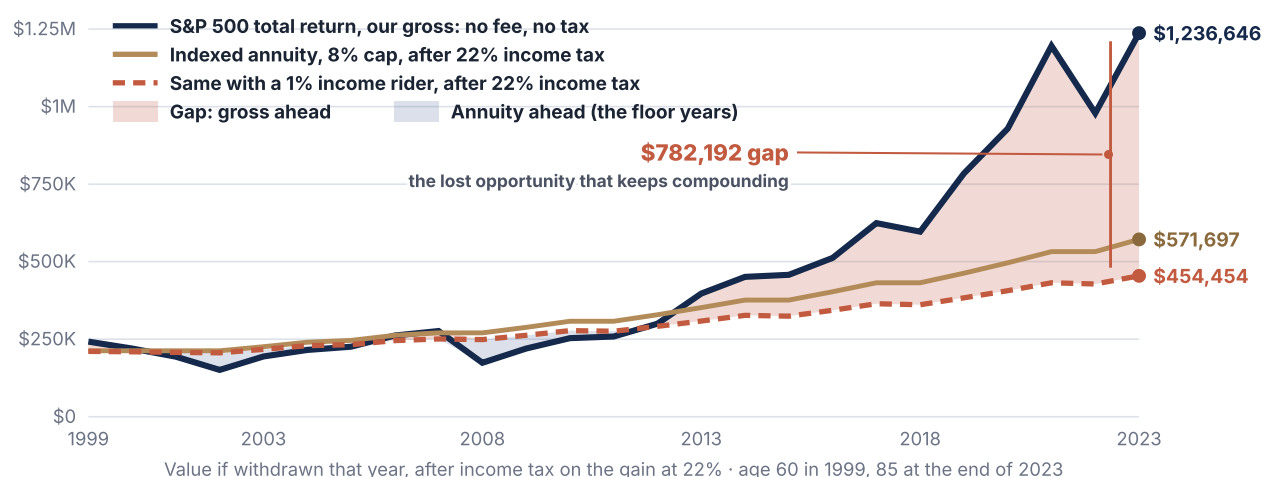
Even a 12% cap, rarely available, finished \$131,664 behind the total return. At the 8% median, the gap is \$560,112, and \$710,423 with a 1% rider.

06 THE TAX ON THE WAY OUT

Every dollar of gain is taxed as income

An annuity grows tax-deferred, but the deferral has a price. When the gain comes out, all of it is taxed as ordinary income, at the same rates as wages. None of it qualifies for the lower long-term capital gains or qualified dividend rates, and there is no step-up in basis at death.

At age 85	Value	Gain	Income tax at 22%	After tax	At 32%
8% cap on the price index	\$676,534	\$476,534	-\$104,838	\$571,697	\$524,043
8% cap + 1% income rider	\$526,223	\$326,223	-\$71,769	\$454,454	\$421,831



\$782,192, 63% of the gross, is gone before a dollar is spent. That gap is the starting point for No. 2: every year of drag stops compounding for good.

How the same gain is taxed elsewhere

Where the gain sits	How it is taxed	At death
Indexed, fixed or variable annuity	Ordinary income on all gain, up to 37% federal. Withdrawals come out gain first.	Heirs owe income tax on the gain
Stocks or an index fund, taxable account	Long-term gains and qualified dividends at 0%, 15% or 20%	Step-up in basis: gain is generally not taxed
Whole life cash value	Tax-deferred; loans and withdrawals up to basis generally tax-free if not a MEC	Death benefit generally income-tax free

The bracket can rise, too. Taking a large gain in one year, or alongside Social Security and required IRA withdrawals, can push it into a higher bracket than 22%. The 32% column shows that case. State income tax, where it applies, comes on top.

Federal rates shown. Assumes the full value is withdrawn at 85. Tax treatment is general information, not tax advice.

07 BEFORE YOU DECIDE Things to know

- **Caps, spreads and participation rates are not fixed.** They reset each year and can be lowered to the contract minimum, often 1% or less.
- **Income riders cost 1% to 2% a year,** often charged on the income base rather than the account value. A single premium immediate annuity can often provide similar income with no annual rider fee.
- **Surrender charges** commonly apply for 7 to 10 years. The highest caps usually come with the longest surrender periods.
- **10% free each year.** Fixed, indexed and variable annuities generally allow 10% of the value to be withdrawn each year without a surrender charge. What that 10% could do is the subject of No. 3.
- **Taxes.** Gains are tax-deferred, then taxed as ordinary income when withdrawn, with no step-up at death.
- **The floor is real.** The question this series asks is what it costs, in dollars, over a retirement.

The Annuity Drag Series

NO. 1 · THIS PIECE

The index vs. what gets credited

Total return against the price index, caps and rider fees.

NO. 2

The lost opportunity cost

Each year's drag, compounded at the S&P 500 and at a fixed 5%.

NO. 3

Redirect the 10% free

The free withdrawal funding whole life: death benefit and cash value guarantees, wealth recaptured.

Sources

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4. Wink, Inc., "Making the case for fixed index annuities," June 2016. winkintel.com
5. The Annuity Expert, "Compare Historical Annuity Rates Before You Buy," updated September 2026. annuityexpertadvice.com
6. S&P 500 price returns: YCharts, S&P 500 Annual Return. Total returns: S&P 500 Total Return series.



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