I proudly offer Fixed Indexed Annuities to my clients, and I'll tell you why I do.

1) They represent a worthwhile, conservative investment option for retirees and pre-retirees.

Equity Indexed Annuities are hybrid annuities. At its core, an EIA is a fixed annuity, but one that is linked to the performance of a stock market index (often the S&P 500). These investment contracts usually guarantee a minimum rate of interest on your purchase payments while the annuity is growing (like a typical fixed annuity). In fact, the insurance company involved will credit you with either the minimum return or a return that is based on the performance of the index.[1] So you have the opportunity to benefit from stock market gains during this accumulation phase, while your principal is protected against losses in the equity markets. With an EIA, retirees and pre-retirees who are skittish about stock market investment can potentially realize the benefits of stock market participation this way, in a comparatively low-risk investment.

2) They can offer you tax-deferred growth of your earnings, a recurring income stream for retirement, and often a death benefit.

EIAs commonly give you the features of a fixed annuity: your earnings are not taxed, and when the distribution phase of your annuity starts, you can receive periodic income payments, usually per month. (If you wish, you may be able to take the entire value of your annuity as a lump sum at the end of the contract term. It is your withdrawals that are taxed.) There is often a guaranteed minimum death benefit payable to your beneficiary when you pass away.

3) Year after year, you can contribute as much as you want to an Equity Indexed Annuity – there is no annual contribution limit, unlike an IRA or a 401(k).

If you need to put away more retirement savings NOW, the contribution limits on IRAs and 401(k)s can be frustrating. Would you rather have a retirement account you can only put $5,000 or $6,000 in annually, or an account to which you can contribute as much as you want? EIAs (and for that matter, other forms of annuities) have no contribution ceiling, and there are no IRS-imposed income limits above which you cannot contribute.

4) An EIA's rate of return often looks quite good versus a CD, a bond, or a money market account.

EIAs aren't designed to outperform the stock markets; they are designed to outperform the fixed markets. Because of that stock market exposure, they can sometimes bring a conservative investor a very nice return.

Different EIAs have different participation rates. Your participation rate equals the percentage of the invested assets within the annuity that is keyed to that stock index. In very simple terms, if your participation rate is 60% and the S&P 500 gains 10% this year, this means your EIA gives you a 6% return (before any fees and administrative charges). Compare that to so many CDs and money market accounts which generate a pittance of interest.

Some EIAs measure an index's gain on an annual basis, others over the entire term of the annuity. Sometimes there are "caps" on just how high a return you can realize.

Equity Index Annuities can be very useful investments. The problems occur when people don't realize (or don't explain) that these are long-term investments. Many EIA contracts are 6-7 years or longer. There can be penalties if you need to pull your money out of the annuity in the accumulation phase. So EIAs do require a long-term outlook and commitment.