

How Do FIA and RILA Products Work

By Thomas Nguyen | True North Financial Group

A guide to fixed indexed and registered index-linked annuities

Fixed indexed annuities, or FIAs, and registered index-linked annuities, or RILAs, use an index-linked formula to determine part of a contract's growth. Both can limit how much of an index gain you receive. Their treatment of losses is different: an FIA generally does not credit negative interest because the index falls, while a RILA can pass some index losses through to contract value. [1]

For someone approaching retirement, the useful question is which risks you are willing to retain. Are you prioritizing protection from index losses, seeking more growth potential while accepting losses, or buying a future income benefit? My starting point is the job the money must do and how long you can leave it committed.

Start with what you actually own

You buy a contract from an insurance company. An index-linked allocation does not mean you own shares in that index. The contract specifies the benchmark, measurement method, term and crediting limits. A price index may exclude dividends, and other benchmarks may use different adjustments. Do not compare a contract illustration with a stock fund's total return as if the two investments were identical. [2]

Feature	FIA	RILA
Index-related downside	Generally a nonnegative index credit, subject to contract terms.	Negative performance can reduce value, subject to the selected protection.
Upside	May use a cap, participation rate, spread or other formula.	May also limit upside through contract-specific formulas.
Regulatory structure	Insurance product generally regulated by state insurance authorities.	Insurance product and registered security; review the prospectus.

Liquidity	Surrender terms and other adjustments may apply.	Surrender terms plus interim valuation may affect early access.
Lifetime income	Depends on the payout election or an available rider.	Also depends on contract features; not automatic.

A RILA may offer more growth potential in exchange for retaining index-loss risk, but it is not automatically better than an FIA. Compare the same index, measurement period, costs and cash needs. A higher advertised cap can conceal a longer commitment or a different level of protection. [1, 2]

Keep guarantees in perspective

An FIA's 0% index-credit floor is not a promise that every cash withdrawal will return at least the original premium. Rider charges, withdrawals, surrender charges or other applicable adjustments can reduce value. RILA protections also have conditions. Both depend on the issuing insurer for contractual guarantees and are not FDIC-insured bank deposits. [1, 3]

Understand how gains are credited

A common measurement method compares the index level at the beginning and end of a term. That is point-to-point crediting. Other methods use averages or other calculations, so identical market conditions can produce different credits. Read the actual method before comparing headline rates. [4]

Learn the cap participation rate and spread

A cap sets the maximum credited gain for the specified period. A participation rate specifies the share of an index gain used in the calculation. A spread subtracts an amount under the contract's formula. Some options combine these features, and the order matters. A 6% cap does not promise a 6% gain; a flat or down index may produce no positive credit. [4]

For illustration, a 12% index gain with a 75% participation rate produces 9% before other adjustments. If the assumed formula then subtracts a 1-percentage-point spread, the result is 8%; a 6% cap would limit that to 6%. This is invented arithmetic, not a description of every contract. Request the exact formula and work through it with the person recommending the product.

A hypothetical positive term

Assume three separate $100,000 allocations, each with a one-year point-to-point term, 100% participation and no spread. The FIA has a 6% cap. The RILA with a 10% buffer has a 12% cap; the RILA with a 20% buffer has an 8% cap. Assume no fees, riders, withdrawals, surrender charges or other adjustments. These terms are teaching examples, not available quotes.

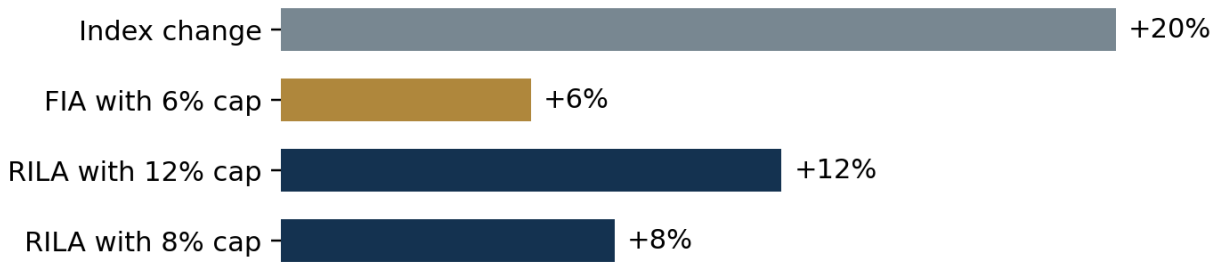


Figure 1 Hypothetical completed one-year term with an index gain of 20%. Credits are 6%, 12% and 8%, making ending values $106,000, $112,000 and $108,000. The index bar is a reference, not an investable alternative. Assumptions are stated above.

The deeper-buffer option has the lower cap only because we chose those terms for this example. Actual pricing relationships vary. The same 20% index gain does not deliver a 20% contract gain when a lower cap applies. Conversely, an index gain below all three caps could produce the same gross credit under these simplified terms.

Compare the same period and renewal rules

A cap quoted for several years is generally a limit for that full term, not necessarily a yearly rate. A 30% gain over six years, for example, is about 4.47% annualized, calculated as 1.30 raised to one-sixth minus one. Do not compare it directly with a one-year cap. Actual crediting may follow different methods.

Ask which terms are fixed for the current period and which the insurer can change for later periods, subject to contract guarantees. A cap offered today may not be available at renewal. Separate guaranteed minimum terms from the current illustrated terms before building a long-term retirement projection. [4]

Distinguish a buffer from a loss floor

A buffer generally absorbs the first specified portion of an index decline over the applicable term. A loss floor works differently: you bear losses up to the stated limit, and the insurer absorbs losses beyond it. The words describe different exposures, not interchangeable names for protection. [4]

Translate protection into dollars

With a 10% buffer and a 15% index decline, the illustrative loss is 5%, leaving $95,000 from $100,000. With a 20% buffer and the same decline, the illustrative index-related loss is zero. At a 30% decline, the 10% buffer leaves an illustrative $80,000 and the 20% buffer leaves $90,000. Larger losses can continue beyond either buffer.

By comparison, a RILA with a −10% loss floor would bear the first 10% of loss, but no more under this simplified term-end formula. An index decline of 5% leaves $95,000; declines of 15% or 30% leave $90,000. A 10% buffer therefore helps more with small declines, while a −10% loss floor helps more with a sufficiently severe decline.

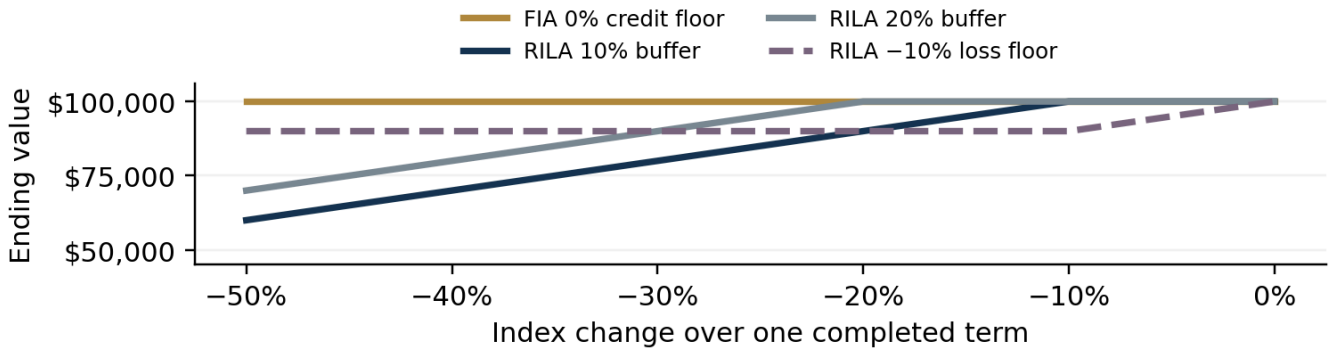


Figure 2 Hypothetical ending values from $100,000 for one completed term with a negative index change. FIA 0% index-credit floor, RILA 10% and 20% buffers, and a separate RILA −10% loss-floor option. No fees, withdrawals, surrender charges or other adjustments. Illustrative formulas only.

A buffer is not your maximum loss

At a 50% index decline, a 10% buffer in this example leaves a 40% loss and a $60,000 ending value. It does not cap your loss at 10%. The 20% buffer leaves a 30% loss and $70,000. The FIA's index credit remains zero and the separate −10% loss-floor example leaves $90,000, before excluded costs and adjustments.

The RILA values in this illustration are substantially below the initial premium in some scenarios. If a $20,000 or $40,000 loss would force you to change retirement plans, examine that risk before choosing a buffer. A protection feature can soften a decline without making the contract a capital-preservation substitute. Protections apply to each selected term under its rules, not necessarily to cumulative losses since purchase. Losses across successive terms can compound, and a new term does not automatically restore the original premium.

Know when the calculation applies

These examples apply at the end of the chosen index term. They do not describe what you can withdraw on any earlier date. RILA interim values can respond to index movements, interest rates, volatility and the insurer's valuation method. A withdrawal or surrender before term-end may produce a different loss even when the index decline appears to fall within the buffer. [5]

Check liquidity costs taxes and income features

A product can have several timelines at once: an index-crediting term, a surrender-charge period and a separate income-rider schedule. Finishing one does not necessarily finish the others. Ask for a calendar showing when each restriction or election changes.

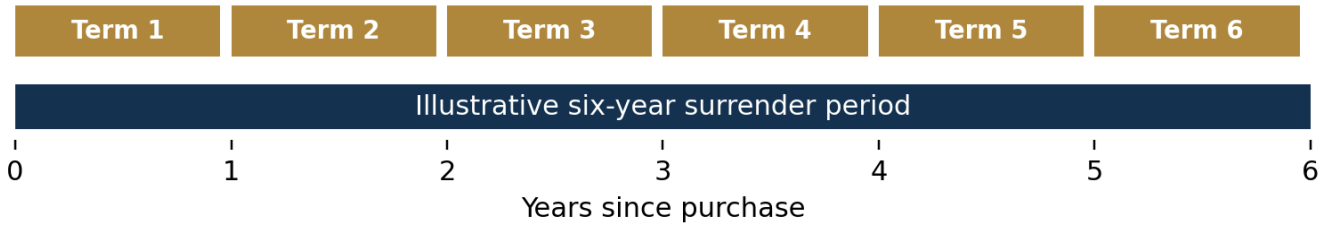


Figure 3 Hypothetical timing example: six consecutive one-year crediting terms inside a six-year surrender period. Not a contract quote. A term ending after year one does not by itself eliminate contract surrender charges; actual schedules vary.

Understand the amount available on an exit date

Request the actual surrender schedule, any charge-free withdrawal allowance, applicable market value adjustments and RILA interim-value method. Ask for examples of a withdrawal after six months, at term-end and during a market decline. A charge-free withdrawal can still have tax consequences or affect a rider; "no surrender charge" does not mean every other adjustment disappears. [3, 5]

Compare both explicit fees and the economic effects of caps or other limits. Some contracts have no separately itemized base annual fee, while riders or particular strategies may charge. Request all costs and compensation in writing. A product described as "no fee" still involves tradeoffs, and optional benefits can reduce account value. [1, 3]

Separate growth from a lifetime income promise

Accumulation features determine how contract value changes. Lifetime income requires an appropriate annuitization election or an available income benefit. A guaranteed lifetime withdrawal rider may support permitted withdrawals even after account depletion if its conditions are met. Fees, start age, joint-life elections and excess withdrawals affect the result. [6]

An income benefit base can be a calculation figure rather than cash available to withdraw. Its growth rate is not necessarily an investment return or the growth of surrender value. Ask to see account value, cash surrender value, death benefit and guaranteed income separately. If income is your goal, compare written payment guarantees rather than the largest illustrated balance.

Match taxation to the source of the premium

For a modern nonqualified annuity funded with after-tax money, partial withdrawals before annuitization generally come from taxable earnings first. Return of the unrecovered after-tax basis is treated differently. Annuitized payments can allocate basis under different rules. Do not assume every payment is tax-free or taxed like long-term stock gains. [7]

An annuity inside an IRA adds no extra tax deferral. Pretax-funded distributions are generally taxable; after-tax basis and qualified Roth distributions require separate treatment. Before age 59½, the taxable portion may also face a 10% additional federal tax unless an exception applies. [3, 8] Coordinate access, required distributions where applicable and taxes with qualified professionals before purchasing.

Decide which risks fit your retirement plan

An FIA may fit someone who values avoiding negative index credits and accepts limits on upside and access. A RILA may fit someone willing and able to absorb losses in exchange for a different growth opportunity. Neither product is automatically suitable because you are approaching retirement, and the decision should not rest on a single cap or buffer percentage.

Compare the whole contract before committing

Begin with your income goal, emergency reserve, time horizon and loss tolerance. Ask how much money you might need during each term and whether you could hold the contract through the surrender period. Compare alternatives such as fixed annuities, CDs, high-quality bonds or a diversified investment portfolio, recognizing their different risks and protections.

For each quote, record the premium, exact index and dividend treatment, crediting method, term, cap, participation rate, spread, buffer or floor, fees, surrender schedule and renewal provisions. Request the contract and, for a RILA, the prospectus. Compare identical dates and scenarios, including a deep decline and an early withdrawal.

Then ask what is guaranteed, who stands behind it and which values can fall. Review the insurer’s financial strength and any death or income benefits. If a replacement is proposed, compare existing benefits and charges with the new contract, including a restarted surrender schedule. Keep sufficient accessible money outside restrictive allocations. [3]

A message from Thomas

At True North Financial Group, I encourage you to start with a clear purpose for each part of your savings. Bring your current statements and any annuity illustration to a conversation about insurance needs. For RILAs and other securities, involve an appropriately registered professional; coordinate tax and investment questions with qualified specialists. Understanding the loss scenario is as important as understanding the growth illustration.

Sources and important information

[1] SEC Investor.gov, Annuities. https://www.investor.gov/introduction-investing/investing-basics/investment-products/annuities

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https://www.soa.org/globalassets/assets/files/resources/research-report/2022/registered-index-linked-annuities.pdf

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[8] IRS, Topic 410 Pensions and Annuities. https://www.irs.gov/taxtopics/tc410

Sources checked October 21, 2026. General education, not individualized investment, tax or legal advice. All rates, terms and outcomes are hypothetical, not carrier quotes, forecasts or product recommendations. Figures exclude costs and adjustments described in captions. Protection depends on insurer and contract conditions. FIA and RILA terms vary. Prepared for Thomas Nguyen and True North Financial Group; no Morgan Stanley affiliation, authorship or endorsement is claimed.

