



Fixed Rate Annuities
Five Major Advantages Of The MYGA
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Five Major Advantages Of The MYGA And One Potential Landmine To Avoid For Yield Degradation.

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The Multi-Year Guarantee Annuity (MYGA) has proven to be one of the most reliable insurance products for retirement savings. Easy to understand with strong guarantees, the MYGA is a solid option for risk averse clients accumulation needs while alleviating many safety concerns.

Here are some of the major advantages of using a MYGA for fixed retirement savings.

- 1. A guaranteed and fixed interest rate that matches the surrender period.** The accumulation value in MYGAs increases daily. MYGAs have no assumptions in regards to return, owners will know exactly how much their premium will increase from day 1! **Example:** A 6 year MYGA with a rate of 3.25%, left to accumulate, will earn 21.15% in 6 years. It does NOT get much more simple then that and clients can set a baseline to weigh the risks and rewards in comparison of other investments. The majority of MYGAs have compounding interest rates, as in the example above. Simple interest or non compounding products are also offered.
- 2. Flexibility in term length.** The MYGA offers much shorter terms than other fixed annuities. Currently some insurance companies offer MYGA products with surrender terms as short as 3 years, allowing clients to look at the marketplace again at the end of the surrender term and adjust accordingly. Most other fixed annuity products include at least 5 years of surrender charges and the FIA products may not have competitive rates/caps if under a 7 year surrender term.
- 3. Income can be withdrawn from a MYGA in different ways.** The guaranteed interest rate in a MYGA allows one to withdraw an **interest income**. Most MYGAs offer penalty free withdrawals of at least the interest earned in the policy year. While others offer as much as 15% annual free withdrawals. Enhanced rate products may offer no withdrawals and limit other features for the higher guaranteed rate. A client with \$100,000 premium in a MYGA @ 3.00% interest rate could

receive an immediate monthly interest withdrawals of about \$246 per month or wait for the end of each year and withdraw the full \$3,000 of interest earned. MYGAs also offer guaranteed **annuitization** factors which allow the owner to know the minimum lifetime income they may receive if they decide to annuitize. Most carriers offer annuitization from a 5 year period only to a suite of lifetime income options.

4. **Rollovers at the end of term.** One of the most successful sales programs is the rollover of a MYGA. The reason is so simple too, the clients are likely very happy with the MYGA they just finished. Offering them a way to maximize future yield with a higher rate in a new MYGA is usually a slam dunk sale. Especially with insurance carriers who are friendly enough to allow and even offer a commission on internal rollovers. Here is how that agent-client conversation usually goes: "Dear client your current MYGA with ABC Company is ending, the new rate is 1.50% with no further surrender charges or you can sign up with ABC Company again for a new surrender term at the guaranteed rate of 3.00%. The clients who do not need or have no plans for the funds have been renewing at outstanding rates. Clients are comfortable with ABC Company and the agent. The clients received **exactly** what they expected out of the MYGA.]
5. **Diversity and variety without the learning curve.** The simplicity of a MYGA makes switching from one carriers MYGA to another carriers really a non event. MYGAs have very few moving parts so the differences between products and carriers is slight. Agents just need to review the variations in interest rates, surrender charges, withdrawal provisions, product waivers and death benefit to be knowledgeable about the MYGA product. So, it is much easier to evaluate and compare MYGAs than it is to compare FIAs. The MYGA with its fixed rates and no assumptions on earnings makes it more of a commodity compared to FIAs or other investments which can have widely varied assumption, crediting terms and methods.

The One Landmine To Prepare For And Avoid Is Yield Degradation. The Recurring Surrender Charge & 30 Day Exit Window.

The reason I call it a landmine is simple, failure to act during this 30 days can reduce the overall yield. Especially when the renewal rate is not competitive compared to new money rates available in the marketplace. Below are examples of surrender charge schedules for a MYGA with a recurring surrender charge and a more client friendly MYGA which has no surrender charges or market value adjustments (MVA) after the guarantee period.

Example of a 5 year recurring surrender charge % with an exit window:

5.00% Year 1 | 4.00% Year 2 | 3.00% Year 3 | 2.00% Year 4 | 1.00% Year 5 | **0.00% For 30 Days Then Repeats:** 5.00% Year 6 | 4.00% Year 7 | 3.00% Year 8 | 2.00% Year 9 | 1.00% Year 10 | **0.00% For 30 Days Then Repeats** When does the 30 day window begin? The window to withdraw or transfer usually begins immediately at the end of the guarantee period. However, some products begin the window 30 days **before** the end of the guaranteed term.

Example of a 5 year surrender charge % that does NOT have recurring charges:

- 5.00% Year 1 | 4.00% Year 2 | 3.00% Year 3 | 2.00% Year 4 | 1.00% Year 5 | **0.00% All Years Thereafter**. The client is able to continue their current contract at a declared rate that can change but maintains the ability to transfer or withdraw accumulated funds at anytime.

The MYGA has some major advantages as a safe retirement savings tool. A guaranteed and fixed interest rate, flexibility in term, income withdrawals, rollover options and ease of diversity all help make the MYGA a must have in a life agents product offerings. Agents and clients need to be aware of a MYGA products end of term surrender policy. Knowledge of this policy can avoid degradation of yield and a surrender charge being incurred to access the funds after the initial guarantee period.

Agent Tool - [Calculating Compounding MYGA Rates On The HP12C](#)

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