ANALYSIS

0.25% and 1 Year Little Extra Time & Yield Can Make A Difference

MYGA Fixed Annuities

0.25% and 1 Year Can Make A Bigger Difference Than You May Think

By: Jeff Affronti—September 29, 2017

A slightly higher rate and a slightly longer time frame makes for a bigger spread than you may think. Two competitive MYGA products, available now, may seem similar on the surface but are actually quite different.

1. Product #1 has a guaranteed rate of 3.00% for 5 years.
2. Product #2 has a guaranteed rate of 3.25% for 6 years.

   Since 3.00% is twelve quarter points and a year is twelve months, how much could this difference really contribute overall?

0.25% and 1 Year Can Make A Difference

$500,000 Premium	**3.00% For 5 Years**	**3.25% For 6 Years**
End Of Year 1	$515,000	$516,250
End Of Year 2	$530,450	$533,028
End Of Year 3	$546,363	$550,352
End Of Year 4	$562,754	$568,238
End Of Year 5	**$579,637**	$586,706
End Of Year 6	**4.51%** Needed To Match 6 Year	$605,774

Staying invested for the additional 1 year nearly quadruples the end of year 5 earnings spread between the two products from $7,069 at the end of year 5 to $26,137 at the end of year 6. This assumes nothing is earned on product 1 in year 6. However, what would product 1 need in that one year to catch product 2?

Hoping rates are higher at the end of year 5? A 4.51% rate for 1 year would be needed to match the guaranteed value in product 2 at the end of the 6th year. Currently, there are no mainstream fixed insurance products available for 1 year. Comparable safe money products range from 0.25% to 1.15% for one year.

This is a great way to illustrate how the appearance and end result may be surprising. A slight difference can make a big impact after compounding and a little time.

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