

3 Year MYGA

2.15%



5 Year MYGA

3.00%



Accumulation Case Study In Timing  
Selecting A Best Yielding MYGA Term

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## ***3 OR 5 YEAR MYGA? HOW TO EVALUATE A BEST YIELD IN RISING RATE ENVIRONMENTS***

By: Jeff Affronti—October 23, 2017

Interest rates have been low for so long it makes many of us wonder when and how fast the rates will increase. Savings and checking accounts at the major institutions are yielding little to nothing. Generally speaking, and with the exception of older out of surrender products with high minimum guarantees, mainstream products with liquidity offer very low rates, but do allow the ability to jump if rates hyper inflate. Clients that have been on the sidelines waiting for higher rates continue to lose a bunch of yield. The Multi Year Guarantee Annuity (MYGA) may be a great way to increase yield while we wait and hope for the 5.00% guarantee rates to return. The question then arises, how long to lock in a MYGA and at what rate? Most agents and advisors looking at MYGA's are interested in the 3 and 5 year terms. So, which one is better and how much yield is needed in the 3 year MYGA to breakeven by year 5?

The 5 year MYGA is guaranteed at the rate of 3.00% and the 3 year is guaranteed at 2.15%. The chart below shows the yield needed in years 4 and 5 to catch the 5 year rate of 3.00%.

<b>Premium \$100,000</b>	<b>5 Year @ 3.00%</b>	<b>3 Year @ 2.15% then yield match</b>	<b>Yield needed to match:</b>
End Of Year 1	\$103,000.00	\$102,150.00	N/A
End Of Year 2	\$106,090.00	\$104,346.23	N/A
End Of Year 3	\$109,272.70	\$106,589.67	N/A
End Of Year 4	\$112,550.88	\$111,162.37	4.29%
End Of Year 5	\$115,927.41	\$115,931.23	4.29%

A rate **2.14% higher** than the current 3 year MYGA rate is needed to simply match the current 5 year rate. The client with the 3 year MYGA needs fixed rates to increase 100% in 3 years to breakeven with the client who took the 5 year MYGA. WOW! Do you think MYGA rates will go up from 2.15% to 4.29% in the next 36 months? I hope so, it will be nice to earn more interest. However, that makes me wonder if rates go up by 2.00% in 36 month, how much may they increase in 60 months, 3.00% - 4.00%?

In the end, when looking at fixed rates, I suggest selecting the best rate and time frame available when shopping. Set it and forget it, then look at the environment when the surrender charge and guarantee period are ending. In a rising rate environment the best MYGAs will have non-recurring surrender charge and no market value adjustment (MVA). Avoid 30 day windows when possible as they can cause a large drop in yield if not renewed in time and at a competitive rate. More yield equals more money!

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