

4.15% For 5 Years

5.00%
Upfront Charge

4.15% Interest Rate

=

3.09% Annual Yield

=

16.42% Yield Over 5 Years

Check Out These High Surrender Values



Higher Rate Guarantees With Upfront Costs Offer Quick Break Even Points And Flexibility.

By: Jeff Affronti—September 18, 2017

In this lingering and historically low interest rate environment it is hard to know how long it will be before rates begin to rise. Flexibility, liquidity and yield are all important if one wants a chance to maximize yield if rates increase. Current market conditions make certain fixed rate products less attractive due to longer and larger surrender charges and lower liquidity than products of the past. Market Value Adjusted (MVA) products are especially risky if rates go up due to the increased surrender penalties if surrendered.

I am always looking for unique products to offer agents/clients. Products that add value and have an advantage over other products within the same market conditions. Products offering flexibility with the best possible returns at the same time. Currently, the best Multi Year Guarantee Annuity (MYGA) products are offering around 2.00% rate guarantee on a 3 year surrender term, 2.50% rate guarantee on a 4 year surrender term and 3.10% rate guarantee on a 5 year surrender term. Traditionally, to capture the highest rates clients would have to choose one term. Does the client take the 5 year for the highest rate, the 3 year so as to not lock in for too long, or go to the middle and take the 4 year. Well, what if the client could get them all? They kind of can, here is a product with a *fee* and a higher rate.

I received a rate sheet from a carrier we are contracted with. One of the products boasted a 4.15% rate guaranteed for 5 years. Well, I know no MYGA has a true rate that high. Anyone familiar with savings and MYGAs would think 4.15% compounded over 5 years is 122.55% of premium, 22.55% gain and that just does **NOT** exist today. This product does not yield 22.55%, so what is the catch? Well their is a catch, the product has a 5.00% upfront sales load that is removed from the premiums paid by the clients. So, the clients would start out with an account balance of only 95% of premium earning at 4.15%. What does that mean in terms of this products actual yield to the client. Once I did the math it made perfect sense, it is interesting and may have a fit for the clients that want a chance to maximize yield if rates seriously increase. Below is a breakdown of the MYGA, it has very low surrender charges, 1% annually with NO MVA. The low surrender charges makes the product less penalizing in later years. Notice the surrender yields in years 3, 4 and 5 are equal to today's best fixed rates for the same surrender charge periods. The clients can lock-up the **5 year at 3.09%** and know they can leave in year 3 with 2.04% yield or in year 4 with and annual yield of 2.56%. However, on the flip side for approximately the first 1.5 years clients will be upside down and below initial premium deposited. Death benefit in the fist 1.5 years is a risk as well, the clients could go backward. Once the policy is 2 years old, the clients will see quick increases to their account and cash surrender values and be in positive territory from then on.

	Account Value	Cash Surrender Value	Annual Yield	Annual Yield If Surrendered
Day 1	\$95,000.00	\$94,040.00	N/A	-6.00%
Last Day Of Year 1	\$98,942.50	\$97,953.08	-1.06%	-2.04%
Last Day Of Year 2	\$103,048.61	\$102,018.12	+1.51%	+1.00%
Last Day Of Year 3	\$107,325.12	\$106,251.88	+2.38%	+2.04%
Last Day Of Year 4	\$111,779.33	\$110,661.33	+2.82%	+2.56%
Last Day Of Year 5	\$116,417.96	\$115,253.78	+3.09%	+2.88%
Day 1 Year 6	\$116,424.34	\$116,424.34	+3.09%	+3.09%

16.42% Guaranteed Gain After 5 Years

The product can have a 1 time reset of surrender charges if not moved in the 30 exit window at the end of the 5th year. The surrender charges:

- Year 1 = 1%
- Year 2 = 1%
- Year 3 = 1%
- Year 4 = 1%
- Year 5 = 1%
- 0% For 30 Days
- Year 6 = 1%
- Year 7 = 1%
- Year 8 = 1%
- Year 9 = 1%
- Year 10 = 1%
- Years 11+ 0%

The risk in this fixed annuity is on the client for the first two years and then is heavily transferred to the carrier in years 3 - 5. A review during the 30 day window of other available fixed rates is advisable to make sure client is receiving the best rate available. For more information [click here](#) or give me a call. Product not available in CA, CT, DE, FL, IA, ME, MA, MT, ND, NH, NJ, NY, OR, SD, RI, VT, WI

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