

# ANALYSIS



## Future Income Payout Percentages MYGA/SPIA vs DIA vs GMWB Comparison

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## Future Income Payout Percentages MYGA/SPIA | DIA | GMWB Comparison

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Guaranteed income has always been an option in the Fixed Annuity marketplace. Lifetime income has historically been obtained through the purchase of an Immediate Annuity (SPIA/DIA) or by annuitizing an existing Fixed Annuity. Recently the concepts, products and marketing of lifetime income annuities has made this simple solution quite complicated.

A past article, [SPIA vs FIA Income Riders](#), reviewed a client and the need for immediate lifetime income, it was obvious the SPIA had the highest guaranteed income for the lowest cost. Now, how would Immediate Annuities look if combined with a deferral component for a client who may want to defer the first income payment.

### The Client:

- Male age 60 wants safe & guaranteed non reducing lifetime income at age 67
- Has \$500,000 for this purpose

### **A Fixed Index Annuity (FIA) With Guaranteed Income Rider Included:**

- Place \$500,000 premium + Enhancement Bonus \$30,000.00 = \$530,000
- 6.00% Roll-up For 7 Years = Starting Benefit Base of \$797,832
- 4.75% Lifetime Withdrawal = **\$37,897.00 Annually (\$3,158 monthly)**
- Annual Fee 0.75% Annually Based on Accumulation Value
- Guaranteed Minimum Return / Survivor Benefit = **\$549,800**

### **A MYGA For 7 Years Then Annuitized With No Fees | No Bonus | Similar Income:**

- \$500,000 premium @ A Guaranteed Rate of 3.15% for 7 Years
- Grew to \$621,233.16 With a Death Benefit of \$621,233.16
- **Annuitized For Lifetime Income:**
- Life & 10 Years Certain = **\$40,181.28 Annual (\$3,348.44 monthly)**  
Guaranteed Minimum Return / Survivor Benefit = \$401,812.80
- Life & 15 Years Certain = **\$37,721.16 Annual (\$3,143.43 monthly)**  
Guaranteed Minimum Return / Survivor Benefit = \$565,817.40
- Life & 20 Years Certain = **\$34,590.24 Annual (\$2,882.52 monthly)**  
Guaranteed Minimum Return / Survivor Benefit = **\$691,804.80**

## **A DIA With Income Starting in 7 years | Guaranteed Day 1 | No Bonus or Fees:**

- Life ONLY = \$43,527.36 Annual (\$3,627.28 monthly)  
Guaranteed Minimum Return / Survivor Benefit = \$0.00
- Life & 10 Years Certain = \$40,798.20 Annual (\$3,399.85 monthly)  
Guaranteed Minimum Return / Survivor Benefit = \$416,722.80
- Life & 15 Years Certain = \$39,820.80 Annual (**\$3,235.33 monthly**)  
Guaranteed Minimum Return / Survivor Benefit = **\$582,359.40**
- Life & 20 Years Certain = \$36,551.88 Annual (\$3,045.99 monthly)  
Guaranteed Minimum Return / Survivor Benefit = **\$731,037.60**

**The DIA** offers the most guaranteed future income NOW, with available strong guarantees for beneficiaries. Set it and forget it, the ultimate for piece of mind and ease. I have been quoting this option since I started in 1995. The DIA was used regularly back then for planning purposes and it worked very well. Today it is rarely requested.

**The MYGA/SPIA** offers similar income or better income with strong guarantees and MUCH more flexibility. By using the MYGA/SPIA option, the agent and client can review the current rate environment after the term and decide the best move. An FIA with a fee based rider may have the agent writing off any chance of helping that client increase yield in the future. Why? Suitability! The carriers have a funny way of marketing fixed annuities as products that should be looked at as long term strategies. However, when it comes to suitability on transfers and exchanges they are looking at the end of year 1 values! This sure helps that money get directed into bonus products especially if a surrender charge exists. It does not look like a the client has had a loss at the end of year 1, even though the

client is using some of the bonus and will likely have lower future rates as well! So, even if the move may have a long term yield or income enhancements for the client, a carrier could use the existing benefit base as a suitability sticking point. The companies are making a fortune on these riders. I imagine if rates were to rise (hyper-inflate) and work against the carriers they may band together and disallow common sense yield maximizing plans on the grounds of suitability. One way to avoid this forever (lock up) option is to use a MYGA/SPIA design for accumulation and income.

In addition to the flexibility benefit of the MYGA/SPIA or DIA design, is a level of simplicity many conservative clients are searching for. With banks and traditional institutions paying nearly nothing for savings the MYGA can increase their saving yield by 300% - 1000%! These conservative clients can have that increase without a huge learning curve as well! Most bank CD buyers would easily understand a MYGA and the benefits MYGA's offer with their higher rates and tax deferral. Going from 0.30% to 3.00% is like getting 10 years of gains in just a year!

Compensation is competitive too! An FIA with an income rider may have a 7.50% commission (\$37,500 on a \$500,000 premium). This product should be considered a lifetime product as far as the agent is concerned; after all, the client did sign up for the lifetime income rider and is paying a hefty fee for it. A MYGA commission is about 2.50% (\$12,500 on a \$500,000 premium). However, the agent will likely be able to move the MYGA to a SPIA or a new higher yielding MYGA after the term. Should a SPIA be purchased the premium is now \$621,233.16 and a SPIA has a 3.00% commission (\$18,637 on a \$621,233.16 premium). \$31,137 would be the agent's commission. So, really only about 1.20% commission difference by using the SPIA/MYGA while getting the client much more flexibility. This 1.20% is a notable amount for any agents who use the sizzle of the "guaranteed" roll up rates to make the sales. There is a simple and guaranteed alternative for the clients who really want flexibility and a guaranteed accumulation rates!

In the search for the most guaranteed income, all that sizzle of 6.00% bonus, 6.00% roll up and a 4.75% for life adds up to nothing more than the historically used MYGA/SPIA or DIA design. The MYGA/SPIA/DIA approach is simple and will have a higher satisfaction rate due to that simplicity. This historically low interest rate environment may not be the best time to be locking in to a restrictive, fee charging, non gender based lifetime income product. If the client is looking for a set it and forget it income option the DIA offers top income now for future income. Immediate Annuities should be shown to all client looking for guaranteed income.

Jeff Affronti

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