FIXED ANNUITY RATES
HOW TO GUARANTEE AND MAXIMIZE POTENTIAL

By: Jeff Affronti

Soon to be retirees, or retiree candidates, have many variables to evaluate and monitor as they near their goals.

Rates are LOW! The market has been up for a LONG time!
What are some fixed annuity options available for soon to be retirees?

Fully Guaranteed Option
Multi Year Guarantee Annuity (MYGA) rates have been historically low for a while. Rates of 3.00% or higher are rare, especially in the "A" or better ratings category. There are some quality "B" rated carriers that continue to offer very competitive rates while keeping a stable outlook with the ratings agencies. Most of these annuities are only 3 to 5 year terms so the client is not tied in for very long if economic conditions change.

Let's look at the cost to have the higher rated carrier at the time of purchase

Cost Of Insurance Over 5 Years On A MYGA With $1,000,000
2.50% rate will grow to $1,131,408.21 (13.14% after 5 years)
3.00% rate will grow to $1,159,274.07 (15.92% after 5 Years)
A difference of **$27,865.86 after 5 years** on the $1,000,000 of premium. After the fifth year both carriers products are free to move to the best rate at that time. One will have a higher value though.

For the clients who wants a fully guaranteed return, the MYGA will accumulate and compound tax deferred every year.

For A Shot At Higher Than Fixed Rates
The Fixed Indexed Annuity (FIA) can be used as a short term alternative to a MYGA. The potential for higher gains lies in the crediting method. Using an FIA with a simple crediting method, such as an annual reset with a cap, may be a nice alternative for the client who wants simplicity and a shot at higher than MYGA rates. A more aggressive crediting method, such as a two year monthly cap, offers the potential for much higher returns. The more aggressive crediting methods are more complicated however. They do still have the zero percent floor and other minimum guarantees.

What Is The Risk/Reward To A Client Taking An FIA over a MYGA?
There is a risk! The client could take the 2.50% from an A rated carrier or the 3.00% from the B rated carrier and get between 13.1% and 15.9% guaranteed. The Fixed Index Annuity could return as little as 0% on the guaranteed side. This is why the FIA is for a "**shot"** at higher returns. The client must be okay with zero percent years.

The client really won't know if the FIA is better until the account value of the FIA is higher than the MYGA option they could have chosen. The great thing about the FIA is that, in most cases, **FIA gains are locked in**. So, potentially, a five year FIA could do better than the five year MYGA in as little as one to two years based on the crediting method and market performance.

Soon To Be Retirees Who May Want To Lock In Gains
Even with lower caps and rates, the FIA is once again up for serious consideration for all savers. Especially, soon to be retirees! Looking at current market conditions, with a bull market for over six straight years, something will eventually happen to reverse the trend. If a soon to be retiree is hit with a 30% + drop in the market will it change their retirement timing? The FIA is a great place to go if it is time to **lock in**some of those gains. Those gains they can not afford to give back, more than they need the potential earnings on them. A client in this situation can guarantee principal while picking the most aggressive FIA crediting method for that shot of double digit returns.

In the end it is all about maximizing potential while guaranteeing principal that the client can not afford to be lost. Using insurance products such as fixed annuities can be the missing link between safety and potential yield.

Jeff Affronti
Marketing, Illustrating, Building Fixed Annuities since 1995.

The idea is to not outlive your money.
Maximizing it at the same time does not hurt.

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