



A Guide to MYGAs

Defining the MYGA

A multi-year guarantee annuity is also known as a “fixed rate annuity.” Most MYGAs are “single-premium contracts,” which means they are paid for with an initial lump-sum premium payment. The contract lasts for a certain timespan, which is called the contract term. Generally, the terms on MYGA annuities last for 3-10 years.

In advanced, the insurer declares a fixed interest rate for the annuity. This interest rate remains the same throughout the contract term – in most cases. The insurance company provides a guarantee for this growth, and it credits interest to the MYGA annuity on an annual basis. As a result, the money grows tax-deferred within the contract.

Future growth calculated for your annuity will also be guaranteed. If a MYGA is purchased with non-qualified money – or money outside of a retirement account – the earned interest will also grow tax-deferred.

Low-Risk Short-Term Savings

These products allow individuals to save pre-tax money to accumulate it on a tax-deferred basis, until retirement. But annually, there is a limit to how much can be contributed.

After maxing out your contributions, do you have more money that you would like to invest? Understandably, you may want a decent minimal return with minimal risk. For example, like the security of a bank CD but ideally with a better return.

The MYGA is often used as an option in place of a CD because it may be more suitable to retirement savings, depending on a client’s situation, offering:

- **Higher crediting rates over longer time horizons,**
- **Tax-deferred growth,**
- **The ability to annuitize upon maturity**
- **Liquidity via penalty-free partial withdrawals.**

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Benefits of a MYGA

The MYGA annuity is great for providing "growth certainty." In other words, you will know exactly what your interest rate is – as well as the value of the contract backed by the insurance company's guarantee.

Some other potential advantages include:

- The MYGA has no internal fees, unlike some other fixed-type annuities
- It can provide guaranteed income, whether for a set period or life
- You may take withdrawals, which can be your earned interest or up to 10% of the contract value
- A MYGA can leave a death benefit to your beneficiaries
- A MYGA annuity functions like a bank CD but it offers tax-deferred growth -- interest on a bank CD is taxable
- Your principal is protected, and interest is compounding
- Generally, MYGA annuities pay out a higher interest rate than CDs do

LTC Needs

Many MYGA contracts come with waivers for a terminal illness or nursing home care. This provides for special withdrawal provisions, where someone can take money out of the contract without a surrender charge/penalty. Many waiver provisions allow withdrawals at no cost. Of course, certain conditions must be met.

Many annuities, for the terminal illness waiver, allow you to withdraw all your money. Among other conditions, someone must have been diagnosed by a qualifying medical professional. When the waiver becomes available can vary from contract to contract. Some annuities specify after the first year while others may allow partial withdrawals the first-year in. It's important to check the certificate of disclosure.

A nursing home care waiver gives special withdrawal privileges as well. You may take all your money without a surrender penalty or at no cost, when certain conditions are met, endorsed by a qualifying medical professional, and the person has to be confined to a nursing home facility for a minimum amount of days.

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Many contracts state 60 days while others call for a longer period. In many annuities, confinement must have started 3 years or longer into the term for a penalty-free full withdrawal to be available.

Some MYGA annuities may come with waivers for other emergency situations, such as home healthcare needs.

MYGAs Mean Potentially Higher Interest Rates

Some MYGA annuities come with an option for earning more interest. As one theoretical example, say the insurance company tells you that if you put less than \$200,000 of premium into the contract, it will give you a fixed interest rate of 2.25% per year.

Now imagine if you decided to put in more than \$200,000 of premium. In that case, the insurance company would provide you a higher fixed rate of 2.5% per year. This is an example of how someone can get a higher fixed interest rate with a MYGA annuity.

Why a MYGA Annuity

Essentially, a MYGA annuity is a consideration for a longer-term horizon. It's safe and predictable and beneficial when considering LTC needs.

Bank CDs are insured by the Federal Deposit Insurance Corporation and offer a fixed rate of return, whereas, both the principal and yield of variable products will fluctuate with market conditions and are not guaranteed.

This is not a comprehensive overview of all the relevant features and benefits. Be sure to review all of the material details about CDs and MYGAs before making specific recommendations to consumers.

Guarantees are backed by the financial strength and claims paying ability of the issuing carrier.

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