

Simplified

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What is a MYGA?

A MYGA (Multi Year Guarantee Annuity) is used primarily to grow retirement funds for a certain period of time at a guaranteed interest rate. MYGAs are often called tax-deferred CD's because like CD's they lock interest rates, but differ because the funds grow on a tax-deferred basis. MYGAs are transparent because what you see is what you get.

When considering a MYGA your goal should be to fully protect your principal for a specified number of years, and to receive a guaranteed interest rate with tax-deferred benefits for your non-IRA account. You can also purchase a MYGA within a Traditional IRA or Roth IRA, but specific IRA taxation rules will apply.

MYGAs are a fixed rate strategy with a specific time period. When the time period of your contract comes to an end you will have the option to convert your annuity to another annuity, such as another MYGA, to continue to defer taxes for another specific time period. You may also choose to convert your MYGA to an income annuity such as a SPIA (Single Premium Immediate Annuity) if you need immediate income. Visit SPIA.direct. Another option is to convert to a DIA (Deferred Income Annuity) if you need income at a later date. Visit DIA.direct.

What are the Tax Benefits?

If you use non-IRA money for your MYGA the annual interest you receive will grow and compound tax-deferred. In other words, you will NOT pay taxes annually on this money. As stated above, at the end of your contract you can continue the tax-deferral strategy by converting your MYGA to another annuity.

You will eventually pay taxes when you pull the money out of your MYGA in a non-IRA account if you choose not to convert to another annuity. The funds will be taxed using the LIFO (Last In First Out) method. In other words, interest or gains first, and all LIFO distributions will be taxed at ordinary income levels.

MYGA's can be purchased inside of a Traditional IRA, but IRA taxation rules apply. MYGAs purchased inside a Roth IRA will have a tax free distribution like all other Roth assets.

Will My Interest Really Compound?

Yes, and it will compound tax-deferred inside a non-IRA account. This is how a MYGA can outperform a Certificate of Deposit (CD). See below for details.

Why Would I Buy a MYGA Instead of a CD?

The primary reason is the tax benefit of a non-IRA MYGA as described in detail above. A CD does not have this benefit as the interest earned on a CD is reported annually and you will pay taxes on it annually.

Note that both MYGAs and CDs are in the fixed rate family and pretty much work the same way with a contractually guaranteed annual interest rate for a specified period of time. Both have surrender charges if you take the money out early, and both have no annual fees.

As a rule of thumb concerning whether to buy a CD or a MYGA look at the amount of time you want to lock in the interest rate and your money. If you will need the money within 2 years, then a CD makes sense, but if you don't need the money for 3 or more years you may want to consider a MYGA because you will most likely get a better rate than a CD.

What is the Interest Rate of a MYGA?

The fixed interest rate will depend on the insurance company issuing the MYGA as it will declare the interest rate just like a bank declares its CD interest rate. When determining the going interest rate the insurance company depends on the volatility of the U.S. Treasury Note, and the competitive nature of the current annuity industry environment. MYGAs are often referred to as Fixed Rate Annuities which makes sense as the interest rate at the beginning of your policy will be the same at the end. If you choose to purchase another MYGA at the end of your contract, you will be locked into another interest rate, most likely higher or lower dependent upon the interest rate environment.

How Many Years Can I Own a MYGA?

First, decide how many years you feel comfortable wanting your money to grow at a fixed interest rate. Presently, the interest rate environment is low, so the least number of years you can own a MYGA contract is 3, but when interest rates rise again this may change to 1 – 2 year terms.

MYGAs can be locked in for longer terms of 10 years or more, but you need to be careful and properly analyze if locking in at an interest rate for that long of a period of time is right for you. You may believe interest rates will be rising and if you are locked into a longer term MYGA you will not be able to take advantage of the rise without a high surrender charge.

It may be prudent to choose a shorter MYGA time period.

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Will There Be Surrender Penalties?

Yes, you will be penalized as with most contracts that have surrender charges. The surrender charges during the contract period of a MYGA are high, so make sure you will not need to access these funds during the contractual period. For example, a 3 year MYGA might have an 8% year 1, 8% year 2, and 8% year 3 surrender penalties. It's important to know what specific surrender penalties are for the MYGA you are considering.

Some MYGAs have an MVA (Market Value Adjustment) clause imbedded in the contract that will affect the surrender charge. It can work for or against you as the current interest rate at the time of the surrender will affect the amount you receive. Simply, if you purchased your MYGA at a higher interest rate than at the time you want to surrender it, the net surrender charge penalty can be less. The reverse applies if you purchased your MYGA at a lower interest rate than at the time you want to surrender it, the net surrender charge penalty can be more.

Please note that most MYGA contracts do not have an MVA clause, but you should read your contract carefully to know if this clause is in your contract and could affect you down the road.



Is There Any Liquidity in a MYGA?

Most MYGAs allow you to take some money out without penalty. But, insurance companies, who contract MYGAs, differ in what they allow or not allow withdrawn during the contract duration. Some will allow you to withdraw 10% annually without a penalty, others will allow interest only without penalty, and others don't allow any withdrawals during the first year of the contract.

Do your homework on the specific MYGA policy you choose and match your liquidity needs with the rules of that contract.

Can I Ladder MYGAs?

Most people are familiar with laddering CDs or laddering bonds, and the same strategy can be used with MYGAs. Laddering MYGAs is a “no brainer” because you will have money coming due every year to hopefully take advantage of rising interest rates.

Here's an example of what a typical MYGA ladder looks like using \$300,000:

\$100,000 in a 3 year MYGA @ 2%

\$100,000 in a 4 year MYGA @ 2.5%

\$100,000 in a 5 year MYGA @ 3.1%

Starting in year 3, you have money coming due and out of the surrender charge period. You can either take the money in full (including the compounded interest) or execute a tax free transfer to another annuity that hopefully has a higher guaranteed rate. This type of transfer would be a non-taxable event under IRS section 1035 or IRA direct transfer rules.

Can I Add Riders to a MYGA?

Income Riders are attached benefits to a deferred annuity policy that provide a guaranteed income stream starting at a future date. They are typically sold with variable and indexed annuities, and are too often over-hyped and are confused with actual yield.

MYGAs do not offer income riders to the policy. MYGAs are simple to understand and don't have bells and whistles to confuse the consumer.

Is There an Annual Fee?

No, simply put. Your principle is never used for fees or commissions. MYGA commissions to the agent are typically low, built into the policy, and paid from the carrier's reserves. Just so you understand, the shorter the time period of the MYGA, the lower the commission, and the reverse, longer time higher commission. The commission is usually from 1% to 3% dependent on the contract.

If you decide to purchase a MYGA from an annuity agent instead of directly from MYGA.direct you may hear that an indexed annuity is the product you should be looking at. Remember, the commission paid to that agent for an indexed annuity is considerably higher at 7 – 10%. Know what you want before you sit down to buy and don't let the hype of another product deter you from your goal.

Should I Use IRA or non-IRA Money for my MYGA?

Of course the answer depends upon where you presently have the money you can use to purchase a MYGA contract. They can be purchased within a Traditional IRA, a Roth IRA, and a non-IRA (non-qualified) account. Inside of any IRA structure, specific IRA taxation rules apply.

MYGAs owned in non-IRA accounts provide the benefit of tax deferred compounding growth of the annual interest rate.

What Happens If I Die?

Since one out of one of us is going to die insurance companies are very aware of how they need to structure their contracts to make sure consumers feel comfortable with their purchase.

Most MYGAs offer the accumulation value at the time of your passing as a death benefit. Make sure you understand how the death benefit is contractually calculated. Most companies will waive the surrender penalty at death, but there are a few companies that do not. Generally, you do not want one of those MYGA policies.

The listed beneficiaries on your MYGA policy will receive a lump sum when you pass away. Policies can be structured for your beneficiaries to receive payments over a period of years. You choose what is best for your beneficiaries, and note that you can change the beneficiaries any time during your life if your circumstances change.

What Are MYGA Guarantees?

You are contractually guaranteed an interest rate for a certain period of time with compounding tax deferred interest in non-IRA accounts. You are guaranteed your money back during the free look period, typically ranging from 10-30 days upon receipt of your contract. Read your contract carefully and contact the carrier with any questions during this time.

MYGAs are regulated at the state level, and each state has their own specific level of annuity coverage if the carrier goes under. It's called The State Guaranty Fund and covers annuity premiums to a certain limit. Each state is different. You can go to the National Organization of Life and Health Insurance Guaranty Association website at www.nolhga.com to find out your specific state's coverage.

It's important to remember that annuity guarantees are only as good as the carrier backing them up, so do your homework.

MYGA Benefits and MYGA Limitations

Benefits:

- No annual fees
- Contractually guaranteed annual interest rate
- Rates typically higher than CDs
- Interest compounds tax deferred in a non-IRA account
- Can be purchased inside of an IRA or non-IRA
- Low commissions paid by insurance company
- Easy to understand with no moving parts
- Laddering allowed

Limitations:

- High surrender charges
- Limited liquidity
- Shortest term MYGA is now 3 years
- Guarantees only backed by issuing carrier
- Money taken out is taxed LIFO at ordinary income levels

3 RULES for Deciding if a MYGA is Right for You

RULE ONE – Your primary objective is to have a fixed interest rate for a specific number of years during which you will grow your money. The interest rate depends on the carrier and the interest rate environment.

RULE TWO – You want to own a MYGA for a minimum of 3 years before you either need the money or you choose to roll it over into another annuity to continue to defer taxes.

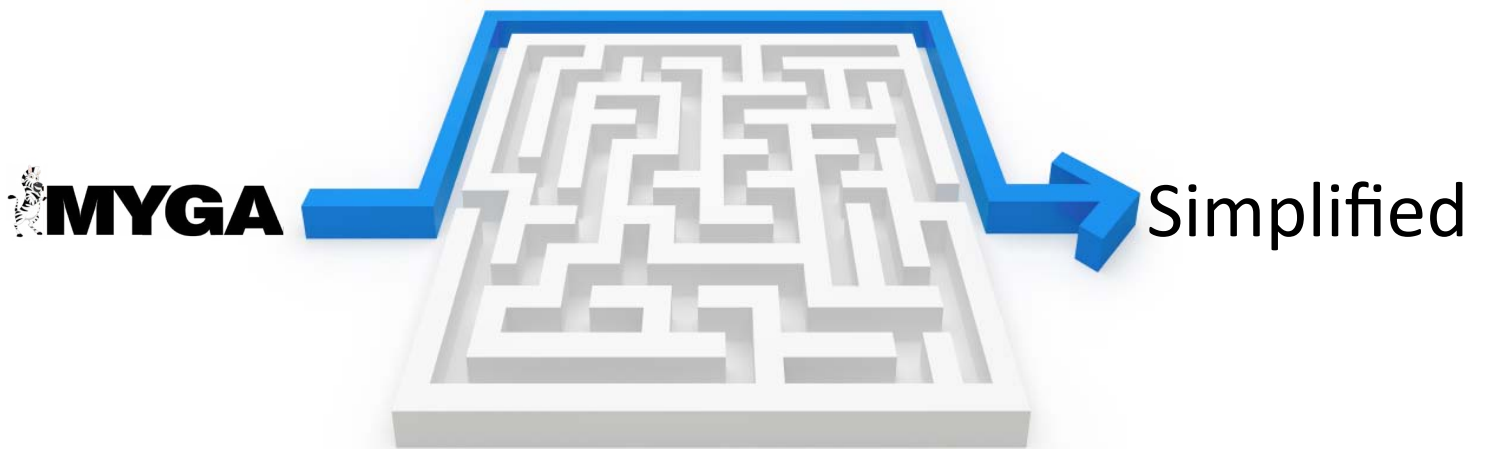
RULE THREE – You want future income and have determined if you want a single or joint DIA. If you're married, you may want to speak with your spouse as you plan for your future income needs.

IF I HAVE MORE QUESTIONS ABOUT MYGAs



Have Questions?
EMAIL US FOR MORE INFORMATION





**Guaranteed Interest Rate for Life of the Contract
&
Tax Benefits for Non-IRA Money**