

Top 10 MYGA Features

Overview

Rising interest rates paired with equity volatility have made MYGAs a safe haven for investors over the last year. So much, in fact, that LIMRA recently published Q2 2022 numbers showing a run-rate for Fixed annuities with year-over-year growth of 46%. For MYGAs specifically, Q1 2022 sales grew 17.1% from Q1 2021 according to Beacon. The guaranteed rates of these products have increased dramatically and stand head and shoulders above comparable CD or money market alternatives (while being tax-deferred). As new products are introduced to market, carriers are trying several ways to separate themselves from the pack when it comes to these historically simple offerings. We've examined the nuances, and here are our *Top-10 MYGA Features* to examine when identifying which product and carrier is best for a given client situation.

1. Interest Rate Structure

The most important feature when evaluating MYGA offerings is the underlying rate of return. A client cares about the end result, or the dollar amount credited or received by the end of the guarantee period. However, when examining MYGAs, the quoted interest rate may not be as straightforward as it first appears.

At a high-level, current products in the marketplace have either a compound or simple interest rate. Compound rates are far more common in the market, and easily allow for an apples to apples comparison, but [simple interest can have its advantages](#). We'll dissect four different 5-Year MYGA products, how the interest rate structure works, and how the end rate is quoted.

- **Product 1:** *Athene's MaxRate 5 has a compound interest rate of 4.40%. The "yield to maturity" or quoted rate is also 4.40%.*
- **Product 2:** *Ibexis MYGA Plus 5 has a simple interest rate of 4.70%. The "yield to maturity" or quoted rate is the compound-equivalent rate, and is 4.31%.*

Other products may have higher first-year rates and lower subsequent rates throughout the surrender term. The next product is an example of that concept in action.

- **Product 3:** *Atlantic Coast Life's Safe Haven 5. A client receives a first-year compound rate of 5.30% and 4.30% in Years 2-5. The "yield to maturity" or quoted rate is 4.50%.*

Contrarily, other products may have a "step-rate" feature with an increasing rate each year.

- **Product 4:** *Great American's American Freedom Stars & Stripes 5. In this product, a client would earn a compound rate of 3.5% in Year 1 and the rate increases 15 basis points each year until the end of the term. The "yield to maturity" or quoted rate is 3.80%.*

As you can see from the examples above, MYGAs can take extremely different paths to an end, or quoted rate. You'll want to know the rate earned each year for annual client review conversations and/or income needs. And while an initial interest rate is important, it's not the only factor to consider when evaluating these guaranteed annuities.

2. Duration

Most MYGAs have a guaranteed rate term between 3-10 years. We've seen more premiums flow into the shorter duration products with particular emphasis on the 3 and 5-year terms. The rate advantage for longer term products is minimal or even non-existent. We attribute this to an inverted yield curve. Rapidly rising interest rates also suggests a higher guaranteed rate might be offered in the near future so clients may be hesitant to lock in an interest rate for a longer period. MYGA laddering can also help mitigate the risk of interest rate increases and is still attractive within the shorter-term product durations.

On the far end of the spectrum, there are MYGAs available with durations longer than 10 years, however. *Upstream Life's Secure Legacy 15* offers a 15-year product and *Atlantic Coast Life's Safe Haven* series offers a 20-year MYGA.

3. Liquidity

Many clients leverage MYGAs for retirement income. It's important to determine if free withdrawals or interest-only withdrawals are available in the annuity. Some products have liquidity that's available starting Day 1 and with others it begins in Year 2 or is unavailable. We've seen products introduced to market that have a fee associated with any liquidity --- with the tradeoff being a higher guaranteed interest rate. Examples of this include *Aspida's Synergy Choice* series and *Sentinel's Personal Choice* series, both of which are extremely competitive from a rate perspective.

Planning for the unexpected is also top of mind. Confinement, home health care and terminal illness waivers will vary by product and are subject to state availability --- and they may also come with an added fee depending on the product.

4. Carrier Rating

Agents and advisors often position MYGAs as a higher-yielding alternative to bank CDs. However, CDs are FDIC insured up to \$250,000. MYGAs, and fixed annuities in general, are regulated at the state-level, with each state having their own guaranty fund. You can find information for your state [here](#).

The rating of a carrier is doubly important, as it's an assessment by an outside rating organization of the company's financial strength and ability to meet its policyholder obligations. The most common ratings you'll find are from [A.M. Best](#), [S&P](#), and [Moody's](#). Each have their own rating scales. However, there's uniformity with the letter grade being similar to a report card. An "A" rating is more favorable than a "B" rating and so on. Plusses "+" or minuses "-" are often attributed to the rating classification as well. Overall, the stronger the rating, the more likely the carrier will remain in business and be able to fulfill any ongoing financial obligations for clients. Below are the top-rated carriers from AM Best, with all these companies possessing at least an "A" rating.

Carrier	AM Best Rating
Guardian Insurance & Annuity	A++
Mass Mutual	A++
New York Life	A++
Reliance Standard	A++
Thrivent	A++
USAA	A++
North American	A+

Pacific Life	A+
Protective Life	A+
Securian Financial	A+
Western-Southern Life	A+
CUNA Mutual	A
First Symetra Nat'l Life	A
Global Atlantic	A
Great American	A
Integrity Life	A
Jackson National	A
Lincoln Financial Group	A
Midland National	A
Mutual of Omaha	A

After some research, it's likely you'll notice the highest rated carriers rarely have the highest yielding guaranteed rate for various product durations. A main reason is higher rated companies typically have higher Risk-Based Capital (RBC) ratios. For example, a "A+" carrier could have an RBC of 500%, while a "B++" carrier could have a 300% RBC. A higher rated carrier, with a higher RBC, holds more capital against the policy reserves they have on their books. As a result, they're unable to offer as high of a rate guarantee. A client is ultimately trading rate for safety when choosing highly rated carriers.

5. Compensation

MYGAs offer an upfront commission paid to the agent or advisor. The commission will depend on the duration of the product --- the longer the duration or surrender schedule, typically the higher the commission. We examined the average commissions for the Top-25 MYGA rates in the 3, 5 and 7-year durations for a quick comparison.

Duration	Comp
3-Year	1.62%
5-Year	2.32%
7-Year	2.70%

We've also seen an increase in fee-based MYGAs. These MYGAs offer no up-front commission, and are most often used in situations where a client is already paying an AUM or management fee to the advisor --- think RIAs. It depends on the distribution channel, but often for independent agents, their marketing organizations will still receive an override on placed business. As you can imagine, with no commissions paid to the agent, fee-based MYGAs should carry a slightly higher rate.

6. Value Adjustments (ROP & MVA)

MYGAs have surrender charges that apply to any withdrawal amount above and beyond the allowed amounts in the contract. However, some carriers have built in ROP features. These allow a client to withdrawal a portion or full amount of the contract value within the surrender term with no surrender charges or market value adjustment. All else equal, this enhanced flexibility typically comes with a lower guaranteed rate. This feature is in Bank Value for book value purposes. We won't list all carriers and products with this feature available, but there's an abundance of ROP products for nearly every MYGA duration from 3-10 years.

We also include products with a market value adjustment (MVA) in this category. Products that have an MVA carry a higher rate. From a carrier perspective, there's a reserving benefit for MVA. Ultimately, the carrier isn't

taking on risk in a rising interest rate environment by being disintermediated and passes the additional value on to the client with rate.

7. Banding

A “band” in reference to MYGAs is an initial premium threshold that determines the rate offered in the annuity. Some MYGAs have no banding, which means all clients will receive the same rate regardless of premium amount. Some have a Low Band, Mid Band and/or High Band. Low Bands will receive a lower rate, and High Bands a higher rate. An example is *Midland National’s LiveWell Guarantee Max 3* seen below:

	Initial Premium	Rate
Low Band	\$20,000 - 99,999	3.60%
Mid Band	\$100,000 - 249,999	3.85%
High Band	\$250,000 - 1,000,000	3.90%

Insurance companies can offer higher rates with banding because they have fixed expenses for each policy. These fixed expenses can be spread out over larger policy sizes, affecting the end rate.

You’ll want to consider the initial premium for the client and ensure you find the highest rate offered for that particular dollar amount.

8. Death Benefit

MYGAs have historically included a death benefit equal to the contract value. More products are being introduced that carry a higher guaranteed rate, but in order to receive a full death benefit, a fee must be paid annually. If not, the death benefit received is the net amount after any applicable surrender charges and/or MVA.

9. Upside Potential

Ibexis recently launched their MYGA Plus product which has additional upside potential through a performance trigger on the S&P 500. A client can allocate up to 50% of their initial premium to the performance triggered “Plus Bucket” which credits an index-linked rate if the S&P 500 is positive on an annual basis. If this happens, a client will earn more than they would solely in the Fixed rate, but if the S&P 500 is flat or negative, a client receives a zero for that portion of the premium. The current Ibexis 5-Year MYGA Plus rates include a Fixed (simple-interest) rate of 4.7% and Index-Linked rate of 6.20%.

Security Benefit’s RateTrack also has additional upside potential with their floating-rate style MYGA. This product is tied to the 3-Month CME Term SOFR Reference Rate that changes each year on contract anniversary. A base interest rate is guaranteed, currently 1.50% on the 5-year, and the CME Term SOFR is currently 2.74% and subject to a cap of 3.75% throughout the term.

10. End of Term Provisions

MYGAs can vary on the provisions for the end of the initial rate guarantee period. Some will have a window after the end of the contract, 30 days for example, and if the premium is not transferred or moved, a new surrender term will start. Others will credit a fixed interest rate daily without starting a new term. Annuitization based on the options available in the contract can also commence at this time. It’s important to keep track of the contract anniversary and ensure client funds are reallocated based on their financial situation at the time and what’s available in market.

Conclusion:

When evaluating MYGA product offerings, it's really easy to focus solely on rate. And while, we think rate is extremely important, hence it being our first feature examined, even quoted rates aren't always straightforward. It's tempting to think of MYGAs as strictly commodities, but given their increased complexity, all features (which possess significant value in their own right) must be given consideration when selecting the best policy for clients.

