

MULTI-YEAR GUARANTEED ANNUITIES (MYGA)

the million dollar tactic

If you're like many Americans, you're looking for options to boost your retirement savings. After weathering **2008 and experiencing the volatility** in today's environment, you're probably a little gun-shy about putting all your savings in equity.

However, when you look at guaranteed return options, such as CDs, the rates of return are so low that you wonder if it's worthwhile.

The good news is that there is a middle ground. **Multi-Year Guaranteed Annuities (MYGAs)** can provide both guaranteed returns and tax-deferred growth that will help your retirement account grow safely.

WHAT ARE MULTI-YEAR GUARANTEED ANNUITIES?

MYGAs are tax-deferred financial savings tools. While they provide **fixed asset accumulation** like a CD, they have several very important benefits that CDs do not have.

With a MYGA, you allocate a lump sum over a specific timeframe. Many MYGA's range from 3 to 10 years, during which you earn a guaranteed fixed return. Interest is not taxed until it is withdrawn, and your principal is never at risk.

AN ANNUITY THAT GROWS

One of the things that makes a **MYGA** unique is the option to take interest-only distributions or the full amount at the end of the term.

If you prefer, you can also renew the **MYGA** for the same duration at a renewal rate which may be higher or lower than your initial rate. If you are 59 1/2 or older, you can simply withdraw the money without penalty.

The focus of a **MYGA** is that it grows tax deferred over a specified period of time, accumulating additional assets at a set rate.



THE BENEFITS OF A MYGA

A **MYGA** has a variety of benefits that makes them an attractive option for many investors. Here are some of the ways they stand out.

A strong return over a specified time frame

When you look at CD rates, it can be difficult to find the returns you really want.

A **MYGA** generally offers better returns over the same period than CD's. These rates vary based on market conditions, including long-term treasury and investment grade corporate bond yields. You may also get different rates based on the length of your **MYGA** term, the amount you invest, and the credit rating of the carrier you buy from.

Tax-deferred asset growth

Because this type of annuity is seen by the government as a way to save for retirement, the growth of the annuity is **not taxed until it's withdrawn**. This is a major benefit because interest will grow and compound without triggering an annual tax bill.

Many other principal-protected investment plans do not offer deferred growth, which means you have to pay taxes every year and eliminates any kind of compounding.

No market risk

If you're nervous about losing your savings in a risky market, a **MYGA** can be a perfect way to assuage your concerns. **Your principal is protected and will grow at a specific rate, guaranteed.**

This makes a **MYGA** a great way to plan for the future, because you know exactly how much money you'll have available at maturity. There are **no question marks.**

No fees

Because a **MYGA** is a [guaranteed, fixed-rate instrument](#), there are [no fees](#) required like there would be for an actively managed asset. Also, you don't have to worry about loads or sales charges.

Instead, you simply put your money in at the beginning and get your returns or renew at the end. It's simple!

A bit of liquidity

You can purchase riders that give you additional options with your **MYGA** during the growth period. You can often arrange to have [access to up to 10%](#) of the instrument's cash value available for withdrawal.

Keep in mind that if you are younger than 59½, you could pay a 10% penalty on a portion of the money withdrawn from a **MYGA** until you reach that age.

Avoids probate

Unlike many assets, a **MYGA** will avoid probate and go directly to named beneficiaries if you pass away. This can give you significant peace of mind and help your family handle your estate more easily.





CONSIDERATIONS WHEN LOOKING AT MYGA'S

If you need immediate liquidity or are not close to 59½ years old, a **MYGA** may not be the best choice for you. However, if you have already maximized your 401(k) or IRA contributions, and are looking for additional ways to safely save for retirement, a **MYGA** is a great choice.

In addition, for that “just in case” or later money, **MYGAs** provide principal protection with attractive guarantees and tax deferred growth.

Here are a few other considerations about a **MYGA**.

The amount you can allocate

The higher your allocation, the higher the rate that you'll have access to. Different insurers have different minimum requirements.

The specific minimums and maximums will be determined by the company you choose to set up your **MYGA** with.

How long of a term

Of course, the longer the **MYGA** term, the higher the interest rate will be for you. However, you may have financial needs that prevent you from choosing the longest available term.

You'll need to [balance your desired returns](#) against the idea of having your money tied up for a period of time. Remember, while a **MYGA** does provide some liquidity, taking money out will reduce your overall returns and hurt your results.

Choosing the issuer

Issuers of **MYGAs** are insurance companies, and each one is rated by A.M. Best.

[Paying attention to the financial ratings of the issuing company is important.](#) After all, the guarantees offered are backed by the claims paying ability of the issuing insurance company.

MYGAs vs CDs

Because a **MYGA** is so similar to a CD, you may think about simply choosing a CD. However, a CD has drawbacks that a **MYGA** does not have.

First, a **CD is not tax deferred**. This means that, as your CD value grows, you'll have to pay taxes on that growth annually. As a result you end up paying what is referred to as tax on "phantom income". Interest income that is locked up inside the CD, that you are required to report and pay taxes on annually. With a **MYGA** the taxes are deferred until you choose to withdraw the money from the contract.

Secondly, you'll find that **MYGA** interest rates are higher than CD returns, so you can actually earn more over the same time with a **MYGA**.

Other opportunities

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Keep in mind that if you are younger than 59½, you could pay a 10 percent penalty on a portion of the money withdrawn from a **MYGA** until you reach that age.

Fixed annuities

If you want specific income during retirement, why not simply choose a traditional fixed annuity?

That certainly can be a good option! It's important to remember that a traditional **fixed annuity only offers the interest rate one year at a time**.

At the end of each year, it's reevaluated and your interest — along with your payment — can change. There is a minimum rate guarantee, but it's not as high as the return on a **MYGA**.

During times of low interest rates, a traditional fixed annuity is not very attractive. Instead, you can lock in a much better rate on a **MYGA** over time. If interest rates are going up, however, you may want to employ a traditional fixed annuity.



Fixed index annuities

Fixed indexed annuities (FIA) have been touted as a way to capture a portion of the market's upside without any of the downside, all while preserving the principal. However, an FIA is not a security, so you won't get equity-level returns. You can get [returns much greater than a CD](#), and additional benefits.

Some of the benefits an FIA offers may include protection from market downturns, potential interest depending on allocation, tax deferral, and a death benefit. With the right provider, you may be able to receive bonuses and income increase options, as well.

The laddered approach

Some consumers use laddering to mix FIAs and **MYGAs** to get the best returns over time. When you use a ladder approach, your money matures in alternating years, so that you always have [liquidity available if you need it](#). Laddering can also help you capture rising interest rates easily.

There isn't much in life that's guaranteed, but a **MYGA** can give you the returns you need to enjoy your retirement.

Whether you utilize a **MYGA**, Fixed Annuity or Fixed Indexed Annuity, [all are great solutions that are designed to meet your retirement needs](#).



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