



# MYGA: SIMPLE VS. COMPOUND INTEREST

MYGAs are an extremely popular, conservative investment vehicle for many individuals approaching retirement. Given recent interest rate increases, the attractiveness of these products has increased substantially in recent months. When evaluating the competitive landscape, a majority of the MYGAs issued by insurance companies use *compound interest*.

Ibexis Life & Annuity Company recently launched their first fixed annuity.

The MYGA Plus™ is an innovative iteration in the increasingly competitive MYGA landscape. It offers a guaranteed Fixed Rate and has an Index-Linked Option (which is performance triggered on the S&P 500) that allows for additional upside potential. One thing that stood out about the MYGA Plus™ is the simple interest nature of the fixed rate. When evaluating similar MYGA products, most advisors assume compound interest is the more favorable option for clients, all else equal. Let's examine that assumption.

## MYGA Comparison

For a fair comparison, we'll use two rate-equivalent 5-year MYGAs with an initial premium of \$100,000. The simple interest MYGA pays a rate of 6.00% and compound interest MYGA pays a rate of 5.39% annually.

As you can see from the table of values, after the 5-year term, the clients have the same accumulated value.

Simple Interest = 6.00%			Compound Interest = 5.39%		
Year	Interest Credit	Accumulated Value	Year	Interest Credit	Accumulated Value
1	\$6,000	\$106,000	1	\$5,387	\$105,387
2	\$6,000	\$112,000	2	\$5,678	\$111,065
3	\$6,000	\$118,000	3	\$5,983	\$117,048
4	\$6,000	\$124,000	4	\$6,306	\$123,354
5	\$6,000	<b>\$130,000</b>	5	\$6,646	<b>\$130,000</b>

Equal enough—*yet the difference exists in what happens along the way.*

## Liquidity

We don't like to think about it, but what happens if a client passes away during the surrender term? The **simple interest option would pay a higher death benefit** at every point until the end of the contract.

Simple Interest = 6.00%		Compound Interest = 5.39%	
Year	AV/Death Benefit/Waiver Amount	Year	AV/Death Benefit/Waiver Amount
1	\$106,000	1	\$105,387
2	\$112,000	2	\$111,065
3	\$118,000	3	\$117,048
4	\$124,000	4	\$123,354
5	<b>\$130,000</b>	5	<b>\$130,000</b>

The same holds true for any waivers exercised. And because of a higher accumulated value, the **cash surrender value would also be more in the simple interest option** assuming an equal surrender schedule.

## Income

What if a client wanted to use their MYGA for income purposes and enjoy the retirement of their dreams? The following table shows annual interest-only withdrawals.

Simple Interest = 6.00%			Compound Interest = 5.10%		
Year	Annual Withdrawals	Accumulated Value	Year	Annual Withdrawals	Accumulated Value
1	\$6,000	\$100,000	1	\$5,387	\$100,000
2	\$6,000	\$100,000	2	\$5,387	\$100,000
3	\$6,000	\$100,000	3	\$5,387	\$100,000
4	\$6,000	\$100,000	4	\$5,387	\$100,000
5	\$6,000	\$100,000	5	\$5,387	\$100,000
	<b>\$30,000</b>			<b>\$26,935</b>	

The **simple interest option generates 11% more income** — \$30,000 versus the compound interest total of \$26,935. *For overall liquidity, the simple interest MYGA provides more value.*



**Simple interest MYGAs deliver more value intra contract for consumers when the end result (Accumulated Value) is the same. If you're writing MYGAs for your conservative clients, it might be time to evaluate the simple interest options available in the marketplace.**

Annuities are long-term retirement income vehicles are not suitable for everyone. They involve terms and conditions, fees and charges including possible surrender penalties for early withdrawal. Product and feature availability may vary by state.

Insurance product guarantee are backed by the financial strength and claims-paying ability of the issuing company. Annuity withdrawals are subject to ordinary income taxes, and an additional 10% federal penalty if taken before age 59½.

