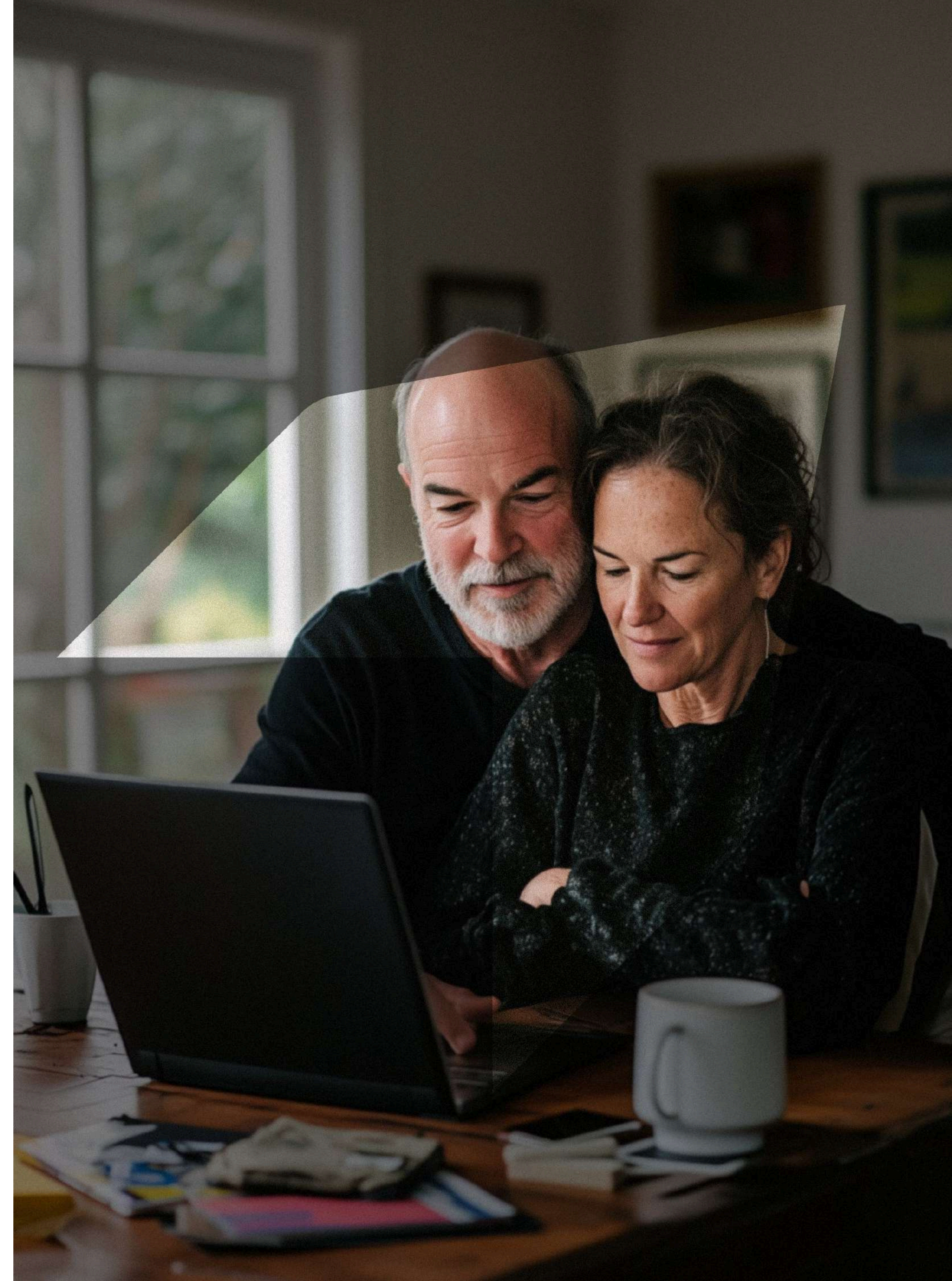


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The Future of Fixed Income

Leveraging Modern MYGAs to
Optimize Client Portfolios

A Comprehensive Guide
for Financial Advisors



Setting the Stage: Navigating Today's Yield Landscape

As market conditions evolve and interest rates are expected to decline over the next several years, registered investment advisors (RIAs) face the ongoing challenge of boosting fixed income and cash positions in client portfolios. Recent signals from central banks and credible news sources like Reuters indicate that the declining-rate environment is likely to persist in the near term, pressing the need for alternative, reliable income strategies.

At Gainbridge, we understand the urgency to adapt. This comprehensive guide explores how Multi-Year Guaranteed Annuities (MYGAs) can serve as a strategic tool to enhance fixed income positions—offering both stability and attractive returns even when conventional fixed income products underperform. By integrating MYGAs into your advisory approach, you'll be well-equipped to navigate the challenges of today's yield landscape while positioning your clients for long-term financial success.

Demystifying multi-year guaranteed annuities (MYGAs)

What Are MYGAs?

MYGAs are fixed annuities that offer a guaranteed interest rate for a predetermined period, typically ranging from three to ten years. They are issued by insurance companies, which pool the funds from policyholders and invest these funds in a diversified portfolio. Unlike market-sensitive products, MYGAs provide predictable returns and stability, making them an attractive option for advisors focused on fixed income.

The Role of the Insurance Company General Account

The secret behind MYGAs' robust yield potential lies in the insurance company's general account. This account is a diversified pool of assets—ranging from government, corporate, and municipal bonds to mortgage-backed securities and alternative investments—that underpins the insurer's obligations.

By channeling pooled funds into these diversified assets, insurers can generate returns that often exceed those available from traditional fixed income investments like CDs or conventional bonds. The general account structure also permits insurers to assume additional duration and credit risk on a controlled basis, thus accessing higher-yield opportunities while maintaining a solid risk profile.

Key Characteristics of MYGAs:



Guaranteed Returns

Fixed interest rates over the annuity term.



Low Market Risk

Funds are not subject to mark-to-market fluctuations.



Liquidity Provisions

Some MYGAs include annual penalty-free withdrawals and/or penalty-free withdrawals for certain life events. New non-tax deferred MYGAs also offer penalty-free withdrawals at maturity prior to age 59 ½ – something that isn't found in traditional annuities.[1]

Inside the Engine: How MYGAs Generate Returns

MYGAs are structured to deliver a reliable yield over a specific period, and their attractiveness is largely derived from the assets held within the insurance company's general account. Here's how the process works:

- 1. Pooling of Funds:** Policyholders invest in MYGAs, and the insurer consolidates these funds.
- 2. Investment Diversification:** The insurer deploys these funds into a diversified portfolio, which may include:
 - Government, corporate, and municipal bonds
 - Mortgage-backed securities
 - Real estate and alternative assets
- 3. Guaranteed Interest:** Despite the market volatility, the annuity contract guarantees an interest rate that is derived from the yields earned by the insurer's diversified investments.
- 4. Term-Specific Investment:** MYGAs are designed for a specific period and are not traded on secondary markets, which allows the insurer to optimize long-term yield strategies without the complications of mark-to-market risk.

This structure offers advisors a product that aligns well with conservative fixed income strategies while providing a higher yield compared to conventional fixed-income instruments in today's low-rate environment.

The Tax Trade-Off: Tax-Deferred vs. Non-Tax-Deferred MYGA Options

One of the evolving dynamics in the annuity market is the emergence of non-tax-deferred MYGA options. While traditional MYGAs typically offer tax-deferred growth—meaning the interest earned is not taxed until it is withdrawn—non-tax-deferred MYGAs offer a different set of advantages.

Tax-Deferred MYGAs

Advantages

- **Tax-Deferred Growth:** Investment earnings accumulate without the annual tax drag, enhancing long-term growth.
- **Retirement Focus:** Ideal for pre-retirees and retirees who expect to be in a lower tax bracket upon withdrawal.
- **Long-Term Compounding:** The deferral of taxes allows for reinvestment and more efficient compounding over time.

Considerations

- Early withdrawals (typically before age 59 ½) may incur IRS penalties and ordinary income tax.
- May be best suited for clients with a long-term time horizon and those focused on retirement accumulation.

Non-Tax-Deferred (Taxable) MYGAs

Advantages

- **Immediate Taxation on Interest:** While this means paying taxes annually on the earned interest (similar to CDs), it also simplifies the tax treatment for investors who do not wish to deal with deferred tax complexities.
- **Enhanced Liquidity:** These products offer more flexible withdrawal options, avoiding IRS early withdrawal penalties and making them an attractive CD alternative.
- **Bridge Solutions:** Non-tax deferred MYGAs provide a secure investment alternative for clients who intend on making withdrawals prior to 59 ½, such as for life goals or regular income.

Considerations

- The annual taxation of interest means that the effective yield may be slightly reduced depending on the investor's tax bracket.
- Best suited for investors who do not require the benefits of tax deferral and who prioritize flexibility and near-term access to funds.
- Owners receive a 1099-INT annually for interest earned during the calendar year similar to a CD or bond. There is no requirement to make a withdrawal from the annuity, enabling policyholders to continue compounding interest.

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	Tax-Deferred MYGA	Non-Tax-Deferred MYGA
Tax Treatment	Growth is tax-deferred; taxes owed upon withdrawal	Interest taxed annually (similar to a CD)
Liquidity	Early withdrawals before age 59.5 incur penalties	No IRS penalty at maturity, with more flexible access
Interest Rate	Can range up to 5.70%	Typically 5.65%–5.70%
Ideal Holding Period	Long-term accumulation	Shorter-term, CD-like usage
Primary Use Case	Retirement accumulation; tax-deferred growth	Life goals; savings goals; secure, guaranteed savings alternative

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Outpacing the Ordinary: MYGAs vs. Traditional Fixed Income Assets

In today's evolving market environment, it's crucial for advisors to understand how MYGAs—both tax-deferred and non-tax-deferred—stack up against traditional fixed income products like Certificates of Deposit (CDs) and bonds. This comparison underscores the unique benefits MYGAs offer within a diversified fixed income strategy.

Yield and Return Potential

MYGAs

- Benefit from the diversified investment portfolio of the insurer's general account, offering attractive fixed yields—sometimes up to 5.70%.
- Provide guaranteed fixed returns over a specified term, independent of market fluctuations or declining interest rates.

CDs

- Generally offer lower yields, particularly in a low-rate environment.
- Yield is fixed, but typically does not reach the levels provided by MYGAs due to limits imposed by the issuing banks.

Bonds

- Can offer varying yields depending on the credit quality and duration; however, many quality bonds are trading at historically low yields.
- Exposed to interest rate risk and market volatility, which MYGAs mitigate by design.
- Many investment grade bonds with higher yields are callable by the issuer and may be called back prior to maturity - as opposed to MYGAs with guaranteed terms

Risk Profile

MYGAs

- Have a fixed rate for a fixed term, your APY will not vary throughout the guaranteed term
- Designed to minimize market risk by locking in a rate over a set period.
- 100% principal protection, backed by the insurance company's general account, which adds a layer of security.

CDs

- Carry minimal risk if held to maturity and are typically FDIC-insured, though the yield trade-off remains a concern.
- Some CDs (particularly brokered CDs) may have call provisions, meaning the issuer can redeem them before maturity.
- Most brokered CD's do not offer compounding interest, and that can drastically cut into returns over time - even if the annual APY is higher than other CD's

Bonds

- Subject to market risks, including interest rate fluctuations and credit risk.
- Can be sensitive to economic cycles, which might lead to reinvestment or liquidity challenges.
- Callable bonds can leave you in a position to reinvest at a lower rate or take on more risk to achieve a similar rate

Liquidity and Access

MYGAs (Tax-Deferred vs. Non-Tax-Deferred):

- Tax-Deferred MYGAs: Best for long-term growth with some liquidity restrictions (penalties on early withdrawal before age 59.5).
- Non-Tax-Deferred MYGAs: Offer enhanced liquidity without IRS penalties at maturity, making them a strong alternative to CDs for short-term needs.

CDs

- Generally offer predictable, fixed terms, though early withdrawal penalties can reduce flexibility.
- Often less liquid when compared to MYGAs that typically offer annual free withdrawals and withdrawals for certain other life events.

Bonds

- Can be sold in the secondary market, but prices may be volatile, potentially impacting realized returns or even resulting in a negative return.
- Liquidity depends on the bond's rating, yield, duration, and demand from the secondary market based on other macroeconomic factors

	MYGAs	CDs	Bonds
Yield	5.65%–5.70%; enhanced by diversified asset base	Generally lower; sensitive to rate environment	Variable; depends on quality and duration
Risk	Low market risk; backed by insurer’s general account	Low risk (if FDIC insured)	Subject to interest rate, credit and market risks
Liquidity	Tax-deferred: Limited; Non-tax-deferred: More flexible	Fixed term with early withdrawal penalties	Liquid, but price sensitive on secondary market
Tax Treatment	Options for tax deferral or annual taxation	Interest taxed annually (unless in tax-advantaged accounts)	Interest taxed annually (unless in tax-advantaged accounts)

By comparing MYGAs to CDs and Bonds, advisors can see that MYGAs not only provide competitive yields but also deliver a unique balance of predictability, security, and flexible liquidity options—making them an attractive addition to the fixed income toolkit.

Tax Considerations

MYGAs

- Tax-Deferred Versions: Offer the advantage of deferring taxes on interest until withdrawal, compounding returns over time.
- Non-Tax-Deferred Versions: Subject to annual taxation, similar to CDs, which may simplify tax planning for clients who do not require tax deferral.

CDs and Bonds:

- Interest income from CDs and bonds is typically taxed annually as ordinary income (unless held in tax-advantaged accounts), which may be less attractive those in higher income tax brackets



Competitive Edge: Optimizing MYGAs in an Your Client's Portfolio

Successfully integrating MYGAs into a client portfolio requires an understanding of each product's characteristics and how they complement an overall investment strategy. Here, we discuss two primary approaches: using tax-deferred MYGAs for long-term growth and employing non-tax-deferred MYGAs to provide an alternative approach that meets your savings and tax needs.

Tax-Deferred MYGAs – A Tool for Long-Term Growth

Strategy Example

Imagine a 55-year-old high-income investor who anticipates being in a lower income tax bracket at retirement. She decides to transfer \$100,000 from an IRA to a 10-year tax-deferred MYGA at a guaranteed rate (for example, 5.7%) to help offset the risk of a market downturn between now and then. This helps her plan for retirement, because she already knows the value of the MYGA at maturity due to its fixed rate and term. Additionally, when withdrawals begin, she is in a lower tax bracket, thus optimizing the net income drawn from the annuity

Ideal For

- **Pre-Retirees and Retirees:** Individuals nearing retirement age or already in retirement who can benefit from tax-deferred growth.
- **High-Income Earners:** Clients looking to achieve tax-deferred growth on non-qualified funds
- **IRA/401(k) Rollovers:** An attractive option for funds rolled over from retirement accounts where tax-deferred growth is a priority.

Use Cases

- **Fixed-Rate Alternative:** A competitive alternative to traditional fixed income products, offering a fixed rate for a guaranteed period of time.
- **Tax-Efficient Compounding:** The benefits of compounded growth without the immediate tax drag.
- **Tax-Advantaged:** Achieve tax-deferred growth on non-qualified funds or preserve tax-deferral on qualified funds like an IRA, 401k or other retirement account.
- **Conservative Income Strategy:** A stable component in a diversified fixed-income allocation, ensuring predictable growth and/or retirement income.

Non-Tax-Deferred MYGAs – Enhancing Liquidity and Flexibility

Strategy Example

Consider a 45-year-old investor planning to purchase a home in three years. Instead of choosing a traditional CD, money market, or bonds, the investor places \$50,000 into a non-tax-deferred MYGA. This product delivers a guaranteed rate for a three year term, and at maturity, offers the flexibility needed to access the principal and interest without incurring IRS penalties.

Ideal For

- **Younger Investors (<59.5):** Those who anticipate accessing funds prior to age 59 ½ without the burden of early withdrawal penalties.
- **Short-Term Savers:** Clients looking for a higher-yield alternative to traditional CDs while maintaining the ability to access funds without IRS early withdrawal penalties
- **Bridge Investments:** Investors who need to park funds for upcoming major expenses, such as buying a home, funding their child’s education or even saving for their next vacation

Use Cases

- **CD Alternative:** A stable, guaranteed return without the complexities of tax deferral.
- **Emergency Fund Option:** Provides a secure location for short-term cash reserves with competitive yields.
- **Short-Term Income Needs:** Serves as a reliable source of funds for those anticipating withdrawals in the near term.

Mastering the Mix: Strategic Portfolio Integration

Integrating MYGAs—both tax-deferred and non-tax-deferred—into client portfolios involves balancing yield enhancement, risk mitigation, and liquidity management. Here are several strategies to consider:

Balancing Yield, Risk, and Liquidity

Split Allocation Strategy:

Allocate a portion of the portfolio to tax-deferred MYGAs for long-term, tax-advantaged growth while maintaining another portion in non-tax-deferred MYGAs to address short-term liquidity needs. This balanced approach ensures that clients are well-positioned to capture higher yields without sacrificing immediate access to funds.

Rolling Ladder Strategy:

Create a ladder structure with MYGAs by staggering maturities over several years. As each MYGA matures, reinvest in new contracts or transition funds into tax-deferred vehicles as appropriate. This strategy minimizes reinvestment risk while aligning cash flows with anticipated client needs.

Blended Fixed Income Strategy:

Combine MYGAs with traditional fixed income products such as bonds, CDs, and even dividend-paying equities. The stable, guaranteed returns from MYGAs can offset volatility in other parts of the portfolio, providing a solid foundation during market downturns.

Practical Case Studies

Case Study 1: Balancing Retirement and Liquidity Needs

Client Profile

A 60-year-old client with a well-diversified portfolio seeking both retirement income and liquidity for upcoming expenses.

Strategy

Non-Tax-Deferred MYGAs: Allocate 70% of the funds to a tax-deferred MYGA, ensuring principal protection and predictable tax-deferred growth for future retirement income.

Tax-Deferred MYGAs: Allocate 30% to non-tax-deferred MYGAs, ensuring principal protection, predictable growth, and reducing future ordinary income taxes by handling some of the taxes annually.

Outcome

The client benefits from controlling taxable income while generating known returns to help manage short-term and long-term needs, resulting in a balanced and secure retirement plan.

Practical Case Studies

Case Study 2:

A Short-Term Bridge for Planned Expenses

Client Profile

A 40-year-old investor anticipating purchasing a new investment property in five years. He also wants to reduce current income taxes from interest earned on CD's and take advantage of tax-deferred growth if possible.

Strategy

Non-Tax-Deferred MYGAs: Invest the majority of the short-term allocation in non-tax-deferred MYGAs to secure a better yield than CD's and avoid the IRS early withdrawal penalty at term end.

Tax-Deferred MYGAs: Invest the remainder in tax-deferred MYGAs to achieve tax-deferral on his non-qualified funds.

Outcome

The client achieves a higher yield relative to traditional CDs and maintains access to funds at maturity, enabling a smooth transition when the major expense arises.

Yield Boost: Leveraging MYGAs in a Low or Declining Interest Rate Environment

In an environment where interest rates are declining or subdued, as is expected in the coming years, traditional fixed income investments such as bonds and CDs may not deliver the desired yields. Here, MYGAs offer a compelling alternative:



Higher Yields in a Low-Interest Environment

Enhanced Return Potential

By leveraging the general account of insurance companies, MYGAs can access diversified, institutional-grade investment opportunities. This allows for higher yields—sometimes even in the 5.65% to 5.70% range—that outpace conventional fixed income vehicles.

Capitalizing on Duration

MYGAs are designed for a set term, allowing insurers to manage duration risk effectively. The predictable, term-specific nature of these products means that advisors can forecast income streams with greater accuracy.

Diversification and Stability

Diversified Asset Exposure

Unlike a single bond issue or a narrowly focused CD, MYGAs benefit from the diversified investment portfolio of the issuing insurer. This diversification reduces credit and interest rate risk while providing stability.

Insurer Backing

The guarantees provided by MYGAs are underpinned by the financial strength of the issuing insurance company. This added layer of security is particularly important when building a robust fixed income component in client portfolios.

Strategic Asset Allocation

Including MYGAs as part of a broader fixed income strategy can help smooth overall portfolio volatility. By offsetting riskier or more volatile assets, MYGAs contribute to a well-rounded, resilient portfolio.

Action Plan: Strategies for Success

In an environment where interest rates are declining or subdued, as is expected in the coming years, traditional fixed income investments such as bonds and CDs may not deliver the desired yields. Here, MYGAs offer a compelling alternative:

1. Tailor to the Client's Needs

Evaluate each client's tax situation, time horizon, and liquidity requirements. Use tax-deferred MYGAs for long-term, tax-advantaged growth and non-tax-deferred MYGAs for short or mid-term planning, withdrawals prior to age 59 ½ and controlling taxable income.

2. Diversification Is Key

Use MYGAs to diversify the fixed income portion of the portfolio. This not only reduces risk and stabilizes returns, but also provides access to higher yields due to the claims paying ability of the carrier and their diversified general account.

3. Implement a Laddering Strategy

Consider a laddering approach for MYGAs to spread out maturity dates and manage reinvestment risk. This strategy allows you to align cash flows with client-specific needs while continuously capturing attractive yields.

4. Educate Clients

Clearly explain the benefits and trade-offs between tax-deferred and non-tax-deferred products. An informed client is more likely to embrace a diversified approach that balances immediate needs with long-term growth.

6. Stay Informed on Market Trends

Keep abreast of evolving market conditions and product innovations. The MYGA market is dynamic, and staying informed ensures you can adjust strategies to capture emerging opportunities.



Closing Thoughts: Empowering Your Portfolio in a Dynamic Rate Environment

In today's rapidly shifting interest rate landscape, securing robust fixed income and cash positions is more crucial than ever. MYGAs provide a compelling solution—combining the safety of guaranteed returns with the versatility of tax-deferred and non-tax-deferred options. By integrating MYGAs into your client portfolios, you can address both long-term growth and pre-retirement life goals, even as market conditions evolve. We encourage you to embrace these innovative strategies, tailor them to your clients' unique financial scenarios, and remain agile in a dynamic environment. Empower your advisory practice with the tools and insights needed to navigate today's challenges and set the stage for future success.

**Empower your clients with higher yields and secure income streams—
discover the potential of Gainbridge MYGAs today.**

For further guidance or personalized portfolio strategies, contact your Gainbridge representative. Our team is dedicated to supporting you with innovative, effective solutions for your client portfolios.

Thank you for reading this comprehensive guide. At Gainbridge, we are committed to equipping financial advisors with the tools and insights necessary to navigate today's complex market landscape with confidence and precision.

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