The Middle Ground Between a MYGA and an FIA

One of the fundamental aspects of financial planning is aligning a client's risk tolerance and time horizon with a suitable product solution. However, this can be challenging when a client's true appetite for risk falls somewhere between available options, as is often the case in the annuity market.

Anyone who has visited a Disney theme park understands the stark contrast between different rides. It's a Small World? Predictable and slow. The Mad Tea Party? A dizzying whirl of uncertainty. Some guests prefer a ride that falls between these extremes. The same applies to annuity buyers—many seek an option that provides more potential growth than a Multi-Year Guarantee Annuity (MYGA) but without the return volatility of a Fixed Indexed Annuity (FIA). Finding this middle ground has been a challenge—until now.

The Balance Between MYGAs and FIAs

A MYGA offers predictability and minimal risk, making it a secure choice. However, some clients may desire higher returns. On the other hand, FIAs provide principal protection with the potential for higher upside but come with the risk of years with no returns, making them less appealing to risk-averse investors.

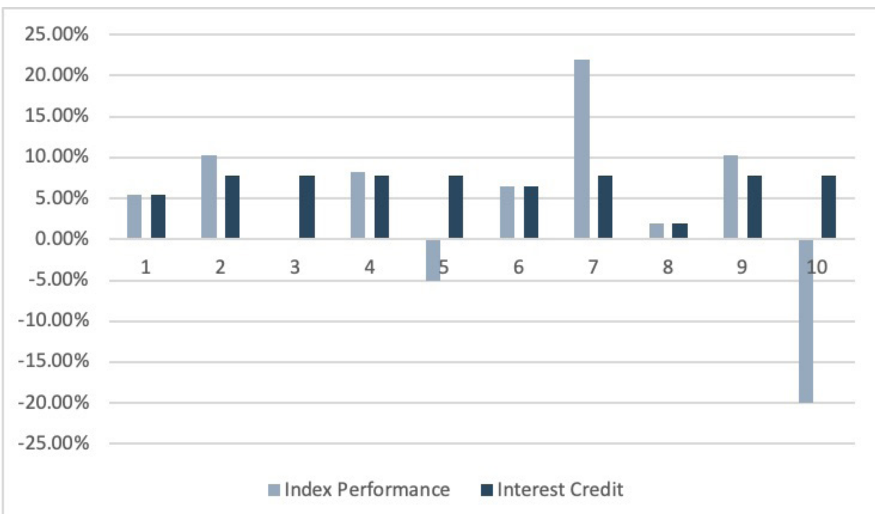
Clients need a solution that offers principal protection while ensuring a positive return every year, eliminating the risk of earning zero in certain periods. They also seek an alternativethat removes cap rate renewal risk. Fortunately, such a solution exists.

Reducing Volatility in an FIA

The first step in minimizing volatility is leveraging the FIA's built-in 0% floor, ensuring that losses are avoided. However, this does not eliminate the possibility of a year with no growth. For some clients—especially those with moderate risk tolerance—exchanging some upside potential for a guaranteed return every year is a trade-off they willingly accept. They prefer a smoother experience rather than an unpredictable ride.

The solution? A slightly lower cap rate, guaranteed for the contract's duration, combined with a trigger mechanism. If the market experiences a zero or negative return, the trigger activates, providing a modest guaranteed return. This ensures the client always earns a positive return, avoiding the unpredictability of traditional FIAs. That means they receive a return somewhere north of zero, up to the cap, in every contract year. It might look something like Figure 1.

Figure 1: Trigger Mechanics



Performance and Stability

With volatility positioned between a MYGA and a typical FIA, the expected returns of this product will likely fall within that same range. Moreover, by locking in cap rates for 7, 10, or even 20 years, this structure removes a major concern of traditional FIAs: cap rate renewal risk. Clients benefit from consistency and predictability throughout the contract period.

Ultimately, this new annuity option introduces a more nuanced approach to risk tolerance, offering a stable and suitable choice for clients seeking financial growth without the highs and lows of traditional FIA products. For those looking for a middle ground, this solution provides a ride worth taking.

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