

# Compound vs. Simple Interest

## WHAT'S THE DIFFERENCE?

Multi-year Guaranteed Annuities (MYGAs) are a popular, conservative retirement product for consumers who want both principal protection and guaranteed returns. In today's high-interest rate environment, MYGAs are even more appealing and are driving record-breaking sales across the annuity industry.

When evaluating your options, you will likely see that the majority of MYGAs offered by insurance companies use compound interest. However, Knighthead Life's Staysail MYGA takes a more straightforward approach with simple interest. This simple interest structure often offers a higher advertised crediting rate than a comparable compound interest product, helping you navigate retirement planning with clarity and confidence.

## Compare Compound and Simple Interest

### SIDE BY SIDE

Let's compare two 5-year MYGAs with an initial premium of \$100,000.

The simple interest MYGA pays a rate of 5.95% and compound interest MYGA pays a crediting rate of 5.35% annually. As you can see from the table of values below, both individuals have the same accumulated value after five years, making the products rate-equivalent.

SIMPLE INTEREST = 5.95%		
YEAR	INTEREST CREDITED	ACCUMULATED VALUE
1	\$5,950	\$105,950
2	\$5,950	\$111,900
3	\$5,950	\$117,850
4	\$5,950	\$123,800
5	\$5,950	\$129,750

COMPOUND INTEREST = 5.35%		
YEAR	INTEREST CREDITED	ACCUMULATED VALUE
1	\$5,347	\$105,347
2	\$5,633	\$110,980
3	\$5,934	\$116,913
4	\$6,251	\$123,165
5	\$6,585	\$129,750

On paper they may look interchangeable, but the difference becomes clear in the advantages the simple interest MYGA provides during the term of the contract.

### LIQUIDITY

Sometimes the unexpected happens and you need to access funds early. The simple interest MYGA has a higher accumulated value at every point during the product term. As opposed to a compound interest annuity, this means greater amounts for each withdrawal under the Free Withdrawal Rider\* and a greater death benefit should a death occur prior to the end of the guarantee period. You can compare the accumulation value of the two MYGAs side by side below.

SIMPLE INTEREST = 5.95%	
YEAR	ACCUMULATION VALUE / DEATH BENEFIT
1	\$105,950
2	\$111,900
3	\$117,850
4	\$123,800
5	\$129,750

COMPOUND INTEREST = 5.35%	
YEAR	ACCUMULATION VALUE/DEATH
1	\$105,347
2	\$110,980
3	\$116,913
4	\$123,165
5	\$129,750

\*The Free Withdrawal Rider permits the owner to take 10% free withdrawals from the account value annually. Purchase of the Free Withdrawal Rider may result in a lower crediting rate.

Because of a greater accumulation value, the cash surrender value is also more during the term of the guarantee period with the simple interest MYGA.

## DIFFERENCE 2: INCOME

What if you'd like to use your MYGA for income purposes and take interest-only withdrawals annually to cover certain living expenses? See how the compound and simple interest MYGAs compare over five years of annual, interest-only withdrawals.

SIMPLE INTEREST = 5.95%			COMPOUND INTEREST = 5.35%		
YEAR	INTEREST CREDITED	ACCUMULATION VALUE	YEAR	INTEREST CREDITED	ACCUMULATION VALUE
1	\$5,950	\$100,000	1	\$5,347	\$100,000
2	\$5,950	\$100,000	2	\$5,347	\$100,000
3	\$5,950	\$100,000	3	\$5,347	\$100,000
4	\$5,950	\$100,000	4	\$5,347	\$100,000
5	\$5,950	\$100,000	5	\$5,347	\$100,000
<b>\$29,750</b>			<b>\$26,734</b>		

The simple interest option generates \$29,750 versus the compound interest total of \$26,734. That's 11.5% more income. When it comes to income, the simple interest MYGA provides more value.

## SIMPLE INTEREST FOR STEADY GROWTH

Even though both compound and simple interest MYGAs may deliver the same return at the conclusion of the guarantee period, simple interest MYGAs can deliver more benefit in the midst of your guarantee period compared to compound interest equivalents.

If MYGAs are a part of your retirement strategy, now may be the perfect time to consider simple interest MYGAs available in the marketplace, like Knighthead Life Staysail. Whether you're looking for steady growth, stability, or a clear path forward, Knighthead's Staysail MYGA is built to keep you on course.

**Contact us to get started.**

\*Interest only withdrawals may incur a surrender charge if the Free Withdrawal Rider is not purchased.

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Staysail is a multi-year guaranteed annuity which is issued by Merit Life Insurance Co. and only available in certain states [link to map/list]. Staysail Policy Form: ICC23-FA100-0223 (subject to state variations). Policy form numbers and provisions may vary. Guarantees are backed by the claims-paying ability of the issuing company.

You should consider the features of Staysail carefully before purchasing. Taxes are due upon withdrawal and excess withdrawals may be subject to a surrender charge and market value adjustments. The IRS may impose a 10% penalty for withdrawals prior to age 59 ½.

Non-qualified annuities are generally entitled to tax deferral. IRAs and other qualified plans are already tax deferred. Therefore, a deferred annuity should be used to fund an IRA or qualified plan to reap annuity benefits other than tax deferral, such as lifetime income and death benefit options.

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