

RBCI AND iA ANNOUNCE SRIA RATES FOR 2020

WESTWARD'S VIEW

RBC Insurance (RBCI) and Industrial Alliance (iA) recently announced policy and loan interest rates for calendar year 2020.

These announcements affect Westward clients who own RBCI or iA policies issued prior to 2014 with funds invested in the Smoothed Return Investment Account (SRIA), and clients who have leveraged their SRIA values with insurer loans.

Both insurers announced rate reductions reflecting challenging market returns since 2014.

Leveraged SRIA is a long-term investment with policy and loan rates that will vary from year to year. The net benefit of the leveraged SRIA will also vary from year to year.

Switching from an insurer loan to a bank loan can dramatically improve annual cash flows.

This Viewpoint details the 2020 SRIA rates for RBCI and iA, and projects the leveraged cash flow results for insurer loans and bank loans.

RBCI and iA Annual SRIA Rate Adjustments

The SRIA is an investment account option within some RBCI Security Fund and iA Genesis universal life insurance policies. Funds invested in the SRIA are managed on a discretionary basis by the insurer. The investment objective is low volatility with a long-term focus targeting superior returns while minimizing risk of capital loss. Actual returns are smoothed into the policy interest rate by announcing a guaranteed policy rate for each calendar year.

The rate changes for 2020 are as follows:

- **RBCI:** SRIA rate of 4.10% and loan rate of 5.95%, down from 4.25% and 6.05% respectively
- **iA:** SRIA rate of 3.00% and loan rate of 4.50%, down from 3.50% and 5.00% respectively

2020 Cash Flow Comparison

The table below shows the impact of the new rates. The example is based on a \$1.0 million loan and \$1.0 million cash value, and assumes a bank loan rate of 3.5% and a tax rate of 50%.

	RBCI with RBCI Loan	RBCI with Bank Loan	iA with iA Loan	iA with Bank Loan
Interest	(5.95%)	(3.50%)	(4.50%)	(3.50%)
Westward Management Fee		(0.20%)		(0.20%)
Cash Value Growth	4.10%	4.10%	3.00%	3.00%
	(1.85%)	0.40%	(1.50%)	(0.70%)
Tax Recovery	2.98%	1.85%	2.25%	1.85%
Net Benefit	1.13%	2.25%	0.75%	1.15%
Interest	\$ (59,500)	\$ (35,000)	\$ (45,000)	\$ (35,000)
Westward Management Fee		(2,000)		(2,000)
Cash Value Growth	41,000	41,000	30,000	30,000
Pre-Tax Cash Flow	(18,500)	4,000	(15,000)	(7,000)
Tax Recovery	29,750	18,500	22,500	18,500
Net Benefit	\$ 11,250	\$ 22,500	\$ 7,500	\$ 11,500

Historical Performance

The table below compares the historical rates credited to the policy and actually earned by the underlying SRIA fund.

	2014	2015	2016	2017	2018	2019
RBC Insurance						
Policy Rate	4.75%	4.75%	4.75%	4.75%	4.75%	4.25%
Net Rate of Return	4.76%	4.58%	4.51%	4.52%	1.64%	4.32% to August
iA						
Policy Rate	4.60%	4.60%	4.60%	4.60%	4.00%	3.50%
Net Rate of Return	4.32%	3.38%	5.17%	4.46%	2.35%	n/a

The Bank Loan Program

Clients interested in switching to a bank loan are welcome to call Westward to discuss our Bank Loan Program. We will prepare a customized projection and detail how it can improve plan performance.

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