

Leveraged iA Genesis-IRIS SRDA Surrender Value Shortfall



WESTWARD'S VIEWPOINT

The cash surrender value (**CSV**) of the Smoothed Return Diversified Account (**SRDA**) in iA Genesis-IRIS universal life insurance policies is currently impaired due to the Market Value Adjustment (**MVA**).

The SRDA MVA has caused the SRDA CSV to fall below the SRDA account balance and in many cases the SRDA CSV is less than the loan balance that it secures (**SRDA CSV Shortfall**).

The SRDA CSV Shortfall is a **temporary issue** affecting the collateral value of the SRDA to lenders in the event of loan default.

Lenders are accepting some of the SRDA CSV Shortfall risk on a loan-by-loan basis after taking into account the policy's Lender Protection and Tax Refund features, and the financial strength of the borrower and loan guarantor.

When the SRDA CSV Shortfall exceeds the lender's risk tolerance, the lender will require the borrower/guarantor to provide **Additional Security** by way of one or more of the following actions **until the SRDA CSV recovers**:

1. Defer planned loan draws
2. Provide evidence of liquid assets
3. Provide additional guarantees
4. Provide additional collateral
5. Reduce the loan balance

The MVA and resulting SRDA CSV Shortfall do not impact the long-term results of the leveraged life insurance plan but may defer planned loan draws and may require Additional Security temporarily.

For more information, clients can contact their Account Manager or Wayne Stone at waynes@westwardadvisors.com.



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THE SRDA CSV SHORTFALL FORMULA

The formula for the SRDA CSV to a lender is:

$$\text{SRDA CSV to lender} = [\text{SRDA Account Value}] - [\text{MVA}] + [\text{Lender Protection}] + [\text{Tax Refund}]$$

$$\text{where MVA} = [\text{SRDA Account Value}] \times [\text{MVA Factor \%}]$$

The **MVA Factor %** as of September 23, 2022, was **16.192%**. It is published weekly by iA Financial and represents the excess of the SRDA account values in all the policies over the market value of the underlying SRDA investment fund (**SRDA Fund**) that backs up the SRDA account values.

The SRDA CSV to a lender is partially protected by **Lender Protection, which is 5% of the SRDA Account Value** until the later of December 31, 2024, and the 12th policy anniversary. Thus, until at least December 31, 2024, the net MVA exposure to a lender is the MVA Factor in excess of 5%, and as of September 23, 2022, was **11.192%**.

The SRDA CSV to a lender is also partially protected by the Tax Refund if applicable, which is 15% of the CSV in excess of the policy's adjusted cost basis (ACB). Since the MVA reduces the CSV, it also reduces the Tax Refund.

Example of SRDA CSV to Lender

Loan Balance		10,000,000
Policy ACB		8,000,000
SRDA Balance		10,000,000
MVA	15.0%	(1,500,000)
Lender Protection	5.0%	500,000
Tax Refund @ 15% x (CSV-ACB)		176,471
CSV		9,176,471
CSV Shortfall		(823,529)

THE MVA

The MVA is only relevant if the SRDA account value is withdrawn other than as a consequence of death. The MVA does **not** affect the SRDA interest income guaranteed at 3.5% for calendar 2022, nor the accumulating SRDA account value and tax-free death benefit.

The MVA will apply if the SRDA account value is transferred to another investment account in the policy.

The MVA will not apply if the SRDA account value is used to pay monthly insurance charges.

The MVA % was nominal until February 2022. Since then, the MVA % has increased in conjunction with falling bond, equity and real estate valuations. The MVA % will decline when markets recover. The simple passage of time puts downward pressure on the MVA % as bonds in the SRDA Fund draw closer and closer to maturity. New deposits to the SRDA Fund have no MVA and put downward pressure on the MVA %.

THE LENDER PROTECTION

With considerable pressure from lenders and the distribution network, iA is considering enhancements to the 5% Lender Protection feature that may alleviate Additional Security requirements if and when such enhancements are announced.

THE PATH FORWARD

When a lender requires Additional Security from a Westward client, we expect the lender will notify us first and then the private banker will contact the borrower to discuss options.

For affected clients, we will update the plan projection if necessary and monitor the MVA and SRDA CSV so that any Additional Security can be removed as soon as the SRDA CSV recovers.

