VIEWPOINT 2022 OCT 18

Leveraged Universal Life Insurance: Navigating Rising Interest Rates

WESTWARD'S VIEWPOINT

The core benefit of leveraged life insurance plans is the ability to access the policy's long-term **tax-exempt accumulation** on a current basis with **tax deductible debt.**

Bank loan interest rates have soared in 2022 at an unprecedented pace. Meanwhile, **policy interest rates** guaranteed on a calendar year basis have yet to follow.

The result is a **squeezing** of leveraged life insurance benefits. Despite the squeeze, most plans continue to deliver benefits at current rates.

Since these are long-term plans, results should be considered in **annual increments.**

Calendar 2022 results will benefit from low loan rates in the early part of the year.

The **calendar 2023** forecast will become clearer in December 2022 when the guaranteed policy rates are announced, and the cycle of rising loan rates levels off.

The current squeeze will improve when loan rates stabilize, and policy rates rise to reflect market interest rates and a recovery in investment asset values.

We are still confident in the long-term performance of our clients' leveraged life insurance plans and encourage a **long-term view** to navigate the current rate environment.

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

The opinions expressed in this memorandum are strictly those of Westward Advisors Ltd. This memorandum is for information purposes only and is not legal or tax advice.

The following tables illustrate the squeeze on three leveraged universal life insurance accounts in calendar 2022.

RBC INSURANCE SRIA

The RBC Insurance Smoothed Return Investment Account guarantees interest at **4.10%** in calendar 2022.

	Jan1 2022	Apr 1 2022	Jul 1 2022	Oct 1 2022	Forecast Average 2022	Forecast Average 2023
Prime Rate	(2.45%)	(2.70%)	(3.70%)	(5.45%)	(4.11%)	(5.95%)
Policy Rate	4.10%	4.10%	4.10%	4.10%	4.10%	4.10%
Benefit Pre-tax	1.65%	1.40%	0.40%	(1.35%)	(0.01%)	(1.85%)
Tax @ 50%	1.23%	1.35%	1.85%	2.73%	2.06%	2.98%
Benefit After Tax	**2.88%**	**2.75%**	**2.25%**	**1.38%**	**2.05%**	**1.13%**
On $1,000,000:	**$28,800**	**$27,500**	**$22,500**	**$13,800**	**$20,500**	**$11,300**

iA FINANCIAL SRIA

The iA Financial Stabilized Return Index Account guarantees interest at **2.75%** in calendar 2022.

	Jan1 2022	Apr 1 2022	Jul 1 2022	Oct 1 2022	Forecast Average 2022	Forecast Average 2023
Prime Rate	(2.45%)	(2.70%)	(3.70%)	(5.45%)	(4.11%)	(5.95%)
Policy Rate	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%
Benefit Pre-tax	0.30%	0.05%	(0.95%)	(2.70%)	(1.36%)	(3.20%)
Tax @ 50%	1.23%	1.35%	1.85%	2.73%	2.06%	2.98%
Benefit After Tax	**1.53%**	**1.40%**	**0.90%**	**0.03%**	**0.70%**	**(0.22%)**
On $1,000,000:	**$15,300**	**$14,000**	**$9,000**	**$300**	**$7,000**	**$(2,200)**

iA FINANCIAL SRDA

The iA Financial Smoothed Return Diversified Account guarantees interest at **3.50%** in calendar 2022.

	Jan1 2022	Apr 1 2022	Jul 1 2022	Oct 1 2022	Forecast Average 2022	Forecast Average 2023
Prime Rate	(2.45%)	(2.70%)	(3.70%)	(5.45%)	(4.11%)	(5.95%)
Policy Rate	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%
Benefit Pre-tax	1.05%	0.80%	(0.20%)	(1.95%)	(0.61%)	(2.45%)
Tax @ 50%	1.23%	1.35%	1.85%	2.73%	2.06%	2.98%
Benefit After Tax	**2.28%**	**2.15%**	**1.65%**	**0.78%**	**1.45%**	**0.53%**
On $1,000,000:	**$22,800**	**$21,500**	**$16,500**	**$7,800**	**$14,500**	**$5,300**

Most borrowers achieve loan interest rates better than the prime rate illustrated above.

The prime rate forecast above assumes an increase from 5.45% to 5.95% on October 26 and remains 5.95% throughout 2023, as forecast by CIBC Economics on September 13, 2022.

The guaranteed policy rates for calendar 2023 will be announced in December 2022. There is upward pressure due to rising interest rates, but downward pressure due to depressed asset values.

© Copyright 2018-22 Westward Advisors Ltd. All rights reserved.
The LifeStep Process is a registered trademark of Westward Advisors Ltd.