

Variable Rate Leveraged RBC SRIA: A Challenging Year Ahead



WESTWARD'S VIEWPOINT

The spread between the RBC life insurance policy SRIA account interest rate and the after-tax variable loan rate over the last 3 years (including 2022) and earlier has delivered significant economic gains.

2022 witnessed an unprecedented rise in variable interest rates. The benchmark **life insurance collateral loan variable interest rate has roughly tripled in 2022**, from about 2.0% at the beginning of 2022 to about 6.0% at the end of the year.

As of January 1, 2023, the SRIA rate is 3.0% guaranteed for calendar 2023 and the after-tax cost of the 6.2% benchmark borrowing rate assuming a 50% tax rate is 3.1% for a net economic loss of 0.1%.

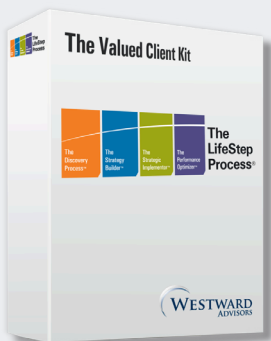
The Bank of Canada's rate hike cycle appears to be nearing its peak and we might even see the first rate cut in 2023's fourth quarter.

Budgeting cash flow for loan carrying costs will be especially important for 2023.

The leveraging strategy is attractive because it can deliver significant economic gains over the long-term. It is anticipated that the annual gains from year to year will fluctuate. The fact that the economic gain in a year or even over several years is reduced or becomes a loss does not prevent significant long-term value creation from the leveraging strategy.

If debt reduction becomes necessary, loans can be paid down with funds from the policy's SRIA account or from outside the policy. Drawing funds from the SRIA will likely incur withdrawal fees and taxes and may require surrender of the policy to access the funds.

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



VARIABLE RATE HISTORY

