

Interest Rate Spreads Vs. Rates in Financed Life Insurance

A white paper examining the historical relationship between interest rates and crediting rates in financed life insurance.

Produced By: The GB Financial Group

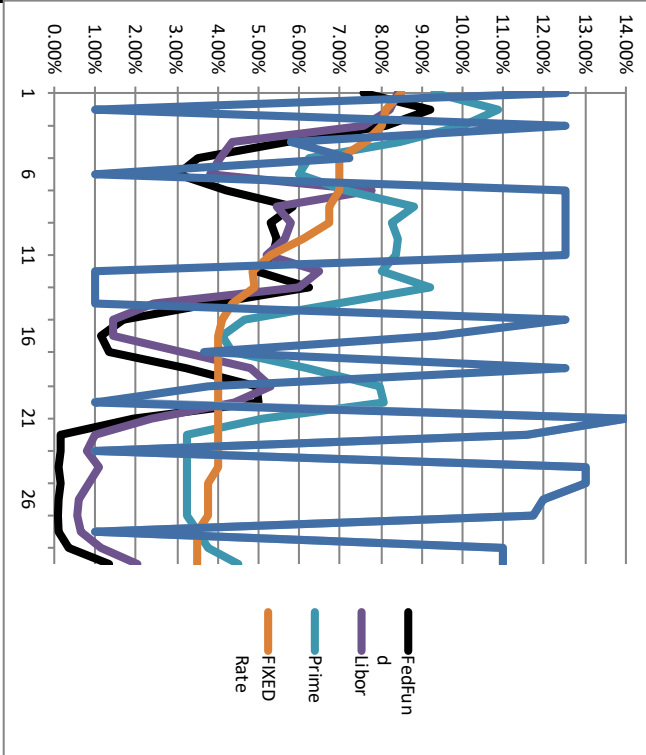
The long-term success of financed life insurance is predicated upon the fact that, over the lifetime of the transaction, the average performance rate of the policy is greater than the sum of the average borrowing rate plus the cost of insurance. Understanding that fact, we can then conclude that the specific rates are less important than the average spread between the performance rate and the sum of the borrowing rate plus the cost of insurance.

It cannot be emphasized enough that the internal costs of the insurance policy can increase or decrease the exact amount of spread needed for long-term success. Factors that influence the internal costs include gender, health rating, product, and age. Outside of these factors, a contribution, whether paying interest current, a 1035, or annual, is the best way to decrease the amount of spread needed for long-term success.

While historical trends cannot predict future performance, the below examination of borrowing rates and carrier crediting rates can help provide insight. Listed below are the historical Fed Funds rates and Libor rates from 1986 through 2017. Listed next to those rates are the historical crediting rates for individual life-insurance policies based on the type of product ie. Universal Life, Indexed Universal Life tied to the S&P500, and Whole life credited dividend rates.

Historical Borrowing Rates Compared to Historical Policy Performance

Year	Borrowing Cost Benchmarks			Carrier Crediting FIXED Rate	Carrier S&P Index Actual Rate	Carrier HYPO Rate
	FedFund	Libor	Prime			
1988	7.57%	8.414%	9.32%	8.50%		12.50%
1989	9.21%	8.234%	10.87%	8.10%		1.00%
1990	8.10%	7.563%	10.01%	8.00%		12.50%
1991	5.69%	4.375%	8.46%	7.60%		5.78%
1992	3.52%	4.078%	6.25%	7.00%		7.24%
1993	3.02%	3.813%	6%	7.00%		1.00%
1994	4.21%	7.750%	7.15%	7.00%		12.50%
1995	5.83%	5.454%	8.83%	6.75%		12.50%
1996	5.30%	5.789%	8.27%	6.75%		12.50%
1997	5.46%	5.669%	8.44%	6.10%		12.50%
1998	5.35%	5.213%	8.35%	5.30%		12.50%
1999	4.97%	6.508%	8%	4.85%		1.00%
2000	6.24%	5.997%	9.23%	4.90%		1.00%
2001	3.88%	2.445%	6.91%	4.35%		1.00%
2002	1.67%	1.447%	4.67%	4.10%		12.50%
2003	1.13%	1.458%	4.12%	4.00%		9.38%
2004	1.35%	3.100%	4.34%	4.00%		3.68%
2005	3.22%	4.823%	6.19%	4.00%		12.50%
2006	4.97%	5.314%	7.96%	4.00%		3.77%
2007	5.02%	4.423%	8.05%	4.00%	1.00%	1.00%
2008	1.92%	2.385%	5.09%	4.00%	14.00%	14.00%
2009	0.16%	0.999%	3.25%	4.00%	11.59%	11.59%
2010	0.18%	0.784%	3.25%	4.00%	1.00%	1.00%
2011	0.10%	1.100%	3.25%	4.00%	13.00%	13.00%
2012	0.14%	0.848%	3.25%	3.75%	13.00%	13.00%
2013	0.11%	0.580%	3.25%	3.75%	12.00%	12.00%
2014	0.09%	0.562%	3.25%	3.75%	11.75%	11.75%
2015	0.12%	0.630%	3.50%	3.50%	1.00%	1.00%
2016	0.37%	1.169%	3.75%	3.50%	11.00%	11.00%
2017	1.33%	2.040%	4.50%	3.50%	11.00%	11.00%
AVG	3.34%	3.77%	6.26%	5.14%	9.12%	8.26%



UL Spread between Crediting Rate and LIBOR base rate: **1.37%**
S&P Index Spread between Crediting Rate and LIBOR base rate: **5.36%**
HYPO Return Spread between Crediting Rate and LIBOR base rate: **4.49%**

Note: The numbers presented above are based on historical performance; they are not a guarantee of future performance.