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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.

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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 emphasize 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 2014. 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.

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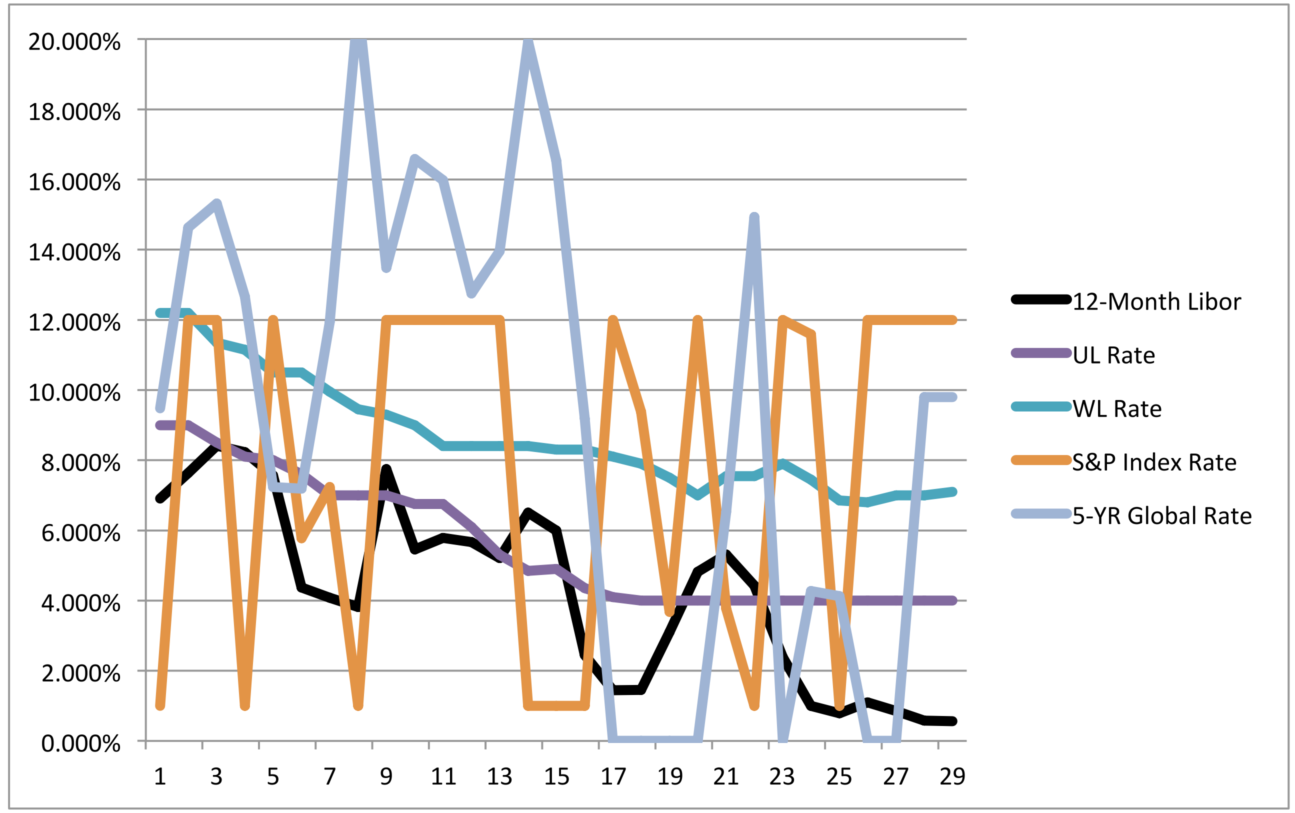
Historical Borrowing Rates Compared to Historical Policy Performance

Borrowing Cost Benchmarks				*Insurance Policy Potential Returns*			
Year	**FedFunds**	**Libor**	**Prime**	**Carrier Crediting UL Rate**	**Carrier Dividend Rate WL Rate**	**Carrier S&P Index Rate**	**Carrier 5-YR Global Index Rate**
1986	6.80%	6.910%	8.33%	9.00%	12.20%	1.00%	9.48%
1987	6.66%	7.633%	8.21%	9.00%	12.20%	12.00%	14.63%
1988	7.57%	8.414%	9.32%	8.50%	11.35%	12.00%	15.32%
1989	9.21%	8.234%	10.87%	8.10%	11.15%	1.00%	12.66%
1990	8.10%	7.563%	10.01%	8.00%	10.50%	12.00%	7.24%
1991	5.69%	4.375%	8.46%	7.60%	10.50%	5.78%	7.19%
1992	3.52%	4.078%	6.25%	7.00%	9.95%	7.24%	11.93%
1993	3.02%	3.813%	6%	7.00%	9.45%	1.00%	20.93%
1994	4.21%	7.750%	7.15%	7.00%	9.30%	12.00%	13.48%
1995	5.83%	5.454%	8.83%	6.75%	9.00%	12.00%	16.58%
1996	5.30%	5.789%	8.27%	6.75%	8.40%	12.00%	15.98%
1997	5.46%	5.669%	8.44%	6.10%	8.40%	12.00%	12.75%
1998	5.35%	5.213%	8.35%	5.30%	8.40%	12.00%	13.96%
1999	4.97%	6.508%	8%	4.85%	8.40%	1.00%	19.93%
2000	6.24%	5.997%	9.23%	4.90%	8.30%	1.00%	16.54%
2001	3.88%	2.445%	6.91%	4.35%	8.30%	1.00%	9.19%
2002	1.67%	1.447%	4.67%	4.10%	8.10%	12.00%	0.00%
2003	1.13%	1.458%	4.12%	4.00%	7.90%	9.38%	0.00%
2004	1.35%	3.100%	4.34%	4.00%	7.50%	3.68%	0.00%
2005	3.22%	4.823%	6.19%	4.00%	7.00%	12.00%	0.00%
2006	4.97%	5.314%	7.96%	4.00%	7.55%	3.77%	6.52%
2007	5.02%	4.423%	8.05%	4.00%	7.55%	1.00%	14.93%
2008	1.92%	2.385%	5.09%	4.00%	7.90%	12.00%	0.00%
2009	0.16%	0.999%	3.25%	4.00%	7.45%	11.59%	4.27%
2010	0.18%	0.784%	3.25%	4.00%	6.85%	1.00%	4.13%
2011	0.10%	1.100%	3.25%	4.00%	6.80%	12.00%	0.00%
2012	0.14%	0.848%	3.25%	4.00%	7.00%	12.00%	0.00%
2013	0.11%	0.580%	3.25%	4.00%	7.00%	12.00%	9.80%
2014	0.25%	0.562%	3.25%	4.00%	7.10%	12.00%	9.80%
Average	**3.86%**	**4.26%**	**6.64%**	**5.60%**	**8.67%**	**7.91%**	**9.22%**



UL	Spread between Crediting Rate and Borrowing base rate:	***1.33%***
Whole Life	Spread between Crediting Rate and Borrowing base rate:	***4.41%***
S&P Index	Spread between Crediting Rate and Borrowing base rate:	***3.65%***
5-Yr Global	Spread between Crediting Rate and Borrowing base rate:	***4.95%***

Note: The numbers presented above are based on historical performance;

they are not a guarantee of future performance.