M INTELLIGENCE

Insights to fuel your success

# WHY DID MY INDEXED POLICY RATE CHANGE?

## HOW INDEXED ACCOUNTS WORK

Index accounts earn interest in the form of credits, which are tied to the performance of an index such as the S&P 500 index. Credits can help offset policy charges and improve cash value. Credits themselves are never negative, but they do come at a cost. Because the cost of the credits varies, the credits are subject to limits called rates.

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Each type of account has a rate.

- Cap rate—the index performance is credited, but only up to a stated cap (e.g., up to a 7% cap)
- Participation rate—the percentage of the index performance that is credited (e.g., up to 40% of the total return of the index)
- Spread (also called threshold or hurdle) rate—index performance above the spread rate is credited to the account (e.g., interest begins to be credited after the 5% spread rate is met)

## INDEX ACCOUNT RATES CHANGE BECAUSE THEIR COSTS CHANGE

Index account credits come at a cost to the insurance company and are paid from the insurer's own investment returns. The cost of these credits change over time due to market conditions. The insurer regularly compares the cost of their index credits to the return on their investment portfolio and will adjust caps and spreads up and down as necessary.

## WHAT'S HAPPENING RIGHT NOW?

- Dramatic changes in the economy in the spring of 2020 are substantially increasing the cost of providing indexed credits with limited downside risk.
    - Equity markets are very volatile (the VIX index is a measure of volatility).
    - "Risk free rates," generally measured as the value of a U.S. Treasury Bill, have dropped to historic lows.
- Insurer investment returns are also under pressure due to the low interest rate environment.
- Insurers are honoring caps and spreads on all active index segments, but new or renewing index segments will have caps and spreads that reflect more volatile market conditions.

## IMPACT TO SPECIFIC INDEX ACCOUNTS

- **Capped Index Accounts**—The cost of credits to indexed accounts with caps has increased. To manage the cost to pay indexed policy credits, insurers are decreasing cap rates.
- **Uncapped Index Accounts with Spread Rates**—The cost of indexed accounts with spreads has increased substantially.
    - Uncapped indexed accounts with spread rates have a wide range of possible index credits. Because there is a higher likelihood of very large credits right now (for example, if index values increase sharply from their current levels), the cost of these credits has also increased.
    - This is causing insurers to increase spread rates or temporarily stop monies from being allocated to new segments.

## WHAT DO THESE CHANGES MEAN FOR MY POLICY?

What this means is that for now, the account values in your indexed universal life policy will likely grow at a lower rate than previously projected. However, it's important to note that rates can go back up again when conditions change, for example when interest rates increase or when market volatility reduces. Also, if index values go down, your indexed UL policy values will not have a negative interest credit, continuing to offer you downside protection during a period of market volatility.

Investors should consider the investment objectives and horizons, income tax brackets, risks, charges, and expenses of any investment product carefully before investing. This and other important information about the investment company is contained in each fund's offering memorandum. Please read it carefully before you invest.



M Financial Plaza | 1125 NW Couch Street, Suite 900 | Portland, OR 97209 | 503.238.1813 | fax 503.238.1815 | **mfin.com**