

# A High Wire Act

## Leverage and the Guaranteed Minimum Withdrawal Benefit Plan

The following analysis and commentary is aimed at some of the finer points of financial leverage within the context of the new Guaranteed Income Withdrawal Benefit plans. It would appear that some in the insurance community are recommending that “investors in the retirement risk zone” have “good reason” to borrow to invest in guaranteed minimum withdrawal bonds.

The object of this analysis is to look more deeply at the impact of costs and risks of this strategy for a range of different returns. In short to look at the wider issues often ignored in sales and marketing presentations.

The example discussed here is drawn from a specific case. This document also notes the very loose disclosure of the risks and the costs of a leveraged GMWB exercise and, the predominant focus of the sales process on illustrations that paint the product and leverage recommendation in the best light.

Risk it would appear is painted as more the consequence of not making the investment. The problems noted here also apply to industry promotion of leverage in particular. While incidental to the analysis, the case also highlights the deficiency of the supporting sales and marketing communication in explaining the risks of leveraged strategies.

As the document also explains, the use of leverage within a GMWB structure violates the very basic risk management framework the product provides. Leverage and an inflexible GMWB structure simply do not mix. You get the worst of both worlds, higher risks and lower returns.

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