

RateTrack® Annuity Floating Rate Transition

Discussions among financial governance institutions have been underway for a long time concerning replacing the London Interbank Offered Rate (LIBOR), the benchmark for global borrowing since the 1980s. In the United States, the Alternative Reference Rates Committee (ARRC), led by the Federal Reserve Bank of New York, recommended that the Secured Overnight Funding Rate (SOFR), introduced on April 3, 2018, replace LIBOR.¹ SOFR is a measure of secured borrowing rates for which U.S. Treasury securities serve as collateral.²

What is SOFR?

SOFR is based on overnight transactions in the U.S. dollar Treasury repo market, the largest rates market at a given maturity in the world. SOFR, even as a relatively new benchmark, already has more than \$1 trillion in underlying daily transaction volumes across a wider variety of markets.

How does the 3 Month CME Term SOFR Reference Rate compare to the 3 Month ICE LIBOR USD Rate?

The 3 Month CME Term SOFR Reference Rate has been trending several basis points below the 3 Month ICE LIBOR USD Rate. The 3 Month ICE LIBOR USD Rate will be discontinued after June 30, 2023, and will no longer be used in the United States.

What are the main differences between the 3 Month CME Term SOFR Reference Rate and the 3 Month ICE LIBOR USD Rate previously used for RateTrack® Annuity contracts?

LIBOR is calculated using a bank survey system. Contributing banks report the daily rate at which they would borrow funds. Every ICE LIBOR rate is calculated using an average after the highest and lowest rates are removed. Beginning July 1, 2023, LIBOR rates will no longer be published.

The SOFR rate is calculated and published every business day by the Federal Reserve Bank of New York. It is calculated by taking the volume-weighted median of short-term borrowing transactions between financial market participants that are collateralized by U.S. Treasuries. The Federal Reserve Bank of New York publishes SOFR averages that are an average of the daily overnight SOFR rate compounded over the prior 30, 90, or 180 days.

The CME rates provide an indicative, forward-looking measurement of SOFR rates, based on market expectations implied from leading derivatives markets. The CME calculates and publishes the CME Term SOFR rates for 1 Month, 3 Month, 6 Month and 12 Month time periods.

¹ "Federal Reserve Board Announces Final Plans for the Production of Three New Reference Rates Based on Overnight Repurchase Agreement (Repo) Transactions Secured by Treasury Securities," [FederalReserve.gov](https://www.federalreserve.gov/press/pr082017.htm), 12/08/2017

² <https://www.newyorkfed.org/medialibrary/Microsites/arrc/files/2021/spread-adjustments-narrative-oct-6-2021>

What does this mean for my RateTrack® Annuity rate?

For contracts issued on or before Dec. 31, 2021, we will make a one-time additional adjustment to the Guarantee Period Base Rate of 0.26% for contracts renewing on or before June 30, 2023. This adjustment will only apply to a contract's current guarantee period.

This adjustment complies with the ARRC 2021 report's replacement value recommendation for transitioning from the 3 Month ICE LIBOR USD Rate to the 3 Month CME Term SOFR Reference Rate.

Clients with contracts issued on or after Jan. 1, 2022, currently use the SOFR rate as the floating rate component.

Why has the transition happened now?

U.S. federal banking regulators stipulated that financial institutions had to cease entering into new contracts using LIBOR by Dec. 31, 2021. RateTrack® Annuity contracts issued on or before Dec. 31, 2021, will transition to the 3 Month CME Term SOFR Reference Rate by June 30, 2023, based on their contract anniversary date.

Here's how interest will be calculated for contracts issued on or before Dec. 31, 2021.



Your path *To and Through Retirement*® begins here.

Talk to your financial professional to see whether a RateTrack® Annuity can complement your retirement portfolio or contact us at 800.888.2461.

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The Security Benefit RateTrack® Annuity, form ICC15 5300 (12-15) and 5300 (12-15), a single premium deferred fixed annuity, is issued by Security Benefit Life Insurance Company. Product features, limitations, and availability vary by state.

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