

Case Study

Using a term certain annuity to prearrange the funding for an Equimax[®] life pay

Using a term certain annuity is a convenient way to arrange the funding of future premiums on a whole life insurance policy for a specified period of time.

THE SITUATION AND THE NEED

- John (43), non-smoker
- Needs \$100,000 of permanent life insurance coverage
- Has access to a lump sum of money to purchase a term certain annuity

THE SOLUTION:

Equimax life pay & term certain annuity. With this “All-Inclusive” package, the objective is that the life insurance policy may qualify for premium offset by the time the term certain annuity payments end. The illustrated premium offset date is based on the dividend scale in effect at the time of the illustration and is not guaranteed.

Step #1: Establish the Equimax policy¹

- John, male, age 43, non-smoker is the intended life insured and policy owner
- \$100,000 Equimax Estate Builder with Life Pay premium
- Paid-Up Additions Dividend Option
- Annual Premium Mode: (An initial payment of \$2,349 is required to settle the Equimax policy.)
- Illustrate with a Specified Offset² of at least 20 years. The illustration will indicate if the “Earliest Offset” date occurs later than 20 years. You should use the alternate dividend scale of “current minus 2%” as a guideline.

Step #2: Establish the term certain annuity³

(To be completed once the Equimax policy has settled and the final annual premium and policy anniversary are confirmed.)

- John is the intended annuitant and annuity owner.
- The Amount field must equal the life insurance premium: \$2,349.
- Change the first payment date to the 1st Equimax policy anniversary.
- Once the Equimax policy is settled, all subsequent 19 annual premium payments starting with the 1st anniversary will be paid by the term certain annuity at which point the Equimax policy is projected to qualify for premium offset.
- The illustration system calculates that a lump sum deposit of \$36,270.15 is required to provide this annual income.

THE FUTURE: YEAR 20

- The premium offset point shown in the sales illustration you provided to your clients when they bought the policy was based on the dividend scale in effect at that time remaining unchanged for the life of the policy. Therefore, it is not guaranteed.² When the term certain annuity expires, if the Equimax policy:
 - **Qualifies for premium offset**, future changes to the dividend scale may result in the policy no longer qualifying for premium offset, requiring John to start paying premiums in order to keep the policy in effect.
 - **Does not qualify for premium offset**, John will be required to start paying premiums to keep the policy in effect until such time that the policy may qualify for premium offset.

FOR ADVISOR USE ONLY ¹ Life insurance rates illustrated are effective March 3, 2022. ² Based on the illustrated dividend scale remaining unchanged for the life of the policy. Dividends are not guaranteed and are paid at the sole discretion of the Board of Directors. Dividends may be subject to taxation. Dividends will vary based on the actual investment returns in the participating account as well as mortality, expenses, lapse, claims experience, taxes, and other experience of the participating block of policies. ³ The term certain annuity rates illustrated are effective March 3, 2022. This information does not constitute legal, tax, investment, or other professional advice. © denotes a trademark of The Equitable Life Insurance Company of Canada.

Equimax® Whole Life and Term Certain Annuity Package

Looking for a way to help clients prearrange the funding for their Equimax life insurance policy? Funding it with a term certain annuity may be just the ticket!

HOW DOES IT WORK?

- An Equimax participating whole life policy is purchased.
- Once the life policy is settled and the final annual premium and policy anniversary are confirmed, a term certain annuity is purchased to provide an annual income sufficient to pay the total life insurance premium.
- Works best with a 10 pay or 20 pay plan but can also be used with life pay if the intention is to try to qualify for premium offset after 20 years.

WHO IS THE IDEAL CLIENT?

The Equimax whole life and term certain annuity package is ideal for clients who:

- Want to prearrange the funding for their life insurance policy.
- Want to prearrange the funding for life insurance for their children or grandchildren. Premiums for children are low and Equimax provides a stable investment option with tax-advantaged growth and cash value that can be accessed in the future.
- Have access to sufficient cash required to purchase a term certain annuity.
- Age restrictions will apply to the annuitant. They must be under 72 years of age for a term certain annuity for funding a 20 pay or life pay Equimax policy, and under 82 years of age for a term certain annuity for funding a 10 pay Equimax policy.

HOW CAN IT HELP CLIENTS?

It gives clients security knowing they have life insurance in place and that the premiums will be paid without impacting their day to day finances.

HOW CAN IT HELP YOU?

- Since the life insurance premium is paid by the annuity income, you benefit from knowing that business will have good persistency.
- You receive commission on both the life insurance and annuity business.

WHAT IS THE PROCESS?

See the reverse side for a simple checklist that will walk you through the two-step process:

- Step #1:** Establish the Equimax policy
- Step #2:** Establish the term certain annuity

IMPORTANT POINTS TO CLARIFY WITH CLIENTS

- If there are changes to the Equimax policy after issue that result in an increase in premium and the term certain annuity income is insufficient to cover the premium, the annuity income will be paid directly to the owner of the annuity. The Equimax policy owner will receive a billing notice for the full premium amount due and must submit the payment to keep the policy in effect. This includes situations where the premium increases because an insured child does not qualify as a non-smoker at age nearest 18.
- If the Equimax Life Insured is different from the owner (for example, children's policies), we recommend the Equimax contingent owner and the annuity beneficiary be the same person. This will help ensure the income continues to fund the Equimax policy if the owner and annuitant dies before the annuity expires.
- Once the term certain annuity is purchased, it cannot be changed. It will continue to pay the annual income for the term of the annuity. The interest portion of the term certain annuity income is subject to taxation.
- Using a term certain annuity to prearrange the funding for an Equimax policy does not always guarantee the Equimax policy will be paid up when the annuity expires. Premiums may continue to be payable for riders and benefits, or for the base plan when life pay is selected. For life pay plans, where the intention is to potentially qualify for premium offset, you should use the alternate dividend scale of "current minus 2%" as a guideline. The sales illustration you provided when the policy was purchased may have shown a premium offset point based on the dividend scale in effect at that time remaining unchanged for the life of the policy. Since the premium offset point is dependent on dividends, it is not guaranteed. Clients may be required to pay premiums after the term certain annuity ends to keep the policy in effect.
- Dividends are not guaranteed and are paid at the sole discretion of the Board of Directors. Dividends may be subject to taxation. Dividends will vary based on the actual investment returns in the participating account as well as mortality, expenses, lapse, claims experience, taxes and other experience of the participating block of policies.

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