

Case Study

Using a term certain annuity to prearrange the funding for a child's Equimax[®] 20 pay

Using a term certain annuity is a convenient way for parents or grandparents to provide a child with permanent insurance coverage they can carry into adulthood. It's like an "All-Inclusive" for life insurance.

THE SITUATION AND THE NEED

- Victoria Wong (67), proud grandmother of Paul (4)
- Would like to prearrange the funding for a \$100,000 permanent life insurance policy for her grandson. In the future, Paul can access the cash value to help fund his education, start a business, buy a house or supplement his retirement income.
- She is willing to spend up to \$30,000 to put this plan in place.

THE SOLUTION:

The "All-Inclusive" Equimax whole life & term certain annuity package

Step #1: Establish the Equimax policy¹

Equimax Wealth Accumulator[®]

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- Victoria is the intended policy owner and Paul, male, age 4 is the intended life insured
- 100,000 Equimax Wealth Accumulator
- 20 Pay with Annual Premium Mode
- Paid Up Additions Dividend Option
- Scheduled EDO can be added to children's 20 pay premium plans to levelise premiums. The Scheduled EDO amount should be equal to the potential increase in premiums if the insured child does not qualify as a non-smoker at age 18.
- No riders? Use the summary screen to calculate the difference between the smoker premium (\$1,720) and the Base Equimax premium at issue (\$1,501). The difference (\$219) would be the annual Scheduled EDO amount.
- If there are riders, to determine the amount of the Scheduled EDO payment, select Smoker as the Risk Class. Move on to step 2.

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Guaranteed Values				
Age	Year	Required Annual Premium	Cash Value	Death Benefit
5	1	\$1,501.00	\$700	\$100,000
6	2	\$1,501.00	\$1,400	\$100,000
7	3	\$1,501.00	\$2,200	\$100,000
8	4	\$1,501.00	\$3,000	\$100,000
9	5	\$1,501.00	\$3,900	\$100,000
10	6	\$1,501.00	\$4,700	\$100,000
11	7	\$1,501.00	\$5,600	\$100,000
12	8	\$1,501.00	\$6,500	\$100,000
13	9	\$1,501.00	\$7,500	\$100,000
14	10	\$1,501.00	\$8,400	\$100,000
15	11	\$1,501.00	\$9,400	\$100,000
16	12	\$1,501.00	\$10,400	\$100,000
17	13	\$1,501.00	\$11,400	\$100,000
18	14	\$1,501.00	\$12,500	\$100,000
19	15	\$1,720.00	\$13,600	\$100,000

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- View Report. At age 19, you'll see the Required Annual Premium increase if the life insured does not qualify as a non-smoker.
- The difference between the smoker premium (at age 19) and the non-smoker premium (at age 18) will be the annual Scheduled EDO amount.

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- Rerun the illustration:
 - Add a Scheduled EDO payment of \$219
 - Change the Risk Class to Non-Smoker
 - View Report. The Cash Premiums column shows an annual amount of \$1,720. (This is the initial payment required to settle the Equimax policy.)

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¹Life insurance rates illustrated are effective March 3, 2022 and are based on the dividend scale in effect at that time 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. This information does not constitute legal, tax, investment, or other professional advice. © denotes a trademark of The Equitable Life Insurance Company of Canada.

Case Study

Prearrange the funding for a child's Equimax policy (continued)

Step #2: Establish the term certain annuity²

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

Term certain annuity																	
<ul style="list-style-type: none"> Victoria is the intended annuitant and annuity owner. The Amount field must equal the life insurance premium plus the Scheduled EDO payment: \$1,720. 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. The illustration system calculates that a lump sum deposit of \$26,877.85 is required to provide this annual income. 	<table border="1"> <thead> <tr> <th>Annuity Details</th> <th>Additional Information</th> </tr> </thead> <tbody> <tr> <td>Scenario 1</td> <td>First Payment <input type="text" value="03/03/2023"/></td> </tr> <tr> <td>Purchase Date <input type="text" value="03/03/2022"/></td> <td>Income Frequency <input type="text" value="Annual"/></td> </tr> <tr> <td>Type of Annuity</td> <td>Guarantee Period <input type="text" value="19 Years"/></td> </tr> <tr> <td>Type of Funds <input type="text" value="Non-Registered - Prescribed"/></td> <td>Calculation Type <input type="text" value="Income"/></td> </tr> <tr> <td>Select Type of Annuity <input type="text" value="Annuity Certain"/></td> <td>Amount <input type="text" value="\$ 1,720"/></td> </tr> <tr> <td></td> <td>Illustration Language <input type="text" value="English"/></td> </tr> <tr> <td colspan="2" style="text-align: right; background-color: #4CAF50; color: white; padding: 5px;">Single Premium: \$ 26,877.85</td> </tr> </tbody> </table>	Annuity Details	Additional Information	Scenario 1	First Payment <input type="text" value="03/03/2023"/>	Purchase Date <input type="text" value="03/03/2022"/>	Income Frequency <input type="text" value="Annual"/>	Type of Annuity	Guarantee Period <input type="text" value="19 Years"/>	Type of Funds <input type="text" value="Non-Registered - Prescribed"/>	Calculation Type <input type="text" value="Income"/>	Select Type of Annuity <input type="text" value="Annuity Certain"/>	Amount <input type="text" value="\$ 1,720"/>		Illustration Language <input type="text" value="English"/>	Single Premium: \$ 26,877.85	
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THE FUTURE:

- At the policy anniversary nearest age 18, Paul is considered an adult and must declare his smoking status to continue with non-smoker rates.
 - If the Non-Smoker Declaration is submitted and Paul qualifies as a non-smoker, the premium will not increase, and the extra EDO deposit amount will continue to buy paid-up additional insurance and build value within the policy for the remainder of the annuity term.
 - If the Non-Smoker Declaration is not submitted or if Paul does not qualify as a non-smoker, then the annuity income payment will be sufficient to cover the increased smoker premium, thereby ensuring the policy continues to be in effect. EDO payments will stop.
- At age 19, the cash value can be accessed to help fund education, or anything else Paul may want.
- At age 24, the annuity expires, and the policy is paid-up. Paul will have permanent life insurance to carry him into the future, providing financial security for a family of his own.

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¹The term certain annuity rates illustrated are effective March 3, 2022.

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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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