Equitable™

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 life insurance coverage they can carry into adulthood. It's like an "All-Inclusive" for life insurance.

The situation and the need

- Victoria (age 67), proud grandmother of Paul (age 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 $25,000 to put this plan in place.

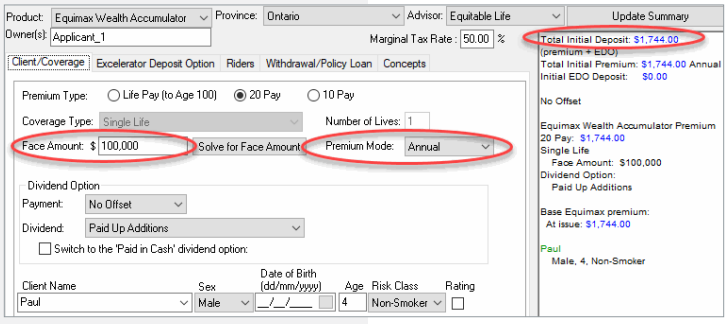
The solution:

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

Step #1: Establish the Equimax whole life policy[1]

Equimax Wealth Accumulator®

- Victoria is the intended policy owner and Paul, male, age 4 is the intended life insured
- $100,000 Equimax Wealth Accumulator
- 20 Pay plan with annual premium mode
- Paid Up Additions dividend option
- An initial annual payment of $1,744 is required to settle the Equimax policy.



[1]Life insurance rates illustrated are effective August 12, 2023 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.

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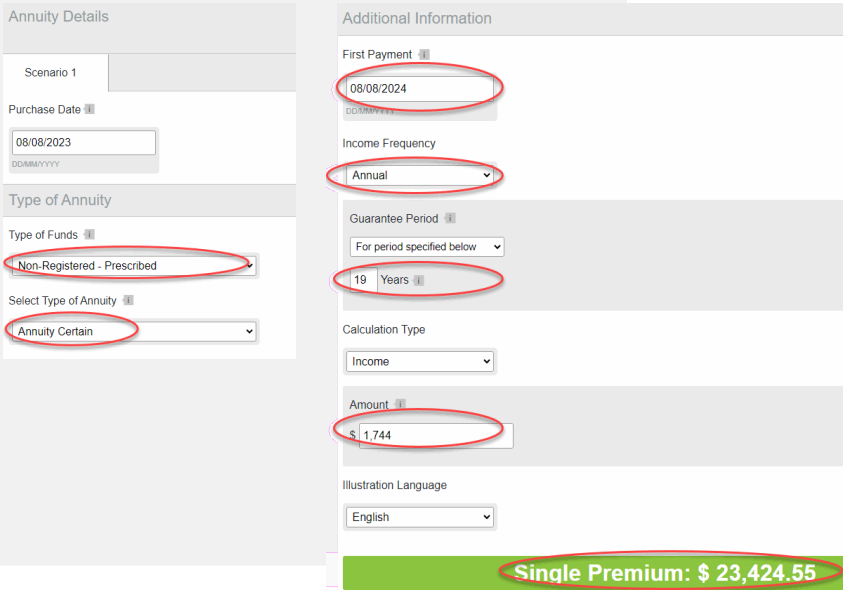
Step #2: Establish the term certain annuity[2]

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

Term certain annuity

- Victoria is the intended annuitant and annuity owner.
- The Amount field must equal the life insurance premium plus the Scheduled EDO payment: $1,744.
- 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 EquiNet® online annuity quotation system calculates that a lump sum deposit of $23,424.55 is required to provide this annual income.



The future:

- 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 whole life insurance to carry him into the future, providing financial security for a family of his own.

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[2]The term certain annuity rates illustrated are effective August 8, 2023.
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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 the 10 pay or 20 pay premium option but can also be used with life pay premium option if the intention is to try to qualify for premium offset after 20 years.

Who is the ideal client?

A solution for clients who:

- Want to prearrange the funding for their life insurance policy.
- Want to prearrange the funding for life insurance for a child or grandchild. Premiums for children are low and Equimax provides a stable investment option with tax-advantaged growth.
- Have cash available to purchase a term certain annuity.
- Age restrictions will apply to the annuitant as we require a specific number of annuity payments to pay the premiums. They must be age nearest 71 or under at the time of the first annuity payment for funding a 20 pay or life pay Equimax policy, age nearest 81 or under at the time of the first annuity payment 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 610 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, including riders in effect that may have premium renewals, and the term certain annuity income is insufficient to cover the premium, including riders in effect that may have premium renewals, 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.
- 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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612 (2023/08/12)