

Case study

Specified lump sum available to purchase a term certain annuity to prearrange the funding for an Equimax 10 pay policy

Using a term certain annuity is a convenient way to prearrange the funding for future premiums on a life insurance policy. It's like an "all-inclusive" for life insurance.

The situation & the need

- Joseph (age 52).
- Received an inheritance of \$250,000 from his father's estate and would like to use \$125,000 of it to prearrange the funding for a whole life insurance plan to help cover estate taxes and fees so he can leave an inheritance to his own son.

The solution:

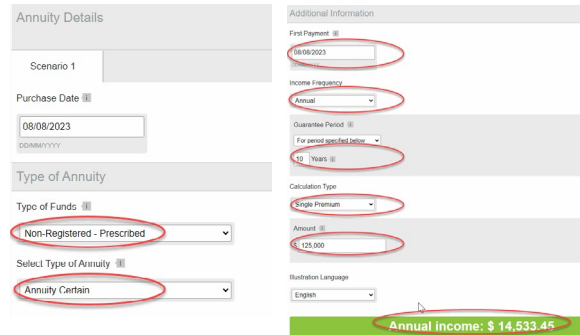
The "all-inclusive" Equimax® whole life and term certain annuity package.

Step #1: Run a preliminary term certain annuity illustration¹ to determine the Equimax premium amount

(This will determine the annual income that a \$125,000 lump sum deposit will generate. This amount will be used to determine the face amount of the Equimax whole life insurance policy.)

Term certain annuity

- Joseph is the intended annuitant and annuity owner.
- Set up an annuity illustration to determine the annual income for a 10-year term certain annuity based on a single deposit of \$125,000.
- This will determine the annual premium for the whole life policy that could be supported for 10 years from the \$125,000 lump sum.
- The annual income of \$14,533.45 from the term certain annuity will be used as the premium to solve for the amount of Equimax coverage that can be purchased.



Additional Information

First Payment # 18/08/2023

Income Frequency Annual

Guarantee Period # 10

For period specified below

Years # 10

Calculation Type Single Premium

Amount # 125,000

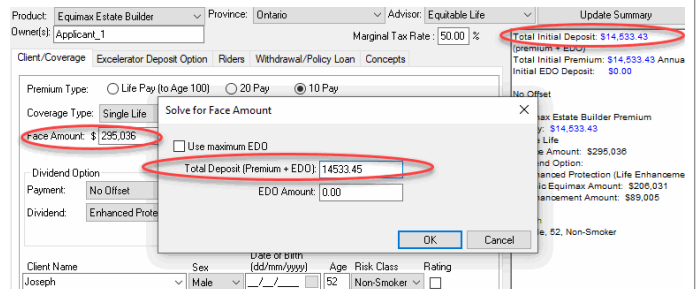
Illustration Language English

Annual Income: \$ 14,533.45

Step #2: Establish the Equimax whole life insurance policy²

Equimax Estate Builder®

- Joseph, male, age 52, non-smoker will be the intended life insured and policy owner.
- Equimax Estate Builder with 10 pay premium.
- Enhanced protection dividend option – lifetime enhancement.
- Select solve for face amount and enter the annual annuity income of \$14,533.45 determined in step #1.
- This results in a face amount of \$295,036.
- An initial payment of \$14,533.43 is required to settle the Equimax policy.
- In some cases, the solve may return a premium a few pennies different from the amount entered because the face amount is a whole dollar amount. Ensure that in step #3 the actual premium amount is used as the annuity income.



Product: Equimax Estate Builder Province: Ontario Advisor: Equitable Life Update Summary

Owner(s): Applicant_1 Marginal Tax Rate: 50.00%

Client/Coverage: Excelsior Deposit Option Riders Withdrawal/Policy Loan Concepts

Premium Type: Life Pay (to Age 100) 20 Pay 10 Pay

Coverage Type: Single Life Solve for Face Amount

Face Amount: \$ 295,036 Use maximum EDO

Dividend Option: No Offset Total Deposit (Premium + EDO): 14533.45

Payment: No Offset EDO Amount: 0.00

Dividend: Enhanced Protection

Client Name: Joseph Sex: Male Date of Birth: 12/1/52 Age: 52 Risk Class: Non-Smoker Rating:

Total Initial Deposit: \$14,533.43
 Premium + EDO: \$14,533.43
 Total Initial Premium: \$14,533.43
 Annual EDO Deposit: \$0.00

Equimax Estate Builder Premium: \$14,533.43
 Face Amount: \$295,036
 Dividend Option: Enhanced Protection (Life Enhancement)
 Equimax Amount: \$295,031
 Enhancement Amount: \$99,005

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¹ The term certain annuity rates illustrated are effective August 8, 2023.

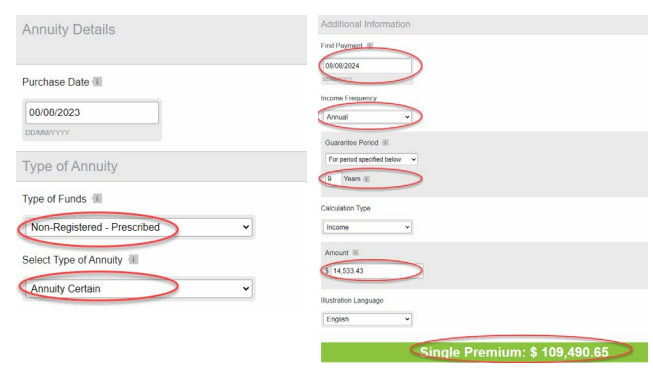
² Life insurance rates illustrated are effective August 12, 2023. Based on the dividend scale at that time remaining unchanged for the life of the policy. Dividends are not guaranteed and are paid at the sole discretion of the Board of Directors. Dividends may be subject to taxation. Dividends will vary 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.

Case study

Using a specified lump sum amount (continued)

Step #3: Establish the term certain annuity¹

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

Term certain annuity	
<ul style="list-style-type: none">• Joseph is the intended annuitant and annuity owner• The amount field must exactly equal the life insurance premium: \$14,533.43.• Once the Equimax policy is settled, all subsequent 9 annual premium payments starting with the 1st policy anniversary will be paid by the term certain annuity.• The cost of this term certain annuity is \$109,490.65.• The total cash outlay for the initial premium required to settle the Equimax policy and the term certain annuity to pay the remaining 9 years of premiums is \$124,024.08, just under the \$125,000 Joseph was prepared to spend from his inheritance.	 <p>The screenshot shows a form titled "Term certain annuity" with the following fields and values:</p> <ul style="list-style-type: none">Annuity Details: Purchase Date: 08/08/2023Type of Annuity: Type of Funds: Non-Registered - Prescribed; Select Type of Annuity: Annuity CertainAdditional Information: First Payment: 08/08/2024; Income Frequency: Annual; Guarantee Period: 10 YearsCalculation Type: Income; Amount: \$14,533.43Illustration Language: EnglishSingle Premium: \$109,490.65

The future: Year 10

- At year 10, the term certain annuity expires, and Joseph's 10-pay Equimax policy is paid up.

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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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