

ADVISOR EDUCATIONAL SERIES

EQUIMAX® PARTICIPATING WHOLE LIFE EXCELERATOR DEPOSIT OPTION

Designed in a Q&A format, this piece can help you understand the Excelsator deposit option (EDO) offered with Equimax Estate Builder® and Equimax Wealth Accumulator® participating whole life solutions. It explains how EDO works and provides information on current administration rules.

The information contained in this document applies to sales of Equimax Estate Builder and Equimax Wealth Accumulator policies issued under the 2017 tax-exempt legislation (G3 tax status). If a client has a whole life policy with the option for EDO issued under the tax-exempt legislation in effect prior to 2017 (G2 tax status), please contact Advisor Services for information on administration rules that will apply to their policy.

For more information on functionality and administration of the currently sold Equimax Estate Builder and Wealth Accumulator solutions, please refer to the [Equimax Advisor/Admin Guide](#). This guide is available on EquiNet®, Equitable's advisor site on the Equimax product page at <https://advisor.equitable.ca/advisor/en/individual-insurance/equimax-participating-whole-life-insurance>

In this document "client" refers to the policy owner or intended policy owner.

If you have questions about this information or any of Equitable's individual life solutions, please contact your wholesaler.

EDO – Fundamental Fact

Under the provisions of the Income Tax Act (Canada), Equitable reserves the right to maintain a client's Equimax policy as a tax-exempt policy. This means a maximum limit will apply on the amount of EDO payment they can make to their Equimax policy each year.

Equitable will not allow scheduled or single EDO payments to exceed this maximum in any policy year and will not accept an EDO payment that would cause the policy to become non-exempt.

The Income Tax Act is subject to change and any changes may affect the taxation of both new and existing life insurance policies.

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#1: What is the Excelerator deposit option?

The Excelerator deposit option (EDO) gives clients the ability to make additional payments, subject to specified limits and our current administrative rules and guidelines, above the required guaranteed policy premium. EDO payments can help grow the long-term values in the policy.

The EDO payment is a separate payment from the premium payment required for the insurance coverage. EDO is also an optional payment. Unlike the premium payment, EDO payments are not required to keep the policy in effect. EDO payments are at the discretion of the client and can be made if they have extra funds available.

The amount of insurance coverage a client purchases should be based on what they need and what they can afford, however if they have discretionary money now or in the future, they can use EDO to put extra money into the policy.

The ability to make an EDO payment is subject to administrative rules, tax-exempt status and applicable tax legislation and underwriting approval.

EDO is available on Equimax Estate Builder or Equimax Wealth Accumulator policies for all ages and premium options, with the paid-up additions or enhanced protection dividend option.

#2: What happens when a client makes an EDO payment to a policy?

If a client is approved for EDO payments, the EDO payment is used to purchase participating paid-up additional insurance (PUAs). This insurance is in addition to the PUAs purchased by policy dividends¹. Since the PUAs are participating, both the Equimax base coverage and the PUAs are eligible to participate in the earnings of the participating account through dividend payments¹, which further accelerates the growth within the policy. PUAs also have cash value that grows on a tax-advantaged basis within the policy. Depending on the dividend option selected by the client, the PUAs can also immediately increase the total death benefit.

Clients can choose to make either:

1. Scheduled payments

- Scheduled EDO payments can be annual or monthly based on the policy premium mode and subject to maintaining the tax-exempt status.
- When applied for when the policy is issued, scheduled EDO payments are included in the annual premium billing notice or as part of the monthly pre-authorised debit (PAD) for the policy and will have the same effective date as the Equimax policy.
- Equitable will process any scheduled annual payments on the policy anniversary.
 - i. To be processed as an annual payment, the EDO payment must be received within one month following the policy anniversary.
 - ii. Otherwise, the payment will be processed as a monthly payment at the time it is received.
- Scheduled monthly payments are processed when they are received.

2. Single Payment

- Clients can request to make a single ad hoc EDO payment at any time.
- Single payments are subject to administrative rules, tax-exempt status, and underwriting approval at the time of the request and processed when received.
- Equitable will process any EDO payment received within one month following the policy anniversary as an annual payment:
 - i. Otherwise, the payment will be processed as a monthly payment.
 - ii. All payments are subject to maintaining the tax-exempt status of the policy.

A premium load of 8% applies to each EDO payment. A modal factor of 0.0867 will apply to all EDO payments received after the first month following the policy anniversary and will apply regardless of the amount of the EDO payment, even if it is the full EDO amount for the year. This 0.0867 modal factor is not reflected in the EDO payment amount and does not increase the maximum EDO payment when switching from annual to monthly PAD. The modal factor is applied when the paid-up insurance is purchased and will affect how much paid-up insurance is purchased with the EDO payment.

The rates used to buy PUAs with EDO payments are the same rates as those used to buy PUAs with dividends. An interpolated rate applies for PUA purchases made with EDO payments received other than at the policy anniversary.

#3: Are there any restrictions on the availability of the EDO?

EDO is only available for Equimax policies with the paid-up additions or enhanced protection dividend option.

EDO is not available if a flat extra rating applies. However, EDO may still be available for clients who are a substandard risk:

- Multiple ratings of 300% or less for a life insured under single life and joint policies.
- Joint last-to-die with a declined life, provided the other life is rated at 300% or less.

#4: Are there any limits to the amount of the EDO payment?

Yes, there are both minimum and maximum limits applicable to the payment amount.

The following minimum payment amounts apply:

- Scheduled payments - \$100 annual pay or \$10 monthly pay
- Single payment - \$100

There is a maximum EDO payment allowed each year. This limit is set to ensure the policy remains exempt from accrual taxation over its lifetime assuming the dividend scale in effect at that time remains unchanged for the life of the policy. It is determined at the time the policy is issued and is based on the issue age, sex, and risk class of the life insured, as well as the basic amount of coverage in effect, the plan type and the premium option chosen.

If the Owner Signature Date of the policy is June 26, 2021, or after, a term rider applied for and issued at the same time as the Equimax whole life coverage may allow for an increase to the EDO maximum payment limit, subject to our approval and the administrative rules and guidelines in effect. Please refer to questions #21 through #31 for details.

The Owner Signature Date is determined as the date the Owner signed the application for the policy, or, if there is more than one Owner, the latest of the dates that the Owners signed the application for the policy.

Equitable will not accept an EDO payment that causes the policy to lose its tax-exempt status and reserves the right to limit subsequent EDO payments we will accept. If a policy loses its tax-exempt status, it becomes subject to accrual taxation for the remainder of the life of the policy.

The illustration system will calculate the maximum EDO amount based on the illustration assumptions entered for the client. No exceptions will be made to allow EDO payments more than this maximum.

Changes made to the policy after issue may result in changes to the maximum EDO payment allowed. The maximum EDO payment may also be affected by changes made to the dividend scale and/or the applicable policyholder tax exempt legislation (Income Tax Act Canada).

#5: Am I able to show clients an illustration with a scheduled EDO payment?

Yes, you can show a scheduled EDO payment by choosing Scheduled as the Deposit Input Type on the Excelsior Deposit Option tab.

The screenshot shows the 'Excelsior Deposit Option' tab with the following details:

- Client/Coverage** | **Excelsior Deposit Option** | **Riders** | **Withdrawal/Policy Loan** | **Concepts**
- Deposit information**
- ☒ Deposits
- Deposit Input Type:** ☒ **Scheduled** | ☐ Single Deposit | ☐ Custom
- Duration:** From Year To Year
- Amount:**
- Minimum EDO Amount:** \$100.00
- Maximum EDO Amount (Base coverage):** \$11,300.00
- Maximum EDO Amount (Term riders):** \$0.00
- Total Maximum EDO Amount:** \$11,300.00

Illustration Tip: Use Custom to illustrate a series of sporadic single payments or to show how illustrated values are affected by skipped scheduled payments.

The illustration system will calculate the maximum EDO amount based on the illustration assumptions entered for the client.

#6: Is a client required to pay the scheduled EDO payment each year/month?

No, all EDO payments are optional and not required to keep the client's policy in effect.

However, if a client is approved for scheduled annual or monthly EDO payments and payments are stopped and not restarted within the time permitted under the contract, EDO will be stopped.

How long a client is permitted to stop and then restart their schedule EDO payments without additional evidence of insurability and underwriting approval is discussed in Question #17.

If EDO stops because of missed payments, a client can request to reinstate the scheduled payment by completing [Form 374G3 - G3 Application for Change](#) and submitting the required evidence of insurability. This option is only available to clients who have a policy issued under the 2017 tax rules (G3 tax status). Policies with a G2 tax status are not permitted to reinstate EDO.

If a client applies to have a scheduled EDO payment reinstated, the effective date of the EDO payment will be the date Equitable receives the first payment after approval of the application.

#7: If a client has the paid-up additions dividend option, what happens to the death benefit and cash value of the policy if they make an EDO payment?

The payment buys paid-up additional insurance (PUAs) which will increase both the cash value and the permanent insurance coverage. The total death benefit and total cash value will increase right away.

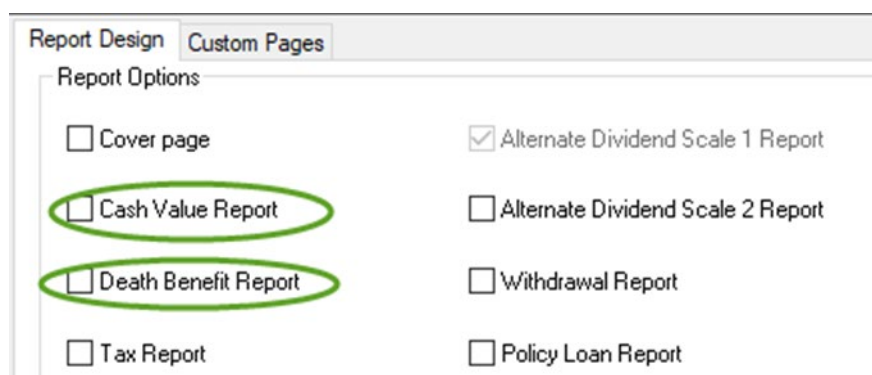
#8: If a client has the enhanced protection dividend option, what happens to the death benefit and cash value of the policy if they make an EDO payment?

The payment buys paid-up additional insurance (PUAs), which will increase both the cash value and the permanent insurance coverage. The total cash value will increase right away, however the total death benefit at the policy anniversary will not initially increase, as the PUAs are first used to replace the one-year term insurance. With EDO also buying PUAs, the one-year term insurance is replaced more quickly than by dividends¹ alone. This means the dividend conversion point (the point where all the one-year term insurance has been replaced with PUAs) will occur sooner. Once PUAs replace all the one-year term insurance, the total death benefit will start to increase.

If the policy has scheduled monthly EDO payments, PUAs are purchased each month, but there is no monthly adjustment to the one-year term insurance. It will be adjusted at the policy anniversary when any potential dividends¹ are also allotted. Therefore, since the total death benefit will include the PUAs purchased by the monthly EDO payments it will be higher throughout the policy year until all the PUAs are applied and the one-year term insurance is re-adjusted.

#9: How can I show a client an illustration of the values generated by PUAs?

When you run an Equimax illustration there are two optional reports you can choose from in the Report Design tab shown below: Cash Value Report and Death Benefit Report.



Report Design Custom Pages	
Report Options	
<input type="checkbox"/> Cover page	<input checked="" type="checkbox"/> Alternate Dividend Scale 1 Report
<input type="checkbox"/> Cash Value Report	<input type="checkbox"/> Alternate Dividend Scale 2 Report
<input type="checkbox"/> Death Benefit Report	<input type="checkbox"/> Withdrawal Report
<input type="checkbox"/> Tax Report	<input type="checkbox"/> Policy Loan Report

By selecting these reports, you will be able to show the client cash value generated by PUAs and the death benefit of the PUAs. These illustrated values include all the PUAs purchased with both EDO as well as dividends¹. The values are as of the end of each policy year.

ILLUSTRATION TIP:

If you are running an illustration with the enhanced protection dividend option, the optional Death Benefit Report will also show you the amount of one-year term insurance purchased at each policy anniversary for the enhanced portion of the total coverage. Run the illustration with and without EDO payments to see how EDO can accelerate the replacement of one-year term insurance.

#10: How does a client apply for EDO?

Clients can apply for EDO at the same time they apply for the Equimax policy, simply indicate this on the application for life insurance. The illustration that the client signs and submits with the application will need to include EDO and the scheduled EDO amount.

Provided the client has an Equimax policy issued under the 2017 tax rules (G3), they can also apply to add EDO on an existing policy, subject to submission of additional evidence of insurability we require at that time and underwriting approval. Use [Form 374G3 – G3 Application for Change](#). The policy must meet the required criteria to support the addition of EDO (i.e., supported dividend option). Clients who have a policy with a G2 tax status cannot add EDO after issue.

#11: Does a client need to submit additional medical requirements when they apply for Equimax coverage if they also apply for EDO?

If a client applies for EDO at the same time they apply for Equimax coverage it will not increase the medical requirements beyond those required for the insurance coverage.

EXCEPTION:

The Equimax coverage is applied for under the conversion privilege provided by a Term plan or Term rider. EDO payments purchase additional paid-up insurance and increase the death benefit, so if the new Equimax coverage applied for under a Term conversion includes EDO, additional underwriting and submission of evidence may be required for the EDO amount.

However, additional underwriting and evidence of insurability is not required if the maximum net amount at risk (NAAR) provided by the Equimax coverage amount and the EDO payment amount, does not exceed the amount of term coverage being converted.

An illustration is required with the application for conversion and the illustration will display the maximum NAAR that applies. It can be found on the Underwriting page of the illustration report.

If you know clients who are interested in converting their term coverage to Equimax coverage and want to include EDO, we have created a worksheet to determine if underwriting will be required. The worksheet and the illustration need to be submitted with the application for conversion.

You can find the Application for Term Conversion (Form 1616) as well as the worksheet (Form 1616Worksheet) on EquiNet under [Forms](#).

#12: If approved for EDO how long does a client have to submit the initial EDO payment without additional underwriting approval?

The owner has 60 months from the date the application for EDO was signed to submit the initial EDO payment without additional underwriting approval.

It is important to understand how long a client has to submit the initial EDO payment without requiring additional underwriting approval is measured from the date the application for EDO was signed, not the issue date of the policy.

#13: Are there any restrictions on EDO payments if a client is approved for EDO and delays submitting the initial EDO payment?

No, provided the client submits the initial EDO payment within 60 months of the date the application for EDO is signed.

However, depending on the amount of the initial EDO payment made within that initial 60 months, there may be restrictions on what we will accept for subsequent EDO payments without underwriting approval.

The maximum annual EDO payment allowed in a policy year without underwriting approval will be the lesser of:

- (i) The annual EDO payment amount approved at issue by underwriting; and
- (ii) The sum of all EDO payments made in the last 5 years (60 months).

#14: If a client does not apply for scheduled EDO payments when they apply for the Equimax policy, can they apply later?

Yes, provided they have a policy issued under the 2017 tax rules (G3 tax status), a client can apply for both scheduled EDO payments and single EDO payments after the issue of their Equimax policy by completing [Form 374G3 – G3 Application for Change](#).

Additional evidence of insurability and underwriting approval will be required. If approved, the EDO contract provisions that apply will be based on the Owner Signature Date and the effective date of the insurance policy, not the date the EDO was added.

Approval is subject to Equitable's administrative rules and underwriting criteria in effect at the time Equitable receives the Application for Change. The EDO payment will be limited to the maximum EDO payment amount permitted for the policy. That amount is based on the amount that would apply at the effective date of the policy as well as the tax-exempt status of the policy and the applicable tax legislation in effect at the time the addition is requested.

The effective date of the scheduled EDO payments will be the date the first EDO payment is received following approval of the application.

#15: Can a client increase the scheduled EDO payment in the future?

Yes, if a client is paying less than the maximum EDO payment amount permitted for their policy, they can request to increase the scheduled EDO payment amount.

The policy must be issued under the 2017 tax rules (G3 tax status). Approval is subject to Equitable's administrative rules, underwriting criteria, and the tax legislation in effect at the time we receive the request to increase the EDO payment amount. The increase cannot cause the policy to lose its tax-exempt status.

#16: Can a client decrease the scheduled EDO payment in the future?

Yes, a client can decrease the scheduled EDO payment at any time. The new EDO payment amount must meet the minimum EDO payment requirement.

Decreasing the amount of the EDO payment may affect future EDO payment amounts a client can make without underwriting approval.

The maximum annual EDO payment allowed in a policy year without underwriting approval will be the lesser of:

- (i) The annual EDO payment amount approved at issue by underwriting; and
- (ii) The sum of all EDO payments made in the last 5 years (60 months).

If a client has been paying less than the approved EDO payment amount, they can return to the approved EDO payment amount by making continued EDO payments over time.

#17: If a client has a scheduled EDO payment, can they stop it?

Yes, a client can stop scheduled EDO payments at any time. However, if they want to resume EDO payments, underwriting approval may be required.

If a client requests to restart EDO payments within 60 months of the last EDO payment made to the policy, underwriting approval is not required.

However, if they request to restart EDO payments more than 60 months after the last EDO payment was made to the policy, then they must complete [Form 374G3 – G3 Application for Change](#) to reinstate (restart) scheduled payments. Clients who

have a policy issued under the pre-2017 tax rules (G2 tax status) are not permitted to reinstate EDO payments in this situation.

#18: If a client skips scheduled EDO payments one year, can they carry missed payments forward and make a payment in addition to the scheduled payments in the next year?

Although skipped EDO payments do not carry forward, if a client has not been paying the maximum EDO payment that is available with their policy, they may be able to increase the EDO payment subject to underwriting, tax-exempt status and our administrative rules and guidelines in effect. The policy must be issued under the 2017 tax rules (G3 tax status).

Each policy has a maximum EDO payment amount that is determined at issue of the policy based on the issue age, sex, and smoking status of the life insured, as well as the amount of Equimax coverage in effect, the plan type and the premium option chosen. Depending on when the policy was applied for, term riders added at issue of the policy may also increase the maximum EDO payment.

In any given policy year, the maximum EDO payment the client can make is limited to this maximum amount. Each policy year, the client may be able to make an EDO payment up to this maximum amount, provided the payment does not cause the policy to lose its tax-exempt status and subject to underwriting and administrative rules and guidelines in effect at the time.

If, in any given year, the client has paid the maximum EDO payment permitted for the policy, no further EDO payments can be made, even if there were no EDO payments the previous year.

Changes made to the policy after issue may result in changes to the maximum EDO payment limit allowed. Equitable will not accept an EDO payment that causes the policy to lose its tax-exempt status, and we may also limit the amount of subsequent EDO payments we will accept.

#19: If a client changes the dividend option on their policy, can they make EDO payments?

It will depend on what dividend option a client chooses. Since EDO payments buy paid-up additional insurance, the dividend option must be paid-up additions or enhanced protection.

EDO is not available if the client chooses to have their dividend paid out in cash, to reduce the premium payment or to accumulate on deposit. If the client requests a change to one of these dividend options, EDO will no longer be available.

To change the dividend option after issue of the policy, you will need to complete [Form 558 – Request for Withdrawal of Dividends, Change in Option, or Premium Offset](#). Changing the dividend option after issue may have tax consequences for the client. More information is available in the [Equimax Advisor/Admin Guide](#) available on EquiNet on the Whole Life Insurance Product page under the [Resources tab](#).

#20: If a client requests a decrease in the basic Equimax coverage, will this affect the amount of EDO payment they can make?

Yes. The maximum EDO payment amount permitted for the policy is recalculated as of the effective date of the policy based on the reduced coverage amount and applicable limits. (See Question #4 for details.)

It is important to note that reductions in coverage can also have tax consequences for the client.

#21: If a client adds a Term rider to their Equimax plan, will this increase the maximum EDO payment limit?

Yes, depending on when a client applied for the Equimax policy, a Term rider added to an Estate Builder or Wealth Accumulator plan may increase the maximum EDO payment limit. Whether or not the term rider allows for an increase to the maximum EDO payment is subject to underwriting approval and the administrative rules and guidelines in effect.

If the Owner Signature Date of the policy is June 26, 2021, or after and the term rider is issued at the same time as the basic Equimax coverage, the client will be able to apply for an EDO payment that will include an increased amount from the addition of a term rider(s).

The Owner Signature date is the date on which the owner signed the application for the policy. If there is more than one owner, the Owner Signature Date is the latest date on which the owners signed the application for the policy.

There must be an insurance need for the term insurance coverage, and this will be assessed as part of the underwriting process.

Please refer to the [Equimax Advisor/Admin Guide](#) posted to EquiNet for more information.

#22: A client's policy was issued before June 26, 2021, and has a term rider, will the term rider increase the maximum EDO payment limit?

If a client's policy was issued with an effective date before June 26, 2021, because it was back dated, provided it has an Owner Signature Date of June 26, 2021, or after and the term rider was issued at the same time as the Equimax coverage, then the term rider may increase the maximum EDO payment limit.

#23: A client's policy has an Owner Signature Date before June 26, 2021, and has a term rider, will the term rider increase the maximum EDO payment limit?

No, for the term rider to increase the maximum EDO payment limit the policy must have an Owner Signature Date of June 26, 2021, or later.

#24: If a term rider is added to a client's Equimax policy after it is issued will it increase the maximum EDO payment limit?

No, if a client's policy qualifies for a term rider to increase the maximum EDO payment (the Owner Signature Date is June 26, 2021, or after), the term rider must be issued at the same time as the Equimax whole life coverage.

Even though a term rider added after issue increases the tax-exempt room on the policy, at this time we cannot administratively support an increase to the maximum EDO payment limit if the term rider is added after issue to the policy.

#25: How can I calculate the maximum EDO payment that will apply to a client's plan?

Good news, you don't need to calculate it! The Equitable Sales Illustrations system or the Equimax web illustrations will determine the maximum EDO payment limit based on the illustration assumptions and will include the amount available from term riders if applicable.

#26: If a rating applies will the term rider increase the maximum EDO payment limit?

Yes, if a client's policy qualifies for a term rider to increase the maximum EDO payment limit, and the term rider is rated, it may still increase the maximum EDO payment limit provided the rating is the same, or lower, as the base Equimax coverage. For example, if the base Equimax coverage is rated 200%, the rating on the term rider must be 200% (or lower).

The term rider must be issued at the same time as the Equimax coverage for it to increase the EDO payment limit, so in most cases the ratings should be the same.

A rating on the term rider does not change the EDO payment limit amount available from the term rider coverage. The EDO payment limit amount provided by the term rider will be the same with or without the rating.

If a flat extra rating applies EDO is not available.

#27: What happens if a client has more than one term rider on their policy?

If a client's policy qualifies for a term rider to increase the maximum EDO payment limit and has more than one term rider issued on the policy, all the term riders may increase the maximum EDO payment limit. The amount of term rider coverage that can increase the EDO payment is limited to the amount of basic Equimax coverage.

For a term rider to increase the EDO payment limit, it must be issued at the same time as the Equimax coverage and if a multiple substandard rating applies, the rating must be the same or lower than the rating on the Equimax coverage.

#28: If a client qualifies for a preferred risk class on the term rider will that change the EDO payment amount provided by the term rider?

No, although the EDO payment limit provided by the term rider varies between whether a client is a smoker or a non-smoker, it will not vary if they qualify for a preferred non-smoker or preferred smoker risk class.

For example, the EDO payment limit provided by a term rider if the client is a non-smoker will not change if after they are underwritten, they qualify as a preferred non-smoker or preferred plus non-smoker on the term rider.

#29: What happens if a client terminates a term rider that allows for higher EDO payments?

Term riders are typically added to a policy to cover a temporary insurance need. Once that temporary need no longer exists the term rider is typically converted or terminated. If any term rider added to the policy allows for higher EDO payments, and the client has been making those higher EDO payments, reducing, converting, or terminating the term rider too soon could cause the policy to become non-exempt.

In this situation paid-up additional insurance will be surrendered and its cash value paid to the owner to keep the policy exempt from accrual taxation.

To limit the amount of paid-up insurance surrendered in this situation, which may have tax consequences for the policy owner, it is recommended that the term rider coverage(s) be held for a minimum of 10 years before it is terminated, converted, or reduced.

Changes to any of the term riders on the policy may result in changes to the maximum EDO payment allowed.

#30: What happens to the maximum EDO payment limit for the policy if a client terminates a term rider that allows for higher EDO payments?

If any term rider added to the policy has increased the maximum EDO payment limit for the policy, and the term rider coverage is terminated, converted, or reduced before the 10th policy anniversary, the maximum EDO payment limit that applies to the policy will be reduced accordingly.

If any term rider added to the policy has increased the maximum EDO payment limit for the policy, and the term rider is terminated, converted, or reduced on or after the 10th policy anniversary, the maximum EDO payment limit that applies to the policy will not be reduced. This means if the policy owner has been paying the maximum EDO amount that includes the amount that was provided by the term rider, they can continue to do so, subject to maintaining the tax-exempt status of the policy. The payments will continue to be subject to the provisions outlined in the policy contract as well as the administrative rules and guidelines in effect.

#31: What happens with a term rider on a client's policy if I illustrated it terminating prior to expiry?

The illustration system provides you with the flexibility to show clients how illustrated values may be affected by actions they may take in the future. This includes things like custom EDO payments, cash withdrawals, policy loans, and illustration of term riders being terminated before they expire.

If you illustrated a term rider terminating before expiry it is the responsibility of the policy owner to request the term rider, be terminated at that point in the future. Equitable will not terminate the term rider unless it has been requested by the policy owner regardless of what was illustrated at the time the policy was sold.

Please refer to Question #29 regarding termination of a term rider that allowed for higher EDO payments.

#32: Will making EDO payments mean a client's policy could qualify sooner for premium offset?

EDO payments buy paid-up additional insurance, which has cash value, and is also eligible to earn dividends. This will help to build the value in the policy and may mean that a client's policy could qualify earlier for premium offset than if EDO payments were not made.

Premium offset is not guaranteed; it is dependent on dividends, which are not guaranteed. A policy does not automatically qualify for premium offset. The owner must make a request in writing to Equitable, and the policy must meet the qualifications at the time of the request.

At the time the client makes a request to place the policy on premium offset, Equitable will test the policy to determine if the cash value of the policy generated from dividends, and future dividends based on the current dividend scale, are sufficient to pay all required future premiums. Guaranteed cash value is not included in determining if a policy qualifies for premium offset. Also, there must be no outstanding policy loan on the date the policy is approved for premium offset status.

Once a policy qualifies for premium offset it is not guaranteed to continue to qualify. Dividend scale changes can affect whether a policy continues to qualify for premium offset. All policies on premium offset are tested following a dividend scale change to determine if they continue to qualify for premium offset. The owner is notified in the event the policy does not, or will not, continue to qualify for premium offset status and they will need to resume premium payments.

Any scheduled EDO payments will stop once the policy is on premium offset. Please refer to Question #38 for details. Putting a policy with enhanced protection on premium offset during the enhancement guarantee period will void the guarantee.

#33: If a client has a 10 Pay or 20 Pay policy, can they make EDO payments after it becomes paid-up?

Yes, however these payments must be annual or ad hoc payments at the discretion of the client. Any EDO payments are subject to the income tax regulations affecting the tax-exempt status of the policy, as well as administrative and underwriting rules and guidelines in effect at the time.

If the policy becomes paid-up, scheduled EDO payments will stop as they are tied to premium billing and no further premiums would be required.

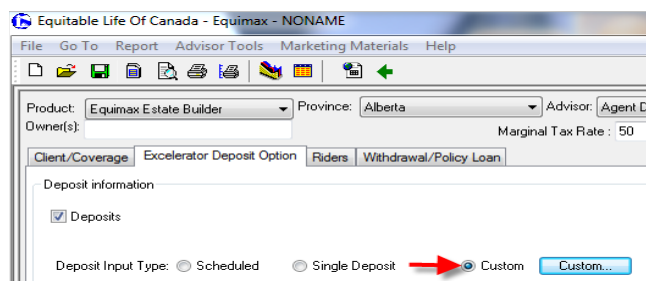


ILLUSTRATION TIP:

Use the Custom option on the EDO tab to illustrate EDO payments into a 10 or 20 Pay plan after the policy anniversary when scheduled payments would stop.

#34: If a client has missed a premium payment, can they make an EDO payment?

Yes, but Equitable will first use any EDO payment amount to pay any unpaid premiums. Any excess will then be applied, if possible, as an EDO payment.

#35: Can a client withdraw EDO payments in the future?

EDO payments buy paid-up additional insurance (PUAs) which has cash value. This adds to the total cash value of the policy. PUAs, whether purchased with dividends or EDO payments, can be surrendered to provide a cash withdrawal from the policy.

Withdrawals from an exempt policy are partial dispositions of the policy and subject to taxation. The value of the withdrawal comes from a partial surrender of the base coverage and/or PUAs and is subject to proportional taxation. Based on policy values before the withdrawal, the excess of the policy's cash surrender value (CSV) over the adjusted cost base (ACB) provides an estimate of income subject to taxation on full surrender. If a fraction of the CSV is withdrawn, the same fraction of income is reported.

If the client immediately uses the withdrawal to pay premiums and or repay a policy loan previously used to pay a premium on the same policy, it is not taxable income. Any amount withdrawn that exceeds the premium or policy premium loan repayment will be subject to proportional taxation. If the client uses the withdrawal to repay a previous policy loan taken in cash, the withdrawal amount will be subject to proportional taxation.

If the client has the enhanced protection dividend option and the policy is in the enhancement guarantee period, surrendering PUAs for a cash withdrawal will void the enhancement guarantee.

#36: Can a client borrow against EDO payments in the future?

EDO payments buy paid-up additional insurance (PUAs) which has cash value. This adds to the total cash value of the policy. The cash value of the PUAs, whether purchased with dividends or EDO payments, is available as collateral for a policy loan.

Loans received as cash against a tax-exempt policy, whether against the guaranteed cash value or the PUAs are considered partial dispositions of the policy. Policy loans are made against the policy's cash surrender value and are subject to excess taxation. The amount by which the loan exceeds the adjusted cost base (ACB) is an estimate of the taxable income due to the loan.

If the loan is used to immediately pay premiums on the same policy, it is not considered to be a partial disposition of the policy and taxable income is not created. Any loan amount that exceeds the premium may be subject to taxation.

#37: Do waiver of premium benefits cover EDO payments?

No, only the premiums that are required to be paid for the policy are covered by the waiver of premium benefit.

When a policy is on waiver status and premiums are being waived, scheduled monthly EDO payments stop. Scheduled EDO payments are based on the billing status, which will be changed to "waived". However, the client can continue to make EDO payments on an annual or ad hoc basis while a waiver of premium claim is in effect.

Scheduled payments can resume once the policy is no longer on waiver and would not require underwriting approval provided the amount has not increased and EDO payments were not stopped and restarted outside the 60 months allowed.

However, if the client requests to stop EDO payments while the policy is on waiver, payments cannot resume unless the policy is no longer on waiver and would be subject to underwriting approval.

#38: If a client requests to have their policy placed on premium offset, can they make EDO payments?

Typically, requests to determine if a policy can qualify for premium offset status are made because a client is no longer interested in making out-of-pocket premium payments. Instead, they are interested in having premiums for the policy paid by future dividends and the accumulated cash value within the policy generated from dividends.

If the client's policy qualifies for premium offset, any scheduled EDO payments would stop. If the client wants to make a single EDO payment in the future, they can apply to do so; however, approval will be subject to administrative rules, tax-exempt status, applicable tax legislation and underwriting approval.

#39: If a client elects the reduced paid-up death benefit option, can they make EDO payments?

No, EDO payments are not permitted if the client elects to change their policy to reduced paid-up (RPU) coverage.

Electing RPU may make a policy lose its tax-exempt status and become subject to accrual taxation immediately or in the future.

Notes:

¹ 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.

While Equitable has made every effort to ensure the accuracy of the information presented here, the policy contract governs in all cases.

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