Equitable™

Designing the CI solution: optional riders

Path to Success

Expert advice on navigating CI sales

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Most insurance products have optional riders that can be added so that the base coverage can be enhanced with other features.

Here are the most common riders available to add to a critical illness insurance plan:

Disability waiver of premium

This rider is triggered when an insured covered by this rider is disabled for a set period of time, typically greater than six months. At that time, the rider refunds the six months of premiums and waives future premiums payable until the time the insured is no longer considered disabled. There are two types of disability waivers:

1. **Applicant's death and disability waiver of premium rider:**
   Available on juvenile policies, this rider waives the premiums if the applicant/owner of the policy (typically a parent) suffers a total disability or upon their death. Having this rider on a juvenile policy ensures that coverage remains in force until the time the insured "child" can take over making payments.

2. **Disability waiver of premium:**
   Available on adult policies, this rider waives the premiums if the person insured under the rider suffers a total disability. Typically, the person insured under this rider is the same person who is insured under the critical illness insurance coverage, however the policy owner can also be insured under this type of rider as well.

Return of premium at death

This rider triggers a return of all eligible premiums paid if the insured person dies while the critical illness insurance is in place. It's important to point out to your clients that death does not have to be a result of a covered critical condition, as clients often assume that incorrectly.

The likelihood of a client receiving a payout on this rider increases the longer they hold the coverage. For this reason, the return of premium on death is chosen more on longer-term premium structures like permanent coverage.

With this rider on permanent coverage, if the client does not lapse coverage, there will either be a payout of the critical illness funds on diagnosis or a return of all eligible premiums paid at death. This guaranteed return of premium can lead to clients purchasing a larger policy as they know that, in a worst-case scenario, all the eligible premiums they paid will return to their estate and, ultimately, their children.

Advisor script

We can add a rider to your plan called return of premium on death. This rider ensures that while this plan is in place if you die of any cause, not just a covered critical illness, all the eligible premiums you paid into your policy get refunded to your estate. The benefit of adding this is, if a covered critical illness occurs, you receive the larger lump sum payout, and if no illness occurs, all eligible premiums you paid into the policy get refunded back to your estate. Does that make sense for your protection during your life and your estate on death?

I wish we had this as an option to add to our home, car, travel, and other insurance plans.

Return of premium on expiry

This rider is available on term renewable critical illness coverages and can only be optioned when the policy expires, typically at age 75*. This rider provides a return of all eligible premiums paid if there has been no claim for a covered critical illness insurance benefit and the coverage is in force until expiry.

Return of premium on surrender/expiry

This rider is typically available on level to age 75 plans and permanent T100 plans. This rider rewards clients who remain healthy for a certain amount of years by allowing them to cancel their coverage in exchange for a return of premiums. There are various designs of how many years must be satisfied before a return of premium will be payable and how much is eligible to be returned at that time. For example, this rider can provide a return of 75% of eligible premiums paid if the coverage is cancelled at year fifteen, increasing by 5% every year thereafter until it reaches 100% return of eligible premiums paid on cancellations made year 20 onwards[1].

This rider is often attractive to:

1. **clients who want protection should they suffer a covered critical illness but are confident in their health compared to the regular population. With this rider, these healthy clients can have the downside protection against illness while betting that their health puts them in a better position than their peers to remain healthy and receive their premiums back.**
2. **wealthier clients who can comfortably afford to pay the high cost for this rider with the thought that they will, in the worst-case scenario, receive all the eligible premiums back that they have paid for the coverage.**

You should emphasize that this rider is not a fit for every client, nor will all clients benefit from owning it. The people who purchase critical illness insurance with return of premium who would not benefit from the extra return of premium cost are clients who:

1. **pay this extra premium who lapse/cancel their coverage before they are eligible for a return of premium claim on their critical illness coverage.**
2. **By adding this rider, the client ended up paying a premium that is too high. By not adding a return of premium rider, this client could have paid a lower premium or reallocated the return of premium money to buy more coverage, which would have produced a larger critical illness insurance lump sum payout.**
3. **want to cancel the coverage prior to the 15th coverage year but must keep paying the premium to secure a return of premiums.**
4. **purchase a return of premium rider with a plan to cancel in twenty years and then when they are twenty years older, they are more concerned with their health risk, so do not choose to cancel. The internal rate of return on a return of premium on surrender/expiry rider lowers each year the client does not cancel once eligible.**

The scripting below gives a balanced view of return of premiums, which will lead to the right clients selecting it and those who cannot afford it, not feeling like they are missing out.

[1] The maximum premiums to be returned is limited to the sum insured on the date the client elects to surrender the policy

Advisor script

We have a unique option with critical illness insurance that does not exist with other insurance plans like home or car insurance.

- **The first option is like home and car insurance, where you pay a premium, and if no claims occur, those premiums stay with the insurance company.**
- **The second option is unique to critical illness insurance whereby you can bet on your continued good health and that you will not make a claim. With this option, you pay a higher premium each year, and if you don't have a critical illness for a set amount of years, you can choose to cancel your coverage any time thereafter for a full return of all the eligible premiums you paid for your coverage.**

Now you might be thinking, "this sounds too good to be true, how can the insurance company provide such a benefit?" It's all based on probability and various outcomes:

1. Some people will need to cancel their coverage due to unforeseen circumstances: In this case, the person has paid extra for a chance to receive a return of premium if they cancel their coverage. However, by cancelling their coverage prior to being eligible for a return of premium they lose this chance. In this case, they would have been better off not adding the return of premium rider to their coverage in the first place since they paid a higher premium for a return of premium benefit they will never receive from the insurance company.
2. A critical illness can strike anyone at any time, even those who are healthy: In this case, the client pays extra for the return of premium rider but suffers a critical illness prior to optioning it. Since the critical illness insurance benefit is typically larger than the return of premium benefit, these clients are still pleased to have had critical illness protection and receive a benefit to help them with recovery. However, the client would have been better off just paying for the base coverage or allocating the money they used to purchase the return of premium rider towards a higher coverage amount.
3. Circumstances may arise where someone may want to cancel their coverage sooner, but instead keep their coverage inforce until they are eligible for a return of premium: In this case, the client may need to keep paying premiums for several more years until which time they are eligible to elect their return of premium option.
4. Some people will purchase this optional rider thinking they will cancel when they are eligible for their return of premium benefit (say in 20 years): However, when they are eligible for a return of premium, they are older and maybe more concerned with their health and the risk of a critical illness, so they choose to keep their coverage inforce and not elect a return of premium. In this case, the client would have been better off just paying for the base coverage from the beginning or allocating the money they used to purchase the return of premium rider towards a higher coverage amount.

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We believe the world is better when we work together to build an Equitable life for all.

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