Equitable™

Designing the CI solution: selecting the premium structure

Path to Success

Expert advice on navigating CI sales

For advisor use only

Each of your clients with unique situations, and many factors influence the appropriate premium structure for them. These include your client's desired benefit amount, cash-flow, and time-horizon. Various carriers offer various premium structures to choose from. For example, Equitable EquiLiving® product offers three premium structures, level to age 100, level to age 75, and 10-year renewable to age 75. Let's examine how each of these structures work and why a client might select each one.

1. **Level to age 100**

   This premium structure provides a guaranteed level premium to your client's age 100 after which time the policy becomes paid up and coverage continues. Many clients are drawn to this product as they believe their risk of illness increases over their lifetime and they do not want to have their coverage terminate in their later, higher risk years. If your client attaches the return of premium on death, they are guaranteed either a critical illness insurance payout or a return of all eligible premiums paid upon their death to their estate or to a named beneficiary.

2. **Level to age 75**

   The premium structure provides a guaranteed level premium to your client's age 75, at which time the coverage terminates. Often clients who choose this option are looking for protection through their working years and this payment structure offers that at a premium lower than the level to age 100 coverage.

3. **10-year renewable to age 75**

   This premium structure provides a guaranteed premium which increases every 10 years until your client's age 75 at which time the coverage terminates. Clients commonly select this type of coverage if their need/desire for critical illness insurance protection is short-term or because their cash-flow necessitates this lower initial premium structure.

Term versus permanent: how critical illness insurance is different from life insurance

Advisors who understand the "term vs. permanent" life insurance comparison should be aware of some important differences when trying to do the same type of comparison with critical illness insurance. With life insurance, it's easy to understand the value of having a level permanent life insurance in place as compared to term life insurance. However, as shown in the chart below, the same arguments for permanent coverage over term coverage don't apply with critical illness insurance.

	Life insurance The rationale for level permanent life insurance instead of term insurance	**Critical illness insurance** Why the life insurance rationale of perm vs. term doesn't apply to critical illness insurance
Guaranteed payment of benefit	Everyone dies eventually, and a permanent life insurance plan guarantees you do not outlive your coverage.	Not everyone will suffer an eligible critical illness, even if they carry coverage for life. Unlike with life insurance, some clients could pay premiums on their critical illness contract and never receive a payment. Some clients may die before experiencing a covered critical illness, and others may suffer a Heart attack late in life but not survive 30 days and thus not be eligible to claim.
Age at time of claim	People of all ages require coverage, but the event (death) is most likely to happen later in life where the term coverage is too expensive or expired.	It is far more likely that a client will be diagnosed with a critical illness within 10 years (years to renewal) vs dying. While most deaths typically occur later in life due to aging, a critical illness can strike at any time and at any age. For example, a 40 year old female has about a 0.2% chance that she will die before the age of 50[1]. That some female's chances of receiving a Cancer diagnosis in the same 10 years is 2.72%[2].

[1] **Source:** https://www.statista.com/statistics/241572/death-rate-by-age-and-sex-in-the-us/
[2] **Source:** http://www.ncbi.nlm.nih.gov/pmc/articles/PMC4544764/

	Life insurance The rationale for level permanent life insurance instead of term insurance	**Critical illness insurance** Why the life insurance rationale of perm vs. term doesn't apply to critical illness insurance
Term renewals	Term life insurance renewals are significantly higher than someone of the same age and health applying for the same coverage. Unless healthy enough to re-apply for new coverage for the lower rates, clients must convert or pay a renewal rate, which is typically significantly higher.	The renewal rates on term critical illness insurance do not typically have the same level of punitive surcharge if the client cannot requalify medically that their term life insurance counterpart does. Often clients ten and even twenty years into their term critical illness insurance contracts are paying rates similar to clients of their age who just passed a medical exam to qualify. Life insurance renewals are very different, where often the client pays premiums that are multiple times higher than if they could requalify medically.

	10 year term life	10 year term CI
Initial monthly premium	$13.45	$44.01
Renewal premium at age 50	$56.88	$97.02
Requalify for new coverage at age 50	$21.01	$97.02

Source: Equitable Sales Illustration, July 22, 2020, MNS, 40, $100K

The takeaway is not that renewable term coverage is right for everyone, but that comparing term CI against permanent CI is not the same as comparing term life to permanent life coverage.

Timelines, not product types

You should ask your client to express the period for which they want protection before you show them the various product types and their associated premiums. "How long might you want this coverage for" is easier for your client to understand than industry jargon such as "renewable term" or "permanent."

We can tailor your critical illness insurance to match your objectives.

From our discussion, you have said that you see how transferring some significant health risk to the insurance company makes sense and that if you were diagnosed with a covered critical illness, you would like __________, __________and __________ [re-state goals for funds such as mortgage paid, time off for spouse, etc.]. That equates to approximately $ _____ of coverage.

What's interesting is people differ widely in how long they feel they would need or want this coverage. For example, some might say they want that sum of money if they had to deal with a health crisis tomorrow, but they would be in a much better position to deal with it themselves if it occurred ten years out, as the kids would be older/mortgage paid down/ten more years of savings and growth and so on.

Others say that they want coverage for the long term as they feel the likelihood of a significant health diagnosis increases as they age and they do not want to have to access money they are putting away for retirement.

So for yourself, what is your thought on how long you would want this protection?

Do you see yourself perhaps wanting more protection at a particular time?

Do you see yourself possibly wanting less protection at a particular time?

Then pivot off client's answer to the appropriate product.

Permanent

It sounds like you would want to have protection throughout your life, which means you would want your coverage to not expire when you get older. The good thing about this type of coverage is that you will have critical illness insurance protection in place at a time when there is a high frequency of diagnosis of the covered critical illnesses.

Thankfully there is permanent critical illness insurance, which provides you coverage for your entire life. What is great about this plan is we can lock in a guaranteed rate for that whole time. You only pay premiums to age 100 after which the policy becomes paid up and continues for life without any more premium payments. The insurance company cannot increase your premium even if diagnosis and claim rates are higher than they anticipated.

We can add a rider to your plan called a return of premium on death. While the rider is in place, if you die of any cause, not just a critical illness, all the eligible premiums you paid for this coverage will be refunded to your estate. With this added, if a covered critical illness occurs, you receive the larger lump sum payout, and if no illnesses occur, all your eligible premiums get refunded back to your estate.

Renewable term

There are some real advantages to renewable term critical illness insurance. It is the lowest-priced option as the insurance company charges you a rate for the next ten years based on the risk of illness to a pool of people with your age, sex, and smoking status. With more extended rate guarantees, you overpay in the early years compared to your actual risk of critical illness and underpay in the later years. So, the only way to benefit from those longer-term rates is to keep the coverage for a lengthier period.

Many people who choose these lower-priced term plans want to get the right amount of coverage in place today at the most reasonable price possible.

The thinking is that the financial impact to them now if they were diagnosed with a covered critical illness would be significant compared to 10 or 20 years from now when they would be in a better financial position. Typically these clients feel that they are probably able to work through the next 10 to 20 years, pay down some debt, increase their savings, and the kids would be much older and perhaps not as financially dependent on them. They only need the early years to be covered in case a critical illness throws a wrench into their plans. A last positive of this type of plan is that you can switch to a critical illness insurance coverage that provides level premiums to age 75 or even a permanent critical illness plan without having to prove you are healthy. That means, for a lower premium you lock in your health today for the period of time you feel you need coverage for and if circumstances change in the future you have the flexibility to change your coverage to something more suitable any time before you turn 60.

I think it makes good sense to get this type of coverage in place now where the difficulty to cope with a diagnosis might be at its highest, does that make sense to you?

About Equitable

At Equitable we believe in the power of working together. This guides how we work with each other. How we help our clients and partners. And how we support the communities where we live and work.

Together, with partners across Canada, we offer Individual Insurance, Group Insurance and Savings and Retirement solutions. To help our clients protect today and prepare tomorrow.

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

Equitable™ | Together. Protecting Today. Preparing Tomorrow.™

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