



# Case Study

Using a term certain annuity to prearrange the funding for a child's Equimax® 10 pay

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

- George, age 78, is a new grandfather to granddaughter Mia, age 1.
- George would like to prearrange the funding for a \$100,000 permanent life insurance policy for Mia. At some point in the future Mia can access the cash value to help fund her education, start a business, buy a house or supplement her retirement income.
- He has \$25,000 available to put this plan in place.

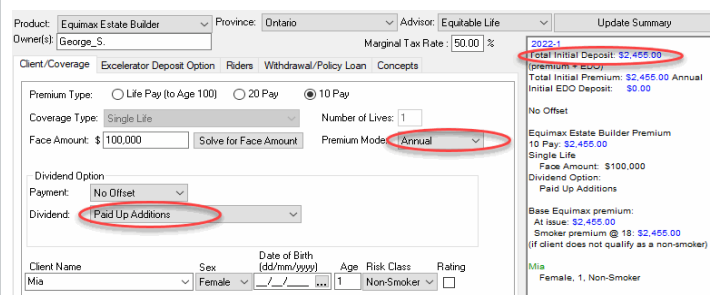
## THE SOLUTION:

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

### Step #1: Establish the Equimax policy<sup>1</sup>

#### Equimax Estate Builder®

- George is the intended policy owner and Mia, female, age 1, is the intended life insured.
- \$100,000 Equimax Estate Builder with 10 pay premium
- Paid-Up Additions Dividend Option.
- Annual Premium Mode: An initial payment of \$2,455.00 is required to settle the Equimax policy.

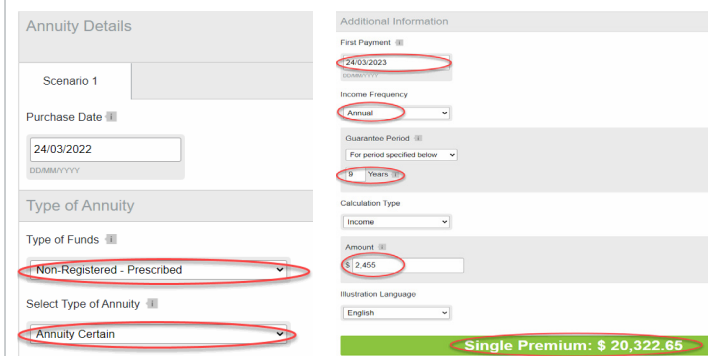


### Step #2: Establish the term certain annuity<sup>2</sup>

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

#### Term certain annuity

- George, age 78, is the intended annuitant and annuity owner
- The Amount field must equal the total life insurance premium: \$2,455.00.
- Once the Equimax policy is settled, all subsequent 9 annual premium payments starting with the 1<sup>st</sup> anniversary will be paid by the term certain annuity.
- The illustration system calculates that a lump sum deposit of \$20,322.65 is required to provide this annual income.



## THE FUTURE: YEAR 10 AND AFTER

- After the 10<sup>th</sup> Equimax policy anniversary, the \$100,000 base plan whole life coverage is paid up and the Term Certain Annuity expires
- Once Mia is an adult, ownership of the Equimax policy can be transferred to her, and she can have access to the cash value should she need it.<sup>3</sup>
- Mia will have permanent insurance coverage in place to carry her into the future, providing financial security for a family of her own.

In this case study the policy is paid up before Mia, the insured child, is age nearest 18. If premiums are still due at age nearest 18 of the insured child and the child does not qualify as a non-smoker, the premium for the Equimax policy will increase and the annuity income will be insufficient to pay the premium. In this situation, the annuity income will be paid directly to the annuity owner and the Equimax policy owner will receive a billing notice for the premium amount due and must submit the payment to keep the policy in effect.

### FOR ADVISOR USE ONLY

<sup>1</sup>Life insurance rates illustrated are effective March 24, 2022. 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. <sup>2</sup>The term certain annuity rates illustrated are effective March 24, 2022. This information does not constitute legal, tax, investment, or other professional advice. <sup>3</sup>Accessing the cash value in the policy may have tax consequences. © denotes a trademark of The Equitable Life Insurance Company of Canada.

# 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 a 10 pay or 20 pay plan but can also be used with life pay if the intention is to try to qualify for premium offset after 20 years.

## WHO IS THE IDEAL CLIENT?

The Equimax whole life and term certain annuity package is ideal for clients who:

- Want to prearrange the funding for their life insurance policy.
- Want to prearrange the funding for life insurance for their children or grandchildren. Premiums for children are low and Equimax provides a stable investment option with tax-advantaged growth and cash value that can be accessed in the future.
- Have access to sufficient cash required to purchase a term certain annuity.
- Age restrictions will apply to the annuitant. They must be under 72 years of age for a term certain annuity for funding a 20 pay or life pay Equimax policy, and under 82 years of age for a term certain annuity 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 the reverse side 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 and the term certain annuity income is insufficient to cover the premium, 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. This includes situations where the premium increases because an insured child does not qualify as a non-smoker at age nearest 18.
- 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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