

Case study

Using a term certain annuity to prearrange the funding for an Equimax® 20 pay participating whole life insurance 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

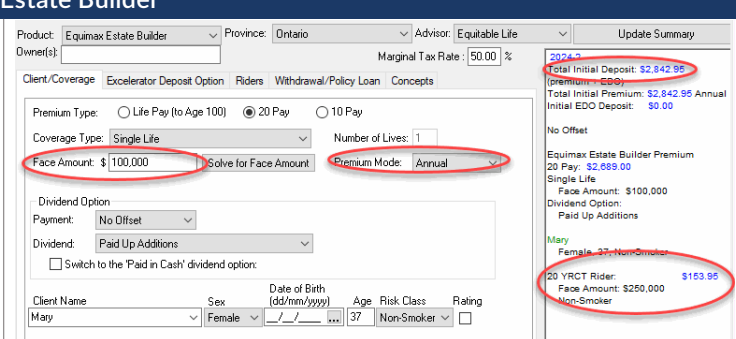
- Mary (age 37), non-smoker
- Needs \$100,000 of permanent plus \$250,000 of temporary life insurance for mortgage protection over the next 20 years
- Has access to a lump sum of money to prearrange the funding for her insurance

The solution:

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

Step #1: Establish the Equimax policy¹

- Mary, female, age 37, non-smoker is the intended life insured and policy owner.
- \$100,000 Equimax Estate Builder with 20 pay premium.
- Paid-up additions dividend option.
- Add a Term 20 rider for \$250,000 to Age 57.
- Annual premium mode: (An initial payment of \$2,842.95 is required to settle the Equimax policy.)

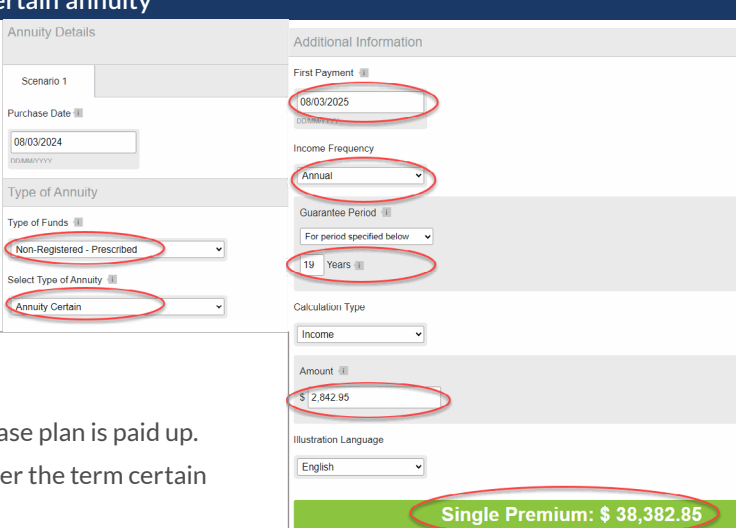


Step #2: Establish the term certain annuity²

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

- Mary is the intended annuitant and annuity owner.
- The Amount field must equal the total life insurance premium: \$2,842.95.
- Once the Equimax policy is settled, all subsequent 19 annual premium payments starting with the 1st anniversary will be paid by the term certain annuity.
- The illustration system calculates that a lump sum deposit of \$38,382.85 is required to provide this annual income.

Term certain annuity



The future: Year 20

- After the 20th Equimax policy anniversary, the \$100,000 base plan is paid up.
- The first renewal premium for the Term 20 rider occurs after the term certain annuity has expired. At that time, Mary can decide to:
 1. Terminate the Term 20 rider — no further premium payments are required
 2. Renew it — premium payments will be required
 3. Convert it — premium payments will be required

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 whole life 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. They could change and be different based on how well the investments do, how many claims are made, and other factors. Dividends are paid at the sole discretion of the Board of Directors. Dividends may be subject to taxation.

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¹Life insurance rates illustrated are effective February 3, 2024. Based on the dividend scale at that time remaining unchanged for the life of the policy. Dividends may be subject to taxation. Dividends are not guaranteed. They could change and be different based on how well the investments do, how many claims are made, and other factors. Dividends are paid at the sole discretion of the Board of Directors. ²The term certain annuity rates illustrated are effective February 3, 2024. This information does not count as legal, tax, investment or other expert advice. [®] or [™] denotes a trademark of The Equitable Life Insurance Company of Canada.