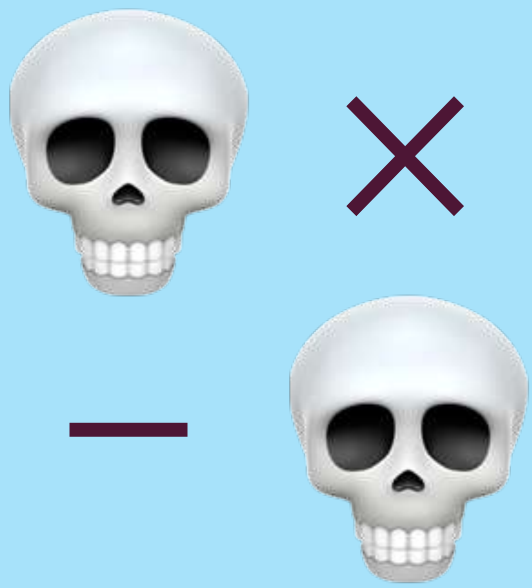


1

# Chapter I -1 Intro to Life Ins

Competency : Assess the client's need and situation.

Sub-Competency : Articulate the client's needs based on the risk that could affect his or her financial situation.

* Mortality rate : the probability of dying at a specific age

* Two ways of looking at the risk of death:

① life expectancy : the average number of years that a person within a certain group and of a certain age can expect to live from that age forward.

P.S. It assumes that the past mortality experience of the group to which that person belongs will hold true in the future.

ex: all male who aged 65, the median with that group will live another 19.5 years. → 50% live till 84.5+, 50% don't

② Probability of death : the statistical probability that a person within a certain group and of a certain age will die before reaching his next birthday.

P.S. It assumes that the past mortality experience of the group to which that person belongs will hold true in the future.

ex: for male with age of 65, 1.103 out of every 100 will die before their 66th birthday. → probability of death is 1.103%

- These two statistics are compiled for different group of ppl and often present in a format called "life table" (aka "mortality table")

Ex:

| Age | Probability of Death (%) Within the Year | | Life Expectancy (years) | |
|---|---|---|---|---|
| | Males | Females | Males | Females |
| 0 | 0.484% | 0.410% | 80.0 | 84.2 |
| 1 | 0.025% | 0.021% | 79.4 | 83.5 |
| 10 | 0.008% | 0.007% | 70.5 | 74.6 |
| 20 | 0.066% | 0.031% | 60.6 | 64.7 |
| 30 | 0.104% | 0.038% | 51.1 | 54.9 |
| 40 | 0.142% | 0.048% | 41.7 | 45.2 |
| 50 | 0.290% | 0.185% | 32.4 | 35.7 |
| 60 | 0.695% | 0.440% | 23.6 | 26.6 |
| 65 | 1.103% | 0.705% | 19.5 | 22.2 |
| 70 | 1.780% | 1.160% | 15.7 | 18.1 |
| 75 | 2.922% | 1.957% | 12.2 | 14.2 |
| 80 | 4.878% | 3.387% | 9.1 | 10.8 |
| 85 | 8.280% | 6.014% | 6.5 | 7.8 |
| 90 | 14.295% | 10.953% | 4.5 | 5.3 |
| 95 | 23.618% | 19.231% | 3.0 | 3.6 |
| 100 | 34.455% | 29.968% | 2.2 | 2.5 |

# Chapter 1 - 2

Types of financial impact of death.

① death of an income earner

② death of a caregiver

③ Debt repayment : when a person dies, one of the first responsibility of the executer is to payoff outstanding debts, including mortgages, car loans and credit card debt.

④ Income taxes : when a person dies, he is usually deemed to have sold all of his property for a fair market value, which triggers taxable capital gain. If the estate doesn't have enough money to pay, the executer might have to sell assets that were intended to be left to the beneficiaries.

(when 1 spouse → not deemed as disposition of property)

(when both dies and property → children, yes)

- If a spouse dies first, it will not trigger capital gain due to spousal rollover rules.

⑤ Estate creation : when contemplating death, client often want to leave something behind, to have "sth to show". However, for young people who have little net worth, it can seem impossible.

⑥ Educational Funds : A person might wants to make sure that his children can go to uni or college even he dies.

⑦ Legacies : A person might want to make a financial gift to someone special upon his death.

⑧ Charitable Giving : Many people would like to support charity upon their death. Some people also do it for tax benefits.

⑨ Business impact : The death of a key employee or shareholder can have a devastating impact on a business, sometimes even resulting in collapse.

# Chapter 1-3

## Risk management Strategies :

① Risk Avoidance : simply decide not to expose oneself to the risk in first place.
(death is impossible to avoid)

② Risk Reduction : take action to reduce the probability or severity of that risk.
(impossible to eliminate the risk of death ; can only reduce the probability of pre-mature death.)

③ Risk Retention : the person accepts the fact that he is expose to risk, and will accept the consequences if the risk is realized.
(mostly for risk with low severity.

④ Risk transfer : finding someone else who is willing to assume the consequences if the risk is realized.
(Insurance is a risk transfer strategy)

# 2

## Chapter 2 -1 Term Life Ins

Premium : an amount paid periodically to the insurer by the insured for covering his risk.

**Term life insurance** : in exchange of the premium, the life insurance company promises to pay death benefit if the life insured dies within the fixed term of the contract.

- "term" is the period of time during which the coverage is guaranteed to remain in place, as long as the policy's premiums are paid.

**Typical terms** : the most common terms for life insurance.
(1, 5, 10, 20 years or to a specific age)

**Age limits** : Most insurance companies will not provide insurance coverage past a specific age, often around 75 or 80, simply because the risk to make a payout is too great.
(when insurance are provided to older ages, the premium is often expensive)

# Chapter 2 -2

**Policyholder:** the person who purchase the life insurance contract. The policy holder is responsible for making decisions regarding the contract, naming the beneficiary of the policy, paying the premiums, cancelling, or assigning the policy to another.
(Policyholder is "the insured", which is not "the life ensured")
P.S. A policyholder is referred as "the insured" because he bought protection from the financial loss that would otherwise result if the life insured dies.

**Single life (policy):** meaning that only one person is insured, and the death benefit will only be paid if that person dies within the term of policy.

**Joint First to die (policy):** a single amount of coverage is placed on two or more life ensured, and the death benefit is paid upon the death of first person to die, vice versa. (different with combine insurance)
(it's appropriate when two or more ppl share debt obligation.)
ei: Some Joint first-to-die contracts give the surviving life insured the choice of continuing the same level of coverage on their own life under a new policy without have to proof insurability.

Insurability: the degree to which a person or a company is deemed insurable by an insurance company.

**Combine insurance:** Some insurance company will allow two individual policies to be purchased under a single insurance contract. The advantage is that only a single administration fee is charged. A combine contract will pay two seperate benefits if the lives insured died at the same time during the term of the contract. If only one dies, the coverage will continue for the othe life insured at single person rates.

not rly sure what's the diff

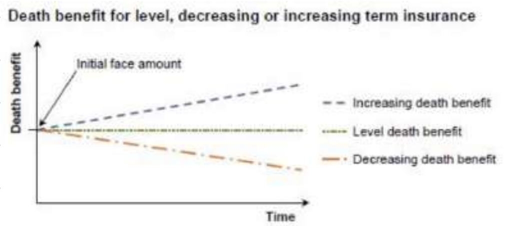
**Joint Last-to-die:** a single amount of coverage is placed on two or more life ensured, and the death benefit is paid upon the death of the last person to die. (usually permanent life insurance policies.)
Joint last-to-die is most appropriate when the risk being insured against does not arise until the death of the last person covered by the policy.
ex: The income tax risk (chapter 1-2), therefore, couples often us joint last-to-die life insurance to pay the tax bill for capital gain of for ex their children.

# Chapter 2-3

coverage = death benefit.

face amount = initial DB

**Death Benefit**: the amount that the insurance will pay if the life insured dies while the policy is in forced. Term insurance policies are purchased for an initial amount of coverage, which is called the "face amount".
- Death benefit of a term insurance might inc or dec depending on the type of policies.




**Level term**: aka. level death benefit. Meaning death benefit equals the initial face amount. Regardless of when the insured dies during the term of the coverage. (most appropriate when the need is not expected to change in short time)

ex: Max borrows 100,000 from his father, promised to pay within 5 years. Max want to make sure he can pay his father even he's dead. So he purchased a 5-year term policy with a level death benefit of 100,000

**Decreasing term**: aka. decreasing death benefit. Meaning death benefit decreases over the term, while the premium remains level. That is, the premium on a decreasing term policy should be less than that of the same amount of a level term policy. This reflects that the amount of risk for a decreasing term policy declines over time.

Mortgage amortization: the process of paying off your mortgage loan with regular monthly payments.

ex: Steve and Judy bought their first home in 2011 with 200,000 mortgage amortized over 25 years. They bought a joint first-to-die 200,000 25-year decreasing term insurance policy to make sure the survived one can pay off the mortgage. (In this case, the risk is clearly decreasing.)

**Increasing term**: aka. increasing death benefit. Meaning death benefit increases over the term.
- The increase of death benefit is usually applied at a predetermined times, such as annually or every five years.
- The premiums usually increases at the same time, by an proportionate amount.
- The increase in death benefit can take the form of a fixed dollar amount, or a fixed percentage. Less commonly, it can tie with inflation.
- Increase in death benefit is usually restricted, either by a cap on the maximum death benefit, or a cap on the number of increases.
- Increase benefit is useful when the risk is expected to increase over time, perhaps inflation, investment returns or salary increases.

lump sum: a single payment made in a particular time.

# Chapter 2-4

Term life policy: a contract between you and your insurance company for a defined period.

**Premium**: a premium on a term life insurance policy is the amount the policyholder pays to the insurance company in exchange for the company's promise to pay the death benefit if the insured dies during the term covered by the policy.

- With the exception of increasing term insurance, premium are typically level. Provinces and territories charges tax from 2 to 5 %, the tax are incorporated into the premiums, however, the insurance company must remit that of premium to the provincial government.

**How premiums are set**: term life insurance are pure insurance, meaning that its value relates solely to the benefit that is paid out among death.
It's typically a combination of the mortality cost, and the expenses (include profit) incurred in providing that.

indicated on a mortality table.

**Mortality costs**: approximates the insurance company's cost of paying out policy death benefits. On a per policy basis, the annual mortality cost is estimated by multiplying the policy's face amount by the life insured's probability of death during the year. (mortality table)

**Expenses**: included in the premium, including the cost of selling the policy, underwriting the policy, issuing and administering the policy, investigating claims, paying death benefits and profits sought by shareholders.

# Chapter 2 - 5

## Renewable vs. Non-Renewable

① Renewable term insurance : the policy holder is guaranteed the right to renew the policy at the end of the term for another term, without having to provide proof of insurability at the time renewal. The right to renew is limited to a specific age.

② Non-Renewable term insurance : the policy expires at the end of the term , and the policyholder have to apply for new life insurance if he requires continued coverage.

Renewal Provisions : the premium upon renewal may vary , depending on the policy provisions.

Renewable with guaranteed rates : while policy holder of a renewable policy is guaranteed the right to renew the policy at the end of the term , the premiums will reflect the age of the life ensured.

Re-entry term with adjustable rates : a renewal policy policy that the insurance company reassess the health of life ensured. If it's in great health, he will qualify for lower premiums on renewal. If his health deteriorated , he still has the right to renew the policy, but the guaranteed renewal rates are higher than those for a renewable policy that does not have a re-entry.

# Chapter 2 - 6

**Convertible term insurance**; convertible term insurance gives the policy holder the option of converting the term policy to some form of permanent life insurance.
Convertible term insurance is more expensive than term insurance that does not include a conversion option.

**Incontestability**: (mandatory) the insurance company has two years after it issues the policy to void the policy if it discovers a error in a material fact in the application. A material fact is any piece of information that would have influenced the insurance company's decision about providing the insurance coverage. (smoking status, known health issues)
- This two year period is called the "contestability period"

**Suicide provisions**: the insurance company will not pay the death benefit if insured dies by suicide within a specific period of time.

**Attained age**: the age on which the life insurance premiums are based.

**Original age conversion**: base the premium life insurance premiums on the original age of the life insured at the time the insurance contract was first issued. or retroactive conversion.

Chapter 2-7

It dis~ what di dis~ ö

| Advantages | Disadvantages |
| --- | --- |
| • Low initial cost. In the early years of the policy, the premiums for term insurance will be lower than those for permanent insurance, making it affordable for those who cannot afford permanent insurance.<br>• Premiums are guaranteed over the term.<br>• Renewable and convertible provisions can be used to extend coverage.<br>• Term of coverage can be customized to meet a specific need. | • Premiums and coverage are not guaranteed beyond the term or renewal period.<br>• Premiums increase as the life insured ages, and can become prohibitive.<br>• Coverage is usually not available past a certain age.<br>• Policy is worthless at the end of the term. |

# Chapter 2-8

**Using term insurance**: should only be considered to be temporary insurance

**Short term Risk**: term insurance should for short term risk, if risk is not short term, the policyholder should a renewable policy.

**Decreasing Risk**: decreasing term insurance should be for decreasing risk.

**limited cash flow**: common reason why people chose term over permanent.

# 3

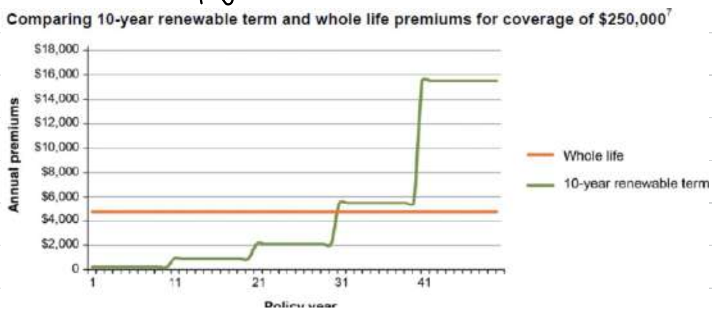
## Chapter 3-1 Whole Life Ins & T-100

PI: Permanent Insurance
TI: Term Insurance,

### Difference between PI and TI:

- TI coverage ends at the term, unless the policy can be renewed. Most companies will not provide coverage past a specific age, often around 75 or 80. This means that they will stop issuing new policies at about age 65 or age 70.
- PI do not have a expiry date

Premiums remain level →




← TI becomes extremely expensive

### Types of Permanent Insurance:

Cash Surrender Value (CSV): 退保金額

① whole life:
- Insurance provides coverage for the entire lifetime
- Premium typically remains level over the duration of the contract
- Builds up cash surrender value (CSV) overtime, and if the policyholder surrenders the policy prior the death of the life insured, he may be entitled to receive payment of that CSV.

② Term 100 (T-100)
- Also provides coverage for lifetime, but the policy matures at age 100, such that premiums are no longer payable.
- T-100 policies typically do not have csv
- a.k.a. Term-to-100

Deffered-tax: 遞延所得稅

③ Universal Life (UL)
- Also provides coverages for lifetime, but it includes savings components that is created through the deposit of excessive premiums.
- Within certain limits, the policy holder can use the UL policy to accumulate savings that are completely sheltered from tax if they form part of the death benefit, or tax-differed if they are withdrawn prior to death.
- UL insurance policies are noted for the flexibility they provide the policyholder.

# Chapter 3 - 2

整個3-2都在講 whole-life

## Overview of Whole Life Insurance :

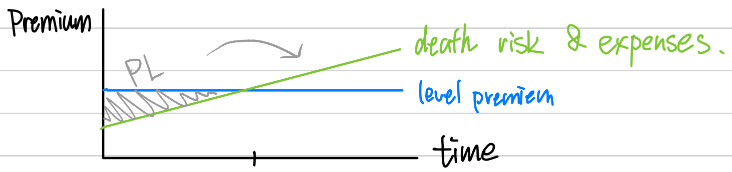
- a form of permanent insurance that typically guarantees the premium, the death benefit, and minimum cash surrender value. (CSV)
- Sometimes referred to as "straight life" or "ordinary" life insurance.

→ **Coverage term** :

- Whole life insurance doesn't end at any situation other than for non-payment of premiums.

→ **Policy reserve** :

- Premiums for whole life policy typically remain level over time.
- In the early years of the term, the premium exceeds the amount needed to cover the actual risk, This "overpayment" creates a policy reserve, which the company invests to achieve even more growth.
- In later yeas of the policy, the premiums paid fall short of the amount needed to cover the mortality costs and the expenses of the policy. The policy reserve is used to offset or subsidize this deficit.




## Mortality Cost : Term insurance mortality cost on page.7

- Same as term insurance mortality cost (face amount × probability of death during the year) However, insurance company will evantually have to pay out death benefit.
- When calculating the premiums for whole life policy, the insurance company spread the cumulative annual mortality cost over the anticipated duration of the contract.

## Expenses : (for whole life policy)

- Cost of selling the policy.
- Underwriting the policy.
- Issuing and administering the policy.
- Paying Income taxes.
- Investigating claims.
- Paying death benefits and the profits sought by shareholders.

## Investment Returns :

- Insurance makes additional growth by investing policy reserve. These growth are take into consideration on the assumption of premiums.

BI: Background Info

## Model factor:

BI: Premiums are usually paid annually in the beginning of the policy. Therefore, the insurance company has a full year to invest the premiums, which is one of the factor that affects premiums.

- However, policyholder can usually choose to pay semi-annually or monthly. the insurance company calculates the new periodic premium by applying a model factor that reflects the insurance company's loss of investment income, compare to the income it could have earned.

ex:

| Payment Frequency | Modal Factor[8] |
|---|---|
| Semi-annually | 0.51 to 0.53 |
| Quarterly | 0.26 to 0.30 |
| Monthly | 0.087 to 0.09 |

monthly, semi-annual, quarter annual as known as "annualized payment" are usually higher than annual premium

## Premium options:

① Ongoing Payment: 正常的
- The traditional option, involves paying a fixed premium. (until policyholder surrenders) aka "lifetime pay policy."

② Single Premium: 一次負清
- Policy holder pay a single lump-sum premium for life Insurance coverage. aka "paid up policy"

退園 → charge 一起講

③ Limited Payment: 分兩次
- A mix of ongoing and single payment. Premiums are paid for a specific time or a specific age. after which policy is deemed to be a paid up policy.

## Death benefit options:

① Guaranteed whole life:
- policy offers a death benefit and premiums that are guaranteed to not be changed. (Insurance company taking more risk)

lessay → lost)

② Adjustable whole life: (NO longer common in Canada, UL instead)
- The insurance company may adjust death benefits and premium periodically after comparing its actual experience and the projection. (Policyholder exposed under more risk)

# Chapter 3 - 3

## How shortfalls or surpluses Occur:

- Insurance companies are very conservative when setting premiums for whole life policies, and this results in surplus revenues.
  - Ex that may lead to surplus:
    - → fewer people died than expected.
    - → Investment return are higher than expected.
    - → Administrative expenses were lower than expected.

## Non-Participating policies: (non-par)

- Whole life insurance policies generates excessive revenue (surplus)
  1. keep the policy reserve at a certain level.
  2. the insurance keeps the surplus as profits.
     → Increase retained earnings, shareholder's equity, and paid as taxable corporate dividend to shareholders.
- whole life insurance policies realizes a revenue shortfall
  Insurance company bears the burden of that shortfall.

## Participating policies: (par)

- Whole life insurance policies generates excessive revenue (surplus)
  1. keep the policy reserve at a certain level.
  or 2. distribute some or entire surplus as policy dividends to policyholders.
- whole life insurance policies realizes a revenue shortfall
  Insurance company bears the burden of that shortfall.

沒錢錢了

# Chapter 3 - 4

## Dividend Payment options for participating policies:

① Cash: normally paid annually.

② Premium Reduction: apply policy dividends to reduce the premiums payable for the following year.

③ Accumulation: the insurance will deposit the dividends into a seperate account. ("side account") which is invested to provide additional growth. The income made from these investment will be taxable.

④ Investment Options: Some insurance provides policy dividends in their segregated funds.

⑤ Upon death: Any funds left in the accumulation account are paid to the beneficiary.

⑥ Paid-Up additions: the policy dividends is used as a single premium to buy additional (PUA) policy that is paid-up. (medical evidence of insurability is not required) Insurance company takes the potential increase in coverage via PUAs into account when underwriting the base policy. And PUA is a good way to increase coverage. Over 90% of WL uses PUA.

⑦ Term Insurance: policy dividends is used to by one-year term insurance.

## Impact on Death Benefits and Cash values.

- Depend on the chosed payment, it might impact DB and cash values.

ex. • PUA may increase both CSV and DB.
• accumulation might increase DB.
• term insurance may temporarily increase DB.

# Chapter 3-5

## Non-Forfeiture Benefits：（下面這些都是）

- WL Insurance policies typically offer non-forfeiture benefits, even if he stops paying premiums. (CSV)

## Surrender Charges:

- Insurance company usually levy charges to discourage policyholders from surrendering. Surrender charges usually decreases over time.

## Policy loans:

- policy holder can usually obtain a policy loan up to 90% of the CSV

## Automatic Premium loan: (APL)

- the insurance automatically makes loan against the CSV when the policyholder fails to make a payment. The APL can be applied until reaches the maximum. (usually 90 ~ 100% of CSV) Once the limit has reached and after a 30 day period, the policy will be terminated.

## Reduced Paid-up Insurance:

- Policyholders stop paying premiums entirely, and uses the CSV as a single premium to buy a reduced amount of paid-up life insurance coverage. (No medical insurability required)

## Extend term Insurance:

- Policyholder stop paying premiums entirely, while keeping the same coverage in place in the form of term insurance policy. The duration depends on the CSV.

# Chapter 3-6

## limit payment whole life:

- A whole insurance policy that only requiring premiums for a specific guaranteed period of time.
- The premiums are typically greater than regular wholelife policy.

- Benefits for the policy holder:
  → He knows exactly when the premiums will end.
  → eliminate longevity risk
  → reduces cost because insurer has the use of his money earlier.

太短了 

# Chapter 3-7

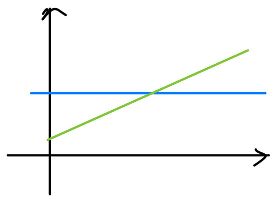
## Premium offset Policies:

- Par-Whole life policies offer policy dividends, two of these have the potential to evantually covers premiums entirely

① Premium Reduction:
② PUAs
↳ Annual policy dividend → single premium additional WL →
→ PUA's CSV increases overtime. → Use PUA's CSV and annual dividend →
→ completely cover original premium.

Chapter 3 - 8

Whole - Life.

| Advantages | Disadvantages |
|---|---|
| • Premiums are guaranteed for life<br>• Coverage continues for life, regardless of the age or health of the life insured.<br>• Participating whole life policies may result in policy dividends, which the policyholder can receive in cash, choose to accumulate in an investment account (i.e. side account), or use to buy paid-up additions (PUA) or one-year term insurance.<br>• A whole life policy builds up a cash surrender value (CSV) over time, which the policyholder may receive if he cancels or surrenders the policy.<br>• In the later years, whole life policy premium will likely be less than the premiums for the same amount of term insurance on a person of the same age.<br>• A whole life policy may offer non-forfeiture benefits in addition to the CSV, including automatic premium loans (APL), reduced paid-up additions, and extended term insurance.<br>• Policyholder may be able to obtain a policy loan against the CSV of the policy.<br>• Compared to more traditional guaranteed investments, the dividend payment rate on participating policies has historically had lower standard deviation (i.e. lower volatility in the returns). | <br>• High initial cost. In the early years of the policy, the premiums for whole life insurance will be higher than those for the same amount of term insurance, which may make it cost-prohibitive for people with limited cash flow;<br>• Policyholder has little or no choice over how the policy reserve is invested;<br>• For participating whole life policies, policy dividends are not guaranteed. Even a small change in the dividend scale can significantly alter the long-term performance results;<br>• There is a theory that suggests buying term insurance and investing the difference may result in a better financial outcome (provided the policyholder is disciplined to invest the difference);<br>• The way the policy reserve is invested/managed is not entirely transparent to the public. |

Chapter 3 - 9

| Term Life Insurance | Whole Life Insurance |
|---|---|
| **Coverage** | |
| Provides insurance coverage for a specified period. | Provides insurance coverage for life. |
| Coverage is usually not available past a certain age (e.g. 75 or 80). | Coverage is available for life, regardless of age. |
| The term can be selected to meet a need of specific duration. | Term cannot be customized to a specific duration, but can be surrendered at any time. |
| **Premiums** | |
| Premiums generally increase with the age of the life insured. | Premiums generally remain constant regardless of the age of the life insured. |
| While the life insured is relatively young, the premiums are generally lower than premiums for the same amount of whole life coverage. | While the life insured is relatively young, premiums are generally higher than premiums for the same amount of term life coverage. |
| As the life insured ages, the premiums eventually become higher than premiums for the same amount of whole life coverage, and may eventually become cost-prohibitive. | As the life insured ages, the premiums remain level; eventually they will be lower than premiums for the same amount of term coverage. |
| **Renewability** | |
| Depending on the contract, the policy may be non-renewable, or the life insured may have to provide medical evidence of insurability for renewal. However, some term policies are convertible, which allows the policyholder to convert the policy to whole life insurance without providing new medical evidence of insurability. | Policy never requires renewal and will remain in force even if the health of the life insured declines. |
| **Cash Surrender Value (CSV)** | |
| Policy does not build up a cash value, so policy has no value upon expiry or termination. | Policy never expires, and it builds up a cash surrender value (CSV) over time; policyholder can receive CSV if he terminates or surrenders the policy. |
| **Investment** | |
| Policy will not provide dividends. | A participating whole life policy may provide policy dividends, although they are not guaranteed. |
| Policyholder cannot borrow from the policy. | Policyholder may be able to take out a policy loan against the CSV. |
| **Benefits** | |
| Policy does not provide non-forfeiture benefits. | Policy may provide non-forfeiture benefits, which generally increase in value the longer the policy is in force. |
| Death benefit cannot be increased without providing medical proof of insurability and without payment of additional premiums. | Death benefit can be increased, without providing proof of insurability and without paying additional premiums, by using a paid-up additions (PUA) option or by leaving policy dividends in the accumulation account. |

Chapter 3 - 10

Using whole life insurance :

- In general, WL is more suitable for adressing risk of unknown or long duration.

ex: tax upon death, furture insurability, Increasing coverage.

# Chapter 3 - 11

## Term 100 (T-100) Insurance.

- Duration of coverage : for life
- Premiums : premiums ceases when life insured reaches age 100
  There are no CSV, APL for T-100
- Level cost of Insurance (LCOI) : Premiums remain level for life.
  - No CSV or any other non-forfeiture benefits.
- Limited payment : Some T-100 policies offers limited payment which premium are payable for a limited number of years.
- Death benefit : death benefit are fixed.
- Upon age 100 : some companies pays out death benefit on age 100.

握草終於讀完了

death Benefit = Amount at risk.

# 4

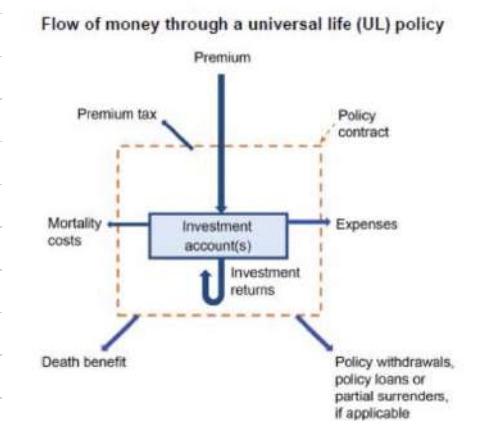
## Chapter 4-1 Universal Life

3 (pricing) factors:
- mortality cost
- investment return
- expenses

BI: For TI and WL, pricing factors are boundled together and the policy holder does not know what portion of the premiums goes mortality cost or expenses

**Transparency Through Unbundling:**
- With UL policies the three pricing factors are unbundled and they are not necessarily fixed.

It gives policyholder a better understanding of how cost/expense varys overtime.




- hybridization: 雜交

**Premium tax:**
- Because UL is a hybridization of investment and insurance, policyholders pays into the policy as "deposit", not "premiums"
- Policyholder pays premiums, → 2~4% premium tax → rest goes into policy's investment

**Mortality Charges:**
- Mortality costs reflect cost of paying out death benefits.
- Insurance company deducts mortality costs from the policy's investment account.
- Policyholder has choice of how it's deducted.

# Chapter 4-2

tax-exempt: 免稅

lump-sum：一次性

attained age: 要求年齡

## Flexibility for UL policyholder:

- Timing and amount of premiums.
- Face amount.
- Life / Lives insured.

### - Timing and amount of premiums.

→ policyholders can decide how much, and when to pay premiums.

↳ ① policyholder can choose to pay the minimum amount that are designed to keep the policy in force until age 100.

② policyholder can choose to pay an amount that is higher then the minimum premium to take advantage of the tax-sheltered growth.

→ policyholders can increase annually or monthly payment, but most policies place a maximum amount to maintain a tax-exempt status.

→ policyholder can deposit lump-sum payment, reduce, or even stop the premiums for aperiod of time.

→ Key factors that could result in insuffecient Account value.

① policy was always minimum funded.
② policyholders made withdrawals from the policy.
③ policyholder decrease or stop payment.
④ Investment were lower than anticipated, sometimes negative.

## Model factor for UL: (1 ÷ number of payments per year)

### - Face amount:

→ Increase in face amount will require additional evidence of insurability.

### - Live / Lives insured.

→ UL policy can be use to insure multiple lifes. either a joint life, single life, or both basis.

# Chapter 4-3

## Pricing the insurance component: (mortality costing method)

### ① Net Amount at Risk (NAAR)

BI: from insurance company's pov, the amount of risk for a TL policy is the death benefit offered by the policy. However PI build up policy reserve over time, which decreases the amount of risk for the insurance company.

NAAR = death benefit − the investment account value.

COI: 保險成本

### ② Year renewable term (YRT)

- Mortality costing, or cost of Insurance (COI) is usually expressed per 1000 risk. In the case of UL policy, per 1000 of the NAAR.

mortality deduction = COI × NAAR ÷ 1000

a.k.a mortality costing.

- YRT is one-year term insurance that renews at the end of a year. Therefore the way of calculating mortality cost = TI

YRT = risk of death (that year) × NAAR ÷ 1000 ← 重點

· Note that for YRT the mortality cost increases as risk of death increases.

### ③ Level cost of insurance (LCOI)

For LCOI in UL, the cost per 1000 $ risk generally remain constant.

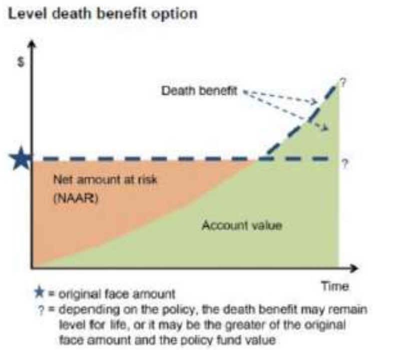
# Chapter 4-4

## Death Benefit options:

① Level death benefits:

- The beneficiary under this option will either.
  - Remain constant at the original face amount.
  - Equal the policy's account value once it exceeds the original amount.

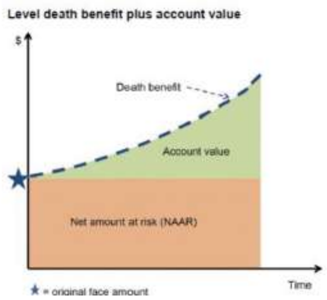
Most suitable for clients who do not have increasing insurance need.




② Level death benefit plus account value.

- Death benefit equals the original face amount + value of investment account.

NAAR remains level overtime ∴ mortality deductions higher than level death benefits.
However, beneficiary recieve original face amount + tax-free full account value.

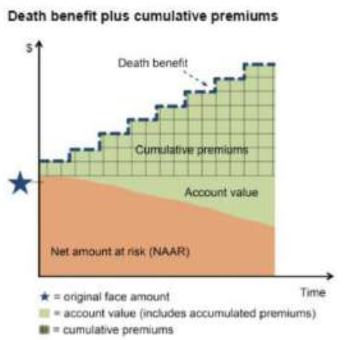



DB suitable for people who deposit large premiums.

③ Level death benefits plus cumulative premiums. (most expensive)

- Death benefit equals original face amount + gross amount of each premium.

NAAR = face amount + cumulative premium. − account value.




DB suitable for someone that wants to maximize DB

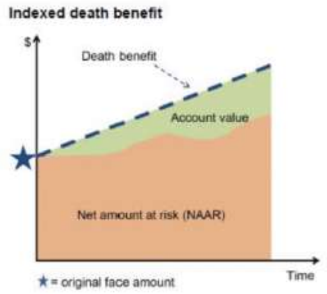
Index：索引

④ Indexed death Benefit.

- Death benefit equal face amount, index for some measure of inflation. Some policies index the DB to Consumer price index (CPI), while others allow the policyholder to choose an indexation rate 1~8%

-NAAR not level

IDB may be appropriate to cover an end-of-life risk that expect to increase over time.



# Chapter 4-5

## Investment components:

① Net premiums:

BJ: Net premium = gross premium − tax, mortality and expense

- The net premium is invested within the policy's investment account according to the choices pre-selected by the policyholder.

exemption：免除(稅)

② Exemption test:

- UL policy gives the policyholder a way to invest in a tax-sheltered environment.
- The company might limit the policy holder to remain tax-exempt.

- If the policyholder deposit an amount that exceeds the maximum net premium, the excess is direct to a non-exempt side fund. The investment return of the side fund are taxable.

deferral：遞延 or 延期

③ Tax deferral:

- Investment income earned within the tax-exempt investment account is not taxable at the time it is earned. This allows the full amount of earned to be reinvested within the policy. 錢滾錢

④ Investment Choices:

- The policyholder is not limited to a single investment choice.

⑤ Daily Interest account: (DIA)

- DIA offer a minimum interest rate. The absolute minimum return is set at 0%.

⑥ Guaranteed Investment Account: (GIA)

- GIA offers a fixed interest rate for 1, 3, 5, 10, even 20 year terms.

Index fund：基金

Legal Interest：合法權益

⑦ Index Fund Investments:

- The interest may be positive or negative, and policyholder do not have legal interst in the index fund.

共同基金

⑧ Mutal Funds Investments: Same.

# Chapter 4 - 6

## Accumulating fund and non-forfeiture benefits: (UL policies)

**Surrendering the policy:** Account value - surrender charges

- The policy holder receives the cash surrender value

  CSV = cash value of the investment account — surrender charges.

- surrender charges are usually calculated as a multiple or percentage of the annual mortality deduction that would apply under LCOI costing. That multiple or percentage gradually decreases over time until it is completely eliminated.
- surrendering is taxable

**Policy Withdrawals (Partial Surrender):**

- UL policyholder can withdraw funds from the policy, called partial surrender, (taxable)
- Insurance company impose minimum withdrawal amount, the amount of CSV.
- Withdrawal impede the growth of investment account.

**Premium Offsets:**

- Policyholder can choose to offset their premium with policy dividends.
- In the future, the policy holder can stop paying the premiums while painting the policy in force.

**Policy loans:**

- the policyholder can usually obtain a loan against the CSV of the policy. (taxable)
- the policyholder do not have to pay back the loan, but interest rate decreases the death benefit.

**Collateral for Third-Party Loans:**

- policyholder may be able to use the cash surrender value of the policy as collateral for a loan from a third party. (Tax-free)

**Leveraging:**

- UL policyholder may be able to obtain a loan, or series of loans, from a bank, where the cash surrender value and death benefit are used as collateral. (Tax-free)
- The accrued debt is discharged only upon the death of the life insured.

**Distribution Upon Death: (with different DB options)**

- **Level DB:**
  - Usually pays the face amount.
- **Level DB + account value**
  - Pays out the face amount + account value of investment account.
- **Level DB + cumulative premium**
  - Pays out face amount + sum of all premiums
- **Indexed DB**
  - pays out face amount, indexed according to the rate specified in the policy

**TABLE 4.2: Advantages and Disadvantages of Universal Life (UL) Insurance**

| Advantages | Disadvantages |
|---|---|
| • Offers considerable flexibility to the policyholder;<br>• Policyholder can increase, decrease or even suspend premiums, as long as the policy's account value can support the mortality and expense deductions;<br>• Policyholder has a choice of investment products;<br>• Offers the opportunity for tax-sheltered investing, within limits. | • Product is complex and may be difficult for the policyholder to understand;<br>• Policyholder needs to actively monitor the performance of the investment account, and make adjustments to policy investments as needs change;<br>• Entire premium is subject to premium tax;<br>• Policy performance is sensitive to changes in investment performance. |

**TABLE 4.3: Whole Life Insurance vs. Universal Life (UL) Insurance**

| Universal Life Insurance | Whole Life Insurance |
|---|---|
| **Mortality Deductions & Expenses** | |
| Mortality deductions and expenses are deducted from investment account. | Mortality deductions and expenses are taken from policy reserves. |
| Mortality deductions may be based on YRT or LCOI costing. | |
| **Premiums** | |
| | Premiums are typically level for the life of the policy (unless it is an adjustable policy). |
| A missed premium does not trigger a premium loan; mortality deductions and expenses continue to be drawn from the investment account. Policy may lapse once the account value becomes insufficient to cover these deductions (subject to grace period). | A missed premium will trigger an automatic premium loan. Additional automatic premium loans will be made until the CSV becomes zero, when the policy will lapse (subject to grace period). |
| **Dividends** | |
| The policy does not provide for policy dividends. | Policy may pay dividends. |
| **Death Benefit** | |
| Policyholder has options with respect to the death benefit (e.g. death benefit plus account value, death benefit plus cumulative premiums). | Death benefit is generally not affected by the value of the investment account. |
| **Modal Factors** | |
| Modal factors generally are not used. | Modal factors apply if premiums are paid other than annually. |
| **Investment** | |
| Policyholder can choose how the investment account is invested. | The insurance company chooses how the policy reserves are invested. |

5

# Chapter 5-1 Riders & Supplementary B

## Riders That Provide Additional Benefits Upon Death

- Paid-Up Additions (PUA) rider;
- Term insurance riders;
- Accidental Death (AD) rider;
- Guaranteed Insurability Benefit (GIB) rider.

**Paid-Up Additions (PUA) Rider:**

- allows the policyholder of a whole life or universal life (UL) insurance policy to pay additional lump-sum premiums to buy small amounts of paid-up permanent life insurance during the lifetime of the base policy. (similar but not PUA dividend option for WL)
- PUA rider is underwritten at the same time as the base policy. So there is usually some restrictions regard the PUA. Such as minimum and maximum PUA that can be purchase.

**Term Insurance Riders:**

- A term insurance rider adds additional coverage for death, over and above that provided by the base policy, for a limited period of time.
- 不一定加給自己 The term insurance rider can apply to the life insured under the base policy, or it can apply to someone else. In the latter case, the coverage on the additional person is underwritten separately from the coverage on the primary insured under the base policy. The amount of coverage on the term insurance rider is independent of the coverage provided by the base policy, and can in fact be for a greater amount.
- cannot have a term that exceeds the term of the underlying policy

**On a Term Policy (TI Rider)**

- It is quite common for term insurance riders to be added to term insurance policies. (DAMNNN)
- This is more convenience and better in cost because policyholder only have to manage one policy and pay one premium. It also reduces administrative fees.

**On a permanent: (TI Rider)**

- To satisfy a mix of long-term and short-term insurance need.
- Policy holderholdern can buy some form of permanent insurance along with a term insurance rider

**Family Coverage Rider:**

- Sold in units that cover all eligible family members
- insurance company normally limit the units that can be purchased under the rider.
- The number of children under a family coverage will not affect the premium.
- Spousal coverage usually will not pass certain age. ex: 65. For kids, around 21 or 25
- Ff: kids are covered after they reach 15 days of age.

**Child Coverage Cover:** 一般 family 就夠除非特別.

- Usually for policy holder that does not have a spouse but want to obtain coverage for his children.
- Except spouses, other details are same as family coverage rider.

**Converting Child of Family coverage Riders:**

- A child under family or child coverage rider usually has the option to convert to PI.
- No need prove of insurability. Usually available to spouse too.

**Accidental Death Rider: (AD)**

- A life insurance with AD ride will provide extra benefit of the life insured died in accident.
- AD coverage may be offered in units or multiple of the death benefits. Most common option is two times death benefit, a.k.a "double indemnity"
- AD rider may be limited to certain age.
- Sometimes packed with accidental dismemberment benefits. (back)

**Guaranteed Insurability Benefit Rider: (GIB)**

- GIB riders gives the policyholder the option to buy additional insurance coverage without POI
- The premium for the additional insurance will be base on the attained age, but will assume the health remain the same.
- Useful for people who currently does not have huge need or no money, but expect to increase coverage in the future.
- Restrictions, such as permitted certain times, amount of increase, total increase, number of times.

Chapter 5 -2

## Supplementary Benefits (Benefits in Addition to the Death Benefit)

Supplementary benefits are benefits that may be available before the death of the life insured.
- Accelerated death benefits;
- Accidental dismemberment benefit;
- Waiver of premium for total disability benefit;
- Parent/payor waiver.

**Accelerated Death Benefits:**

- The insurance company will pay out a portion of the death benefit prior to death of the life insured, if certain conditions are met. a.k.a "living benefits"

**Two** types of accelerated DB:

**Terminal illness (TI) Benefit:**

- TI allows the policyholder to apply for an advance on the death benefit if the life insured has been diagnosed with a terminal illness that is expected to result in death within a fixed period of time, such as one year or 24 months. The request must be supported with a diagnosis and prognosis made by a qualified physician. (not taxable)
- Usually restricted to maximum amount, which may be expressed as percentage of original amount, ranging from 25% to 75%
- TI is payable for policyholders. If beneficiary designated is irrevocable, the policyholder needs permission from beneficiary before applying for TI.
- TI reduces the DB paid upon death, some insurance company structure TI benefit as a loan with fixed interest rate.

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終於換我
拿錢錢了

Both does reduces DB.

**Dread Disease (DD) Benefits (a.k.a. Critical Illness or CI Benefit):**

- DD benefit allows the policyholder to receive a benefit if the life insured is diagnosed with one of the conditions specified by the contract. The life insured does not have to be in danger of dying as a result of the condition, but the diagnosis must be supported by a qualified physician.
- The condition varies with the insurance company and the contract, Most policies covers the "Big-4" (heart attack, stroke, coronary bypass surgery, and life-threatening cancer)
- DD benefit is paid out as a lump sum after the life insured has survived for a specific time after the diagnosis.
- DD Benefit is similar to individual CI insurance policy. This CI-like coverage may allow the policyholder to save money compare to buying separate life and CI policies.

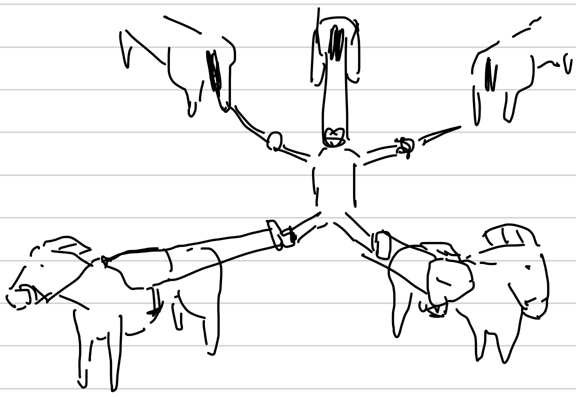
P.S. the terminology like "critical illness benefit" or "critical illness rider" are confusing
- If the amount paid out reduces DB, the policy is offering DD benefit. (accelerating benefit)
- If the amount paid out does not affect DB, the policy is likely offering critical illness Rider for which additional premium is paid. (Rider)

**Accidental Dismemberment Benefit:**

- The accidental dismemberment benefit is usually found coupled with the AD Rider, together they form Accidental Death & Dismemberment (AD&D) rider.

- An accidental dismemberment benefit is a lump sum amount that will be paid if the life insured loses a specific body part or body function as a result of an accident.

| Sample Accidental Death & Dismemberment (AD&D) Schedule of Loss[10] | |
|---|---|
| **Accidental Loss** | **Percentage of Benefit Payable*** |
| Death | 100% |
| Both hands or both feet | 100% |
| Entire sight of both eyes | 100% |
| One hand and one foot | 100% |
| One hand and the entire sight of one eye | 100% |
| One foot and the entire sight of one eye | 100% |
| Speech and hearing in both ears | 100% |
| One arm or one leg | 75% |
| One hand or one foot | 66 ⅔% |
| Entire sight of one eye | 66 ⅔% |
| Speech, or hearing in both ears | 50% |
| Thumb and index finger of either hand | 33 ⅓% |
| Hearing in one ear | 16 ⅔% |
| Quadriplegia (complete paralysis of both upper and lower limbs) | 100% |
| Paraplegia (complete paralysis of both lower limbs) | 100% |
| Hemiplegia (complete paralysis of upper and lower limbs on one side of the body) | 100% |



**Waiver of Premium for Total Disability Benefit:**

- The insurance company will waive the premiums on the life insurance policy, including premiums for any riders or supplementary benefits, if the life insured becomes totally disabled.
- The definition of total disability varies with the policy.
- While premiums are being waived, benefits continue to accrue under the policy. This means that dividends will continue to be paid (if it is a participating policy), cash values may continue to grow, and all riders and supplementary benefits remain in force.

Waiting period:

- Premiums will only be waived once the life insured has been disabled for the waiting period specified in the policy.

Renewable or convertible Term policies: (under these situation)

- If the base policy is a renewable term insurance policy, then the premiums will continue to be waived after renewal. If the base policy is a convertible term insurance policy, at the end of the term the policy will be converted to a whole life policy, and premiums will continue to be waived for life, or as long as the life insured is disabled.

**Parent/Payor Waiver Benefit:**

- Similar to waiver of premium with three main differences:

1 ) Premium may be waived upon the policyholder’s death as well as upon his total disability.

2 ) The policy holder will have to provide proof of insurability as well as life insured.

3 ) If the life insured is a child, some policies will state that premiums will be waived until that child reaches a specific age.

## Using Riders & Supplementary Benefits to Customize Coverage

A policyholder can add riders and supplementary benefits to his base insurance policy to customize or enhance the coverage.
This section explores some of the things a policyholder should consider when determining if these extras are appropriate for him.

**Cost of Coverage:**

- Each Rider and Supplementary benefit results in additional premium for the policy holder.
  Some benefit are built into the base policy but it is also charge since the insurance company will have factor these consist into them.
- Some Riders and Supplementary benefit is also available as a stand-0alone product. Ex: term insurance or critical illness. However, usually a rider or supplementary will be cheaper because only one policy will be charge and insurance company have lower underwriting costs.

**Value of Coverage:**

- A Rider or supplementary benefit only values if it provides the protection needs.
- Is the rider appropriate for the demand or risk that need to be cover?

**Limitation:**

- The policyholder should what conditions trigger payments under a rider or supplementary benefit.

Ex: - Under AD rider, what considers to be accidental death?

- In a family coverage rider, when does a child eligible for coverage, when does the coverage cease?

問的好

- Under GIB rider , how much can the coverage increase?
- Under PUA rider, what is the maximum amount that can be added.
- Under CI benefit, what health conditions are covered?

**Exclusions:**

- The policyholder should beware of the conditions (exclusions)

Ex: AD&D benefits does not count if it’s self-inflicted injuries.

**Difference between Companies:**

- The various riders and supplementary benefits that can be added to a life insurance policy vary greatly between companies, and even between life insurance products issued by the same company.

## Summary wrapup

**TABLE 5.2: Advantages and Disadvantages of Riders and Supplementary Benefits**

| Advantages | Disadvantages |
|---|---|
| • Can be used to customize coverage to meet policyholder's unique needs;<br>• Some benefits may be cheaper when acquired via a rider or supplementary benefit than when acquired as a stand-alone policy;<br>• Conversion to individual stand-alone coverage without proof of insurability may be possible for term insurance riders;<br>• May give the policyholder access to higher coverage later, without providing proof of insurability (for GIB and PUA riders), while allowing him to pay for a lower amount of coverage now. | • Additional premiums are usually required;<br>• There may be limitations and exclusions on coverage;<br>• Coverage expires when the base policy expires;<br>• Depending on the benefit, separate underwriting on the life insured and the policyholder may be required. |

6

Chapter 6 - 1 Group Life Ins

**Group Life Insurance:**

**What Constitutes a group:**

- All employees of a certain employer;
- Executives and managers of a certain employer;
- Alumni from a specific university;
- Members of an occupational association;
- Members of a business association;
- Members of a retail association.

**Policy Holder:** also refers as the "plan sponsor"

**Master Contract:**

- A group life insurance plan is governed by a master contract between the plan sponsor and the life insurance company. This means that the plan member has no control over the contract beyond naming the beneficiary and potentially buying additional optional coverage if the plan permits.

**Group membership:**

- Group member have to be a member of the institution.
- If the plan sponsor in the employer, new employee are eligible to become members of the plan after the probationary period. (Usually three months)

**Actively-at-work requirement:**

- it is what it is

**Membership Classes:**

- some employer-sponsored group plans may have more than one membership class under a single group plan, with different amounts of coverage for each class

**Premiums:**

- The premiums for group life insurance are based on the makeup of the group as a whole, and not the specifics of each individual.
- The rate will apply to each person in the group, regardless of that person's age, gender or smoking status. And the insurance company recalculate the rate every year to reflect change changes in the group's demographics.
- Most group life insurance plan require the employer to pay 50%. If the group plan is contributory , the employer remits the full amount of premiums to the insurance company, and then deducts the employees' contributions directly from their pay.

## More group life insurance

**Tax Treatment for employer:**

- If an employer pays some or all of the premiums for a group life insurance plan, it can deduct those premiums as a business expense.

**Tax Treatment for Employee:**

- If an employer pays some or all of the premiums for a group life insurance plan, those premiums are considered to be a taxable benefit for the employee.
- Regardless of who pays the premiums, any death benefits paid out under a group life insurance plan are not taxable to the employee, his estate or the beneficiary of the policy.

**Sales Tax on Premiums:**

- Premiums paid under a group life insurance plan are subject to a provincial insurance premium tax, which ranges from 2% to 5% of life insurance premiums, depending on the province.

Ex: - 8% in Ontario;

- 9.975% in Québec;
- 7% in Manitoba (was scheduled to drop to 6% on July 1, 2020, but the decrease has been postponed until further notice).

Chapter 6-2

## Group Term Insurance Coverage

Under a group life insurance plan, the coverage is restricted by the terms of the plan. All members of the plan receive a prescribed amount of base coverage. Depending on the plan, they may or may not be able to buy additional optional coverage.

**Schedule of Benefits:** 好處表

The base level of coverage provided by a group insurance plan is usually prescribed by a schedule of benefits that is part of the master contract.

- **Earnings Multiple:**
  - The most common option
  - Provides coverage equal to a multiple or fraction of the member's base salary (excluding bonus)
- **Flat Rate:**
  - Every group member receives the same dollar amount of life insurance coverage, regardless of their position, salary or wage.
  - often used by unionized groups that cover employees who earn an hourly wage
- **Length of Service:**
  - Based on length of service to the employer; intended to reward long-serving employees.
  - rarely used today
- **Combination:**
  - Combination schedule incorporates several factors, such as earnings and position.
  - Usually apply different options above for different category of employees.

**Coverage Maximums:**

- Most group life insurance plans place a cap on the amount of coverage for any single plan member, particularly when coverage is a multiple of earnings for highly paid employees.

**Reductions for Older or Retired Group Members:**

- The risk of death increase with age, thus the COI also increases with age. To keep group insurance cost reasonable, the plan's schedule of benefits might specify reduce coverage for older or retired members.

next pg

**Optional Additional Coverage:**

- Some group plans allow members to purchase additional coverage. This allows the member some ability to customise the coverage to his unique needs.
- Usually the group member will have to provide POI when applying for the additional coverage, because the ability to choose the coverage amount creates the potential for adverse selection, also known as "anti-selection." Adverse selection refers to the phenomenon where someone who is at greater risk is more likely to buy insurance to cover that risk, and is more likely to make a claim than the average person within the group.
- However, some group plans allow the member to buy additional coverage without providing evidence of insurability if they do so within a specified period of time. This prevents the plan member from waiting until he experiences signs of illness to buy the additional coverage, which is an example of adverse selection.

**Term Coverage:**

- The majority of this additional coverage takes the form of term life insurance.
- Some plans extend this optional coverage to the member's spouse, with the same coverage units and maximums.

**Permanent Coverage:**

- In rare cases, the optional coverage may include some type of permanent life insurance, such as whole life. However, permanent life insurance is more commonly an option upon policy conversion (back)

# Chapter 6-3

**Dependant Life Coverage** dependant in the group.

- Most group life insurance plans give members the option of buying life insurance coverage on their dependants.
- They will not have to provide POI for those dependants. 不用 POI
- Because dependant coverage is optional, the principal of adverse selection applies. A member is more likely to take advantage of the dependant coverage if that dependant is a poor insurance risk. As a result, premiums for dependant coverage are often higher than premiums on an independent single life policy.

**Definition of Dependant:** (might vary)

- The plan member's spouse or common-law partner.
- The plan member's children, if they depend on the member for financial support and they are between the ages of 14 days and an upper limit. Coverage applies to biological, adopted and step-children.
- Extended coverage may be available past the specified age as long as the child continues to attend school full-time, up to a maximum age.

**Death Benefit Amount:**

modest：謙虛

- Usually most modest
- dependant coverage is usually in the range of $5,000 to $20,000 on the spouse's life, with 50% of this amount on the life of each dependent child.

**Premiums:**

- Premiums for dependant life insurance are usually the same for each group plan member, regardless of his age or number of his dependants
- However, some group life insurance plans do require a separate premium for each dependant. Because the amount of coverage is so low, the annual premium is quite small

Chapter 6 - 4

## Survivor Income Benefits

Some group life insurance plans also provide a monthly survivor income benefit in addition to a death benefit when a group plan member dies. The survivor income benefit is an option that can be purchase by plan sponsor.

**Beneficiaries:**

- The survivor income benefit is normally payable to the plan member's surviving spouse or common-law partner, until that person reaches age 65, remarries or dies.
- may also be payable to the plan member's surviving children, until they reach a certain age. This duration may be extended for children who are attending school full-time.
- Some plans give the plan member the option of choosing survivor income benefits that are only payable to the surviving children.

**Benefit Amount:**

- The survivor income benefit is normally expressed as a percentage of the group member's monthly salary just prior to death.
- Some plans call for higher benefits if the children become orphans.
- benefits may be subject to a monthly, annual or cumulative cap, depending on the plan.

Chapter 6-5

## Accidental Death & Dismemberment (AD&D)

算 Supplementary.

- Group life insurance plans often provide AD&D benefits.
- Under the accidental death portion of AD&D coverage, the insurance company will pay an extra benefit, if the plan member dies as a result of an accident. Benefit is usually equal to the basic death benefit. 就是可以拿雙倍的意思

**Basic vs. Voluntary AD&D:**

- Basic AD&D: When group life insurance plans automatically provide AD&D coverage.
- Voluntary AD&D: When plan members choose the option of buying AD&D coverage.

usually purchased in units, member can buy multiple units.

**Coverage for Dependants:**

- Some group insurance plans allow member to buy AD&D coverage for his spouse and/or children.
- Usually, coverage for dependants is a fixed percentage of the coverage on the plan member himself.

**Exclusions:**

- AD&D benefits will only be paid if the loss occurs as a result of an unexpected violent or traumatic event.
- Not count: Self-inflicted injuries, War, Active service in the armed forces, Commission of a crime by the insured, Driving while impaired, Piloting a non-commercial aircraft.

**Overall Limits:**

- If voluntary AD&D coverage is available in multiples of a fixed unit, the group plan will typically place an overall limit on the number of units that a group member can buy.

# Chapter 6 - 6

Privileges：特權

## Conversion Privileges

Member of a group life insurance plan generally has the right to convert some or all of his group life insurance coverage to individual coverage with the same insurance company, without POI if:

- He leaves the plan because he retires or changes employers
- He is no longer a member of the sponsoring organization
- The plan itself is terminated

**In Québec:**

The Québec "Act respecting insurance" includes specific rules that protect a group member's rights when he leaves a group life insurance plan, or when the master contract expires or is cancelled.

- **Leaving the Plan**:
  - If a group life insurance plan member leaves the group prior to age 65, he must be given the option of converting some or all of his life insurance coverage into the same amount of individual insurance. This also applies to any spousal or dependant life insurance coverage that existed under the group plan.
  - The amount of insurance for conversion must be at least $10,000 and may not exceed $400,000. the amount of dependant life insurance that may be converted must be at least $5,000 for his spouse and for each dependant.
  - The plan member must be allowed to exercise these conversion rights for at least 31 days after leaving the group.
- **Master Contract Terminates:**
  - If the master contract expires and is not replaced, or if it is replaced with a contract that provides for a lesser amount of insurance, any plan member who has been insured under the expired contract for at least five years must be given the option of converting all or a part of his coverage into individual life insurance within 31 days of expiry of the master contract.
  - The amount of insurance for conversion must be at least $10,000 or 25% of the amount of the member's life insurance, whichever amount is greater.

**In the Rest of Canada:**

The industry does follow the guidelines set forth by the Canadian Life and Health Insurance Association (CLHIA).

- On or before reaching age 65, a plan member should be able to convert up to $200,000 of the group-life coverage on his own life to individual insurance without providing POI.
- At a minimum, he should have the option of choosing yearly-renewable term, or term-to-age 65.
- CLHIA guidelines are silent on conversion privileges for coverage on the plan member's spouse or other dependants.

**Premiums Upon Conversion:**

- The insurance company does not get POI when underwriting that would apply to a brand new applicant. The increasing risk risk, results in higher premiums coverage.

Chapter 6-7

## Replacement Contracts

- Employers are always looking for ways to reduce the cost of the group benefits, this means that they sometimes change group insurance providers and replace existing contracts with new ones.
- The CLHIA guidelines are designed to ensure that a group life insurance plan member does not lose coverage solely because the plan sponsor has decided to change insurers.

**Benefit Amounts:**

- As long as the plan member is eligible for insurance under the terms of the replacement contract, then he should be covered for the same amount under the replacement contract, subject to the maximums of that replacement contract.

Chapter 6-8

## Disabled Members

- Group life insurance policies typically include a waiver of premium provision, which stipulates that, if the member is disabled, the insurance company will waive the premiums for a specific period of time specified in the contract, while still providing coverage.
- CLHIA guidelines require that the premium must continue to be waived and coverage continued even if the employer terminates the group contract with the insurance company.

Chapter 6-9

## Group Creditor Insurance

BI: Financial institutions often encourage their borrowers to obtain life insurance to cover the debts they have with that financial institution.

- Most lenders offer the convenience of group creditor insurance to their customers. This is a subset of group life insurance, where the financial institution is the policyholder, and the borrowers are the plan members.
- There are often misconceptions, so CLHIA have guidelines require lender to disclose insurance detail.

1. Insurance coverage is voluntary, and is not required for approval of the loan.
2. Borrower has at least 20 days after receiving Certificate to cancel the coverage and obtain a full refund.
3. Borrower has the right to cancel the coverage at any time
4. All terms and conditions that might limit, restrict or exclude coverage
5. The amount of the premium or how it is calculated
6. The coverage is subject to acceptance by the insurer
7. Any further steps the borrower must take
8. The insurer's obligation to notify the borrower if coverage is declined
9. The terms upon which coverage starts, if the application is accepted

**Death Benefit:**

- The amount of the death benefit payable under group creditor insurance is generally limited to the amount of the debt outstanding. If this is the case, then the death benefit decreases as the debt is repaid.

**Beneficiary:**

- The beneficiary of group creditor insurance is the lending financial institution, which will use the proceeds to extinguish the debt.

**Premiums:**

- Premiums are typically based on the borrower's age and smoking status.
- The premiums for creditor life insurance on a line of credit, however, tend to be based on the outstanding loan at the end of each month, or averaged over the year.

這些都是負給 lender.

**Additional Coverage:**

- Some group creditor life insurance providers also offer coverage if the borrower becomes disabled, suffers a critical illness, or even becomes unemployed.

**Disability:**

- Group creditor disability insurance will pay the lender a monthly benefit if the borrower becomes disabled and is unable to work.

**Critical Illness:**

- Group creditor critical illness insurance will pay off the outstanding debt if the borrower is diagnosed with a covered illness. The benefit is paid regardless of whether the borrower can work or not.

**Unemployment:**

- Group creditor unemployment insurance will pay the lender a monthly benefit if the borrower loses his job through no fault of his own. These benefits are normally limited to a specific dollar amount or duration.

Chapter 6-10

## Group Life Insurance vs. Individual Life Insurance:

| Group Life Insurance | Individual Life Insurance |
|---|---|
| **Control of Policy** | |
| The employer or plan sponsor owns and controls the policy. | The policyholder owns and controls the policy. |
| **Evidence of Insurability** | |
| Generally no evidence of insurability is required during the enrolment period. | Evidence of insurability is required. |
| **Premiums** | |
| Premiums are based on the makeup of the group. | Premiums are based on the health of the individual. |
| **Poor Health Status** | |
| People in poor health can get coverage at affordable rates. | People in poor health will be denied coverage, or will have to pay higher premiums. |
| **Guaranteed Premiums** | |
| Premiums are only guaranteed for one year at a time. Insurance company adjust every year | The policyholder can choose yearly-renewal-term coverage, 5-year term, 20-year term, etc., where rates are guaranteed for the term. |
| **Coverage** | |
| Coverage rarely continues past age 65. | Can obtain term coverage to age 75 or 80, or permanent coverage until death. |
| Base coverage amounts are dictated by the plan, and optional coverage is usually limited. | Coverage can be customized to the individual needs. |

| Advantages Of Group Ins | Disadvantages |
|---|---|
| • No evidence of insurability is required. Individuals who are in poor health, have a pre-existing condition or who smoke will still be covered, with affordable premiums.<br>• Some or all of the premiums may be paid by the employer.<br>• It is convenient for the employee. Coverage may be converted to individual coverage without proof of insurability if the policy terminates or the member leaves the plan. | • People in very good health will pay the same premiums as the rest of the group.<br>• The employer or plan sponsor controls the plan and can make changes without consulting the group members.<br>• The amount of coverage may not be what the plan member needs.<br>• The premiums for individual coverage upon conversion are not guaranteed and may not be favourable.<br>• Employer-paid premiums are a taxable benefit. |

7

# Chapter 7 - 1 Business Life Ins.

## Potential Impacts of Death on a Business

Death can have a significant impact on some businesses, A business may have to face a number of issues when a death occurs:

**Loss of Skill:**

- Some companies have one single person, or a handful of people, who are integral to the success of the business. These are people are referred to as a "key person" or "key employee."
- If a key person dies, the business loses skills that are vital to the continued viability of the company.

**Creditor Demands:**

BI : Many business loans take the form of demand loans, which have no fixed term or set duration of repayment as long as interest is paid. However, the lender can generally recall the loan, demanding repayment in full, as long as any notice requirements specified in the loan agreement are met.

- If a business has significant debt and a key person dies, creditors can become nervous and may recall demand loans or refuse to extend additional credit if the company needs it.

**Family Member Interference:**

- When one of the business owners dies, he might left his interest in the business to his surviving spouse or children. Often, the beneficiary is incompatible with the surviving business owners. Even where the beneficiary is willing to sell his share in the business to the surviving owners, he could demand an unreasonable price for that share.

**Equality for Family Members:**

- In many cases, one child may have the interest and aptitude for taking over the family business, but another child may have completely different talents and aspirations. The parents will have to be creative in their estate planning to treat both children fairly.

**Capital Gains Tax:**

BI: When a Canadian taxpayer dies, he is deemed to have disposed of all of his property for its fair market value immediately prior to death.

- In the case of shares in an active and prosperous business, this can result in a significant taxable capital gain if the shares are left to anyone other than his surviving spouse. If there is not enough money in his estate to pay this tax, it can force the executor to sell some of the shares just to pay the tax.

# Chapter 7-2

## Business Types

The challenges faced by a business upon the death of the owner or a key employee depend in part on whether the business is structured as a sole proprietorship, partnership or corporation.

**Sole Proprietorship:**

- Business that is owned by a single person.
- From a tax and legal perspective, there is no legal separation between the business and the owner; they are considered to be the same entity.
- The assets of the business, including inventory, buildings, etc., would form part of the sole proprietor's estate and would be subject to the deemed disposition rules upon death.

**Partnerships:**

- Business that is owned by two or more people.
- From a tax perspective, each partner must report his share of the net partnership income on his personal tax return.
- A limited partner is entitled to share in the partnership's profits, but is not personally responsible for the business's debts or other obligations. A limited partnership must always have at least one general partner, who is personally liable for the business's debts and obligations.
- Unlike a sole proprietorship, a partnership interest can be bought, sold or bequeathed upon death.

**Corporations:**

- A legal entity that is separate and distinct from its owners also called shareholders.
- The shareholders are not personally liable for the business's debts or obligations, unless they personally guaranteed those debts.
- The corporation's shareholders do not report the company's net income directly on their personal tax returns; instead, that net income is taxed in the corporation.
- Shares in the corporation have an adjusted cost base, and the sale or deemed disposition upon death can result in capital gains or losses.

**Public vs. Private Corporations:**

- Public corporation is generally any incorporated company that is listed on a public stock exchange, while the shares of a private corporation are not traded publicly.
- There is a subset of private corporations, known as Canadian-Controlled Private Corporations (CCPC).
- A CCPC is a corporation that has the following characteristics:
  - It is not listed on a public stock exchange;
  - It is resident in Canada;
  - It is not controlled, directly or indirectly, by one or more non-resident persons;
  - It is not controlled, directly or indirectly, by one or more public corporations.

**Capital Gains Exemption**:

- The most important tax attribute of a CCPC is that, upon actual or deemed disposition, the shares may be eligible for the lifetime capital gains exemption (LCGE). The LCGE for a CCPC is $892,218 for 2021 and is indexed annually for inflation. A taxpayer can use the LCGE to eliminate or offset capital gains realised upon the disposition of qualified shares in a CCPC, a family farm or a family fishing business.

Capital gain − LCGE × 50% × 45%

# Chapter 7-3

## "Key Person" Life Insurance

終於進入保險了...

The business may want to buy key person life insurance on that individual. If the key person dies, the company would receive the death benefit tax-free and could use it to help the business survive by:

- Recruiting and training a replacement;
- Making up for lost revenue;
- Covering overhead expenses until the company gets back on its feet.

### Split-Dollar Arrangements:

- A split-dollar life insurance arrangement is a method of sharing the attributes and costs of a permanent life insurance policy amongst two or more parties.
- Typically used when more than one party requires the benefits that can be provided by a life insurance policy.
- In common uses, a life insurance policy could be jointly owned by a key employee and the corporation he works for. For ex, DB for employee and AC for corporation. Vice versa
- This is the most common arrangement for key person insurance is that the company owns the DB face amount to compensate the impact and the employee own the policy's CV and any excessive.
- The employee and the corporation would split the premiums in a way that recognises their separate economic interests in the policy.

### Taxation of Key Person Split-Dollar Arrangements:

- The Canada Revenue Agency's (CRA) administrative view appears to be that the premium allocation between the employee and the corporation should reflect the fair market value of their respective interests in the insurance contract.
- Upon retirement or termination of employment, the corporation would no longer need the key person coverage and the ownership interest in the death benefit could be transferred to the departing employee.
- Depending on the fair market value (FMV) of the policy, the transfer might result in a taxable benefit for the employee.

### As a Requirement for Borrowing:

公司靠一人賺錢 →借錢時要幫那人買保險→ 那人死了,公司不賺錢→靠保險還

- If the success of a business depends on the involvement of a key person, a financial institution extending a loan to that business may require the assignment of a life insurance policy on that key person.
- If the key person dies, the lender would receive that portion of the death benefit required to extinguish the debt.
- If the business acquires insurance on a key person because the lender requires it, then the business can deduct the premiums from its business income.

## Buy-Sell Agreements

Many businesses that have more than one owner, such as partnerships and private corporations, implement a buy-sell agreement to control what happens if one of the owners dies.
It usually specifies:

- Who has the option or the obligation of buying an owner's interest in the business upon his death
- The price that will be paid for that ownership interest
- How the purchase will be funded

**Cross-Purchase Agreements:**

- The other owners agree to buy the interest of a deceased owner
- For a corporation, this means that the total number of shares outstanding and the value of those shares remain the same, but each surviving shareholder now owns a greater number of shares.
- With a share redemption plan, the corporation redeems the shares of the deceased shareholder. This reduces the number of shares outstanding, but the survivors' ownership interests increase.

**Why Buy-Sell Agreements are Important:**

- A properly funded buy-sell agreement protects the surviving business owners, the business itself, and the surviving family or other beneficiaries of the deceased owner.

**Guaranteed Buyer:**

- Most buy-sell agreements usually specify that the surviving owners or the business must buy the units or shares of a deceased owner. This gives owners the certainty that there will be a buyer for their units or shares upon death.

**Guaranteed Value:**

- Most buy-sell agreements also specify the sale price, or the method by which the sale price will be calculated.

**Mandatory Sale:**

- With a buy-sell agreement in place, the estate must sell the units or shares to the company itself (in a share redemption plan) or to the surviving owners (in a cross-purchase agreement).

**Guaranteed Funding Through Life Insurance:**

BI: Perhaps the most important provision of a buy-sell agreement is establishing how the purchase will be funded, the buyer may not have the funds to complete the transaction.

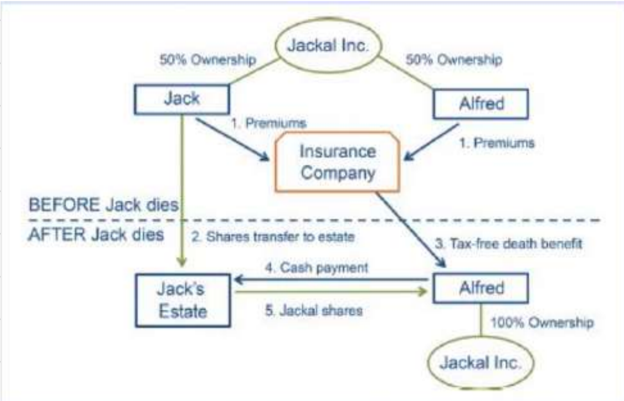
- The most secure way of funding a buy-sell agreement is through life insurance.

每個owner幫其他買Insurance.

**Criss-Cross Insurance:**

- Criss-cross insurance is often used to fund cross-purchase buy-sell agreements.
- Each party to the buy-sell agreement buys life insurance on the other parties to the agreement, in an amount sufficient to cover their purchase obligation upon that party's death.
- One of the disadvantages of criss-cross insurance is that there may be significant differences in the premiums for the coverage required on each party, depending on their age and health.

EX: Jack and Alfred each own 50% of share and Jack dies.




**Business-Owned Insurance:**

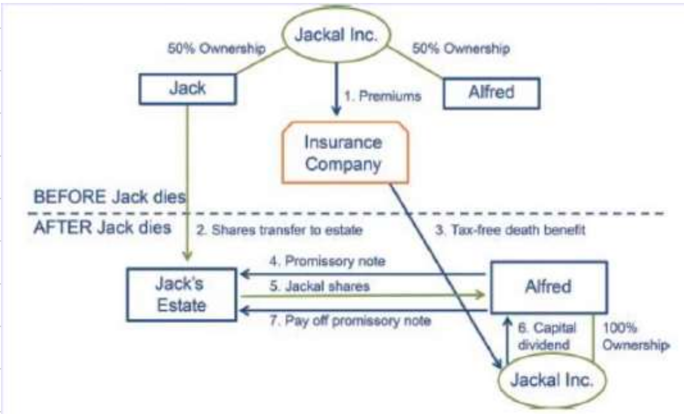
- Another option for funding the buy-sell agreement is having the business buy the insurance coverage on the business owners.
- Advantages:
  - If the COI each varies significantly due to age and health factors, a business-owned option will ensure that the costs are shared equally.
  - it will be cheaper for a corporation to buy the insurance if its tax rate is lower than the personal tax rates of the associates.
  - If there are more than two associates, it will generally be more efficient and more cost effective
  - If the buy-sell agreement will be funded by business-owned insurance and there are only two shareholders, a joint first-to-die policy may be appropriate.

**Role of the Capital Dividend Account (CDA):**

- The CDA is only a notional account, which means it does not actually hold funds; it just keeps track of them for tax purposes.
- It keeps a running balance of the amounts that a private corporation can pay to its shareholders tax-free.

**Funding Cross-Purchase Buy-Sell Agreements:**

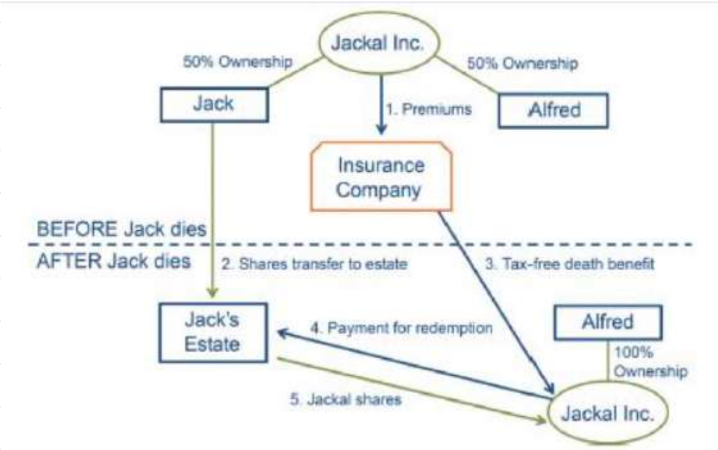
- If a cross-purchase agreement is funded by corporate-owned insurance, usually the corporation is named as the beneficiary of the policy.




(Business owned Ins)

**Funding Share-Redemption Buy-Sell Agreements:**

- In the case of a share redemption plan, the company and the shareholders are all parties to the buy-sell agreement.



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# Chapter 8-1 Application & Underwriting.

## Process Overview

Overview

**Agent's Role:**

- The agent's role in the underwriting process is to help collect the information that the insurance company needs to perform its risk assessment.

**Completing the Application:**

- The first step in the underwriting process consists of the agent working with the applicant to complete a detailed application for insurance, as well as any related or supplementary forms.
- The agent must:
  - Ensure that the information is complete and accurate
  - Ensure that the applicant understands the consequences of incomplete/false information
  - Confirm the identities of the applicant and the life insured (check id)
  - Witness their signatures on the application.

**Underwriting:**

- The agent forwards the application to the insurance company's underwriting department.
- The underwriter starts by assigning the life insured a baseline score, such as 100, which represents the mortality risk posed by the average or standard person.
- Then, the underwriter assesses the risk that the life insured presents and compares it to that of a standard person.
- If the life insured presents a lower mortality risk for specific criteria, then the score is reduced, while a higher mortality risk means the score is increased. The cumulative result over all of the criteria is used to assign the life insured to a risk class.

**Issuing & Delivering the Policy:**

- After the life insurance company issues the policy, the agent must deliver it to the applicant. This is considered to be a continuation of the underwriting process, because the agent must ensure that the medical, personal or financial situation of the applicant has not changed since the application date.

# Chapter 8 -2

## Application

**Policy Details:**

The application gather information about the characteristics of the coverage the applicant is seeking.

- **Applicant/Policyholder:**
  - The application form will record the applicant's legal name, address and contact information.
  - If the applicant is not the life insured, the application will also ask for a contingent owner or successor owner, which is someone who will receive ownership of the policy if the original applicant/ policyholder dies. 代理人

- **Life Insured:**
  - The applicant must identify a specific person as the life insured.

- **Beneficiary:**
  - The applicant must specify who will receive the death benefit if the life insured dies.
  - The beneficiary can include one or more people.
  - He can also specify a contingent beneficiary, who will receive the DB if original beneficiary dies

- **Type of Policy:**
  - there will be a spot on the application for the applicant to choose the type of life insurance policy.
  - For UL policies, the applicant may also have to choose how the mortality deductions will be calculated and how the DB is calculated.

- **Riders and Supplementary Benefits:**
  - if the insurance company allows policyholders to customise their coverage through riders and supplementary benefits, there will be a spot on the application for the applicant to select these riders and benefits.

- **Premium Options:**
  - If the insurance company provides various options for paying premiums, the applicant can indicate his choice on the application.

- **Dividend Options:**
  - For participating whole life policies, the applicant must choose a dividend payment option.

**About the Applicant:**

The insurance company will take a close look at the applicant's Financial ability, Insurable interest, Justification for the amount of coverage, Insurance application history.

- **Financial Ability:**
  - Underwriter will consider does the applicant has the financial means to afford policy premiums.
  - Underwriter will consider his occupation, employer, income, additional source income, net worth.

- **Insurable Interest:**
  - If the applicant is not the life insured, the applicant will be asked to specify his relationship to the life insured. The applicant must have an insurable interest in the life insured.
  - Generally, this means that the applicant must expect to suffer a financial loss or fail to make a financial gain if the life insured dies.

- **Justification of Amount of Coverage:**
  - the underwriter will consider whether the amount of coverage is reasonable in the circumstances.
  - The purpose of life insurance is to protect the policyholder or the beneficiary from the financial loss that results from the death of the life insured

- **Insurance Application History:**
  - The applicant will be asked about any existing life insurance policies he owns on the life insured, as well as any other applications that are in progress.
  - This is to ensure that the total amount of insurance the applicant has or will have on the life insured is kept to a reasonable amount.

**About the Life Insured:** Gather these Info

The insurance application is designed to gather as much information about the life insured as possible.

**Personal Information:**

- The application will seek personal information about the life insured, such as his:
  - Current name/former names, Date of birth, Current address, Social insurance number, Country of birth, Current nationality/residence status, Employer and occupation, Bankruptcy history…

- The application will also include questions about the life insured's lifestyle such as:
  - Alcohol consumption, smoking habits, travel experiences, avocations, drug use, driving history, criminal history…

next pg

**Medical Information:**

- Questions usually cover the following:
  - Height, weight, date of last medical consultant, treatment history, medical conditions, family health problems, pregnancy history for female.

**Incomplete or Erroneous Information:**

- Agents should encourage applicants to fill out the application completely and honestly and warn them of the possible consequences for failing to do so, which could include voiding the contract.
- false information could lead to Mistake, Fraudulent misrepresentation, Incomplete information in the application.

**Mistake:**

- Sometimes an applicant makes an honest mistake or inadvertent error when filling out his application, without any intention to deceive the insurance company.
- If a mistake is material in nature, and the insurance company discovers it within the first two years after the policy was issued or reinstated, it can void the insurance contract. However, once those two years have passed, the policy becomes incontestable and the insurance company cannot void the contract unless it can prove fraudulent misrepresentation.

**Fraudulent Misrepresentation:**

- Fraudulent misrepresentation occurs if the applicant intentionally provides the insurance company with false information or fails to disclose important information, to purposely mislead the insurance company in the hopes that the company will issue a policy and/or lower its premiums.
- The insurance company are able to void the policy even though the two-year contestability period had passed.

**Incomplete Information:**

- If the agent submits an incomplete application to the insurance company, the underwriter will return the application and require the agent to obtain the missing information.

**Agent's Comments:**

- The application usually includes space for the agent to make comments on anything he noticed during the application process or the information that he knows about the applicant or life insured that might impact the underwriter’s assessment.

# Chapter 8 - 3

## Temporary Insurance Agreement (TIA)

It can take several weeks or even months for the underwriter to completely process a life insurance application, the agent typically has the authority to issue a Temporary Insurance Agreement (TIA), which will provide some temporary coverage during the underwriting process.

**Requirements for Coverage:**

- To obtain coverage under a TIA, the applicant must submit a completed life insurance application along with at least one month's premium.
- Most insurance companies will only issue a TIA if the applicant completes a separate TIA application form and is able to answer "No" to a short list of health-related questions about the life insured.

**Coverage Limits:**

- In most cases TIA coverage is limited to the lesser of:
  - A fixed amount, such as $250,000 or $500,000; and
  - The amount of coverage the applicant is requesting.

**Coverage Duration:**

- TIA coverage may begin as soon as the application and premium have been submitted, or it may not start until all medical evidence has been submitted.
- The TIA remains in effect until the earliest of:
  - Its expiry date (usually 60 or 90 days);
  - The date the policy becomes effective; and
  - The date the insurance company notifies the applicant that his application has been denied and returns the premium.

**Agent's Responsibilities:**

- The agent should only issue a TIA if:
  - He has no concerns about the application or the likelihood that the underwriter will issue the requested policy.
  - The applicant submitted the first premium with the application.

# Chapter 8-4

## Underwriting by the Insurance Company.

**Underwriting Guidelines:**

- Each insurance company typically has internal underwriting guidelines that provide an explanation of the underwriting requirements for each product.
- They might cover:
  - A description of each condition or factor being evaluated
  - A list of the additional information that must be gathered before a decision can be made
  - The most probable underwriting decision, or a range of possible outcomes
  - Height and weight tables for standard risks

**Attending Physician's Statement (APS):**

- If the application indicates that the life insured has experienced a specified medical issue, the underwriter may request an APS.
- The insurance company pays any fees the doctor charges for preparing the APS, and the doctor sends the APS directly to the underwriter.
- APS provides:
  - medical history
  - current health, medications or other treatments
  - prognosis from the doctor for any ongoing issues

**Medical Exam:**

- Underwriter may ask the life insured to undergo a medical exam if he still has concerns about the health of the life insured after receiving an APS.
- Sometimes the underwriter will request the medical exam without first obtaining an APS, either because he has significant concerns about the health of the life insured or because the insurance company has a policy of requiring a medical exam for policies over a certain face amount, or when the life insured is of a certain age.

Bureau: 事務所

**Medical Information Bureau (MIB):**

- Most life insurance companies in Canada and the United States choose to be a member of the MIB, by paying an annual fee.
- MIB is a membership organization that facilitates an exchange of medical information about applicants between member insurance companies.
- When the underwriter at a MIB-member company processes an application, he is required to report significant underwriting issues to the MIB. The MIB compiles this information in coded reports that represent different medical conditions and non-medical conditions that could affect the insurability of the applicant.

**Motor Vehicle Record (MVR):**

- If the application fails to provide the requested details about driving history, or when the amount of coverage requested is above a certain level, the underwriter may request a copy of the life insured's MVR from the provincial motor vehicle and licensing authority.
- The MVR includes a record of the life insured's:
  - Speeding or other moving violations;
  - Chargeable accidents;
  - Driving under the influence (DUI) charges;
  - License suspensions or revocations;
  - Accumulation of points.
- A person's driving record directly influences his risk of death

**Inspection Report:**

- If the underwriter still has concerns about the application, he may hire a service company to investigate the life insured and then prepare an inspection report.
- The majority of inspections are completed via telephone, but for large coverage amounts a personal visit may be required.
- An inspection report usually focuses on non-medical issues and could include questions about the life insured's Habits, Finances, Occupation, Driving Record, Avocation.

**Requests for Clarification or More Information:**

- If the application is not filled out completely or if the answers are vague, the underwriter may contact the applicant to ask for clarification or for more information.

**Financial Underwriting:**

- Financial underwriting involves assessing the applicant's financial situation and the reason for obtaining life insurance, to determine if the amount of coverage is reasonable based on his need; and he can afford the premiums.

**People Who Are Not Canadian Citizens:**

Life insurance companies may have different underwriting requirements for people who are not Canadian citizens.

- **Permanent Residents:**
  - A non-citizen who has been granted permanent residency status is generally eligible for the same coverage as a Canadian citizen.
  - If he has lived in Canada for less than one year, detailed bloodwork and a medical exam may be required.

- **Awaiting Permanent Residency:**
  - Some insurance companies set maximum coverage amounts based on skill levels.

For example:

- Those with a highly skilled or managerial occupation might qualify for up to $10,000,000 in coverage;
- Those who pursue a trade-level occupation might qualify for up to $2,000,000 in coverage
- Live-in caregivers might qualify for up to only $250,000 in coverage;
- Underwriters may require non-citizens awaiting permanent residency status who have lived in Canada for less than a year to undergo additional medical screening. They may also be asked to provide a copy of their work permit, proof that they have applied for permanent residency status, and proof of a pattern of earned income.

- **International Student:**
  - International students are typically not eligible to purchase life insurance in Canada.

**Frequent Travellers:**

- The insurance company may request further details about past travels and future plans, including the countries visited, and the frequency and duration of visits.

**Avocations:**

- Underwriters will be concerned about any activities or hobbies that expose the life insured to above-average risk of death. If the life insured participates in such activities, the underwriter will likely collect additional information.

Chapter 8-5

## Risk Classes & Their Impact on Premiums

**Standard:**
- The average person, premiums will be set at the standard rate.

**Preferred:**
- People who present an exceptionally low risk, eligible for preferred lower rates
- Insurance companies usually have one or more preferred categories

**Rated:**
- Represents an above-average, but still acceptable, level of risk.
- Premiums will be higher than standard rates

**Exclusions:**
- The insurance company may issue a policy for the appropriate risk class, but specify an exclusion to the policy, which means that they will not pay the death benefit if death is a case covered by the exclusion.

**Upgrading Risk Class:**
- The insurance company cannot charge the risk rating after issured
- The policyholder may be able to ask the insurance company to remove or change the rating if the reason for that rating no longer exist. Thus, decreasing the premium.
- The reason the insurance allows this is that the policyholder might cancel the policy and get a new one if the rating is not removed.

**Declined:**
- Declined risk category means an uninsurable risk and coverage is declined.
- The decline may be temporary of permanent.

Chapter 8 - 6

## Client Factors That May Affect Premiums

One of the components that affect life insurance premiums is the Net Cost of Pure Insurance (NCPI), which in turn is based upon the risk that the life insured will die during the period of coverage.
Some other discuss below:

**Age:**

- In general, a person's risk of death during any specific year increases as he gets older. As a result, policy premiums increase as the age increases.

**Attained Age:**

- The premiums at issue or upon renewal are based on the attained age of the life insured at that time.
- Attained age might refer to his:
  - Age on his last birthday;
  - Age on his next birthday;
  - Age on his closest birthday.

**Gender:**

- Statistics show that women tend to outlive men. This means that, a man's risk of death at a specific point in time is greater than a woman's risk. As a result, policy premiums for a male are generally higher than for a female of the same age.

**Health Status or Risk Class:**

- Each insurance company will have its own system for classifying risk, but they generally have three to five health classes, including standard, below-standard and above-standard risk classes.

**Hazardous Occupation:**

- If the life insured has a hazardous occupation, his risk class will likely be further adjusted by a rating based on that occupation, resulting in higher premiums.

**Hazardous Lifestyle:**

- If the life insured has a hazardous avocation or hobby it may also result in a rating of the policy, resulting in higher premiums, or the application may even be denied.

Chapter 8 - 7

## Insurance Company Factors That May Affect Premiums

The insurance company may adjust premiums on new policies to address changes to its mortality costs, administration costs and investment returns.

**Mortality Costs:**

- If the company experiences higher mortality costs than it originally anticipated, it may increase premiums on new policies to compensate.

**Administration Costs and Expenses:**

- A life insurance company is a business, and it incurs many business-related expenses, such as:
  - Cost of selling the policy
  - Underwriting the policy
  - Issuing and administering the policy documents
  - Investigating claims
  - Processing claims
- Increasing expenses can put upward pressure on premiums for new policies.

**Investment Returns:**

- When current or expected investment returns decrease, the premiums for new policies generally increase to compensate for the lost revenue.

## Chapter 8-8

### Reinsurance

- Insurance companies place an upper limit on the amount of coverage on any one individual that they are willing to assume responsibility for. This protects them financially from having to make a payment that could seriously undermine their finances. Aka retention limit.
- An insurance company may still accept life insurance applications for amounts in excess of its retention limit, but it will only underwrite that policy if it can pass some of that risk on to one or more reinsurance companies.

## Chapter 8-9

### Issuing the Policy

The underwriting process does not stop with the issuing of the policy; it continues right up until delivery and acceptance of the policy.

**Delivery:**

- Agent have to perform a face-to-face meeting with the applicant to ensure that nothing important has changed that would affect the insurability of the life insured.
- Agent should review the contract in detail with the client and verify that the coverage is what the client applied for.
- The agent should also explain the major provisions of the contract. (back)
- Before final delivery, the agent should obtain verbal and written confirmation that a change in insurability has not occurred.

## Chapter 8-10

### Acceptance

- The final step in the activation of the policy is getting the policyholder to sign and date an acknowledgment stating that he has received and accepted the policy.
- After accepting the policy, the policyholder must be given a minimum of 10 days to review the policy. During this time, he can choose to return it to the insurance company for cancellation and a full refund of all premiums paid. This is the client's right of rescission, also known as the "10-day free-look provision."

Chapter 8-11

## Group Life Insurance (underwriting process)

### Basic Group Life Insurance:

- When underwriting  the underwriter looks at the demographics of the group as a whole, including the mix of ages, genders and occupations. He then uses the insurance company's experience with similar groups to determine the average risk per person and to calculate the premium.
- Premiums are typically quoted as a rate for every $1,000 of coverage. If the group plan provides different benefit levels for different classes of employees, the rate will be calculated separately for each class.
- The insurance company will usually recalculate the premium every year, to reflect changes in the group's demographics over time.

### Additional Coverage:

- A member who wishes to buy the additional coverage is usually required to provide evidence of insurability, and the underwriter will assess the member on an individual basis.

### Creditor Life Insurance:

- In most cases the life insured must provide at least basic evidence of insurability to obtain coverage. Often this means just answering a few health questions on the application.
- When creditor insurance is offered through a financial institution, the applicant must complete the application without help from the bank employee, because that employee is not an insurance agent.

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### Post-Claim Underwriting:

- This is the practice of issuing the policy with little or no underwriting and then doing a more thorough underwriting only after the life insured has died.
- Sometimes this post-claim underwriting determines that the life insured did not actually qualify for insurance, and the claim is denied.

9

# Chapter 9-1 Recommending an Ins Policy.

## Evaluate the Probability, Severity and Duration of Risks

When doing any type of insurance needs analysis, it is important to first assess the probability, severity and duration of the risk, and ensure that the client understands what this means for them. This information can be summarised in a risk assessment matrix or table.

| Risk Assessment Matrix | | |
|---|---|---|
| **Severity of Risk** | **Probability** | **Financial Impact** |
| Death | Low | High |
| Disability | Medium/high | Medium |
| Critical Illness | Medium | Medium/high |
| Incapacity requiring long-term care | Low/medium | Medium |
| Medical or dental expenses | High | Low |

**Probability of Death:**

- The agent should be able to convey the fact that the client's risk of death, although it may be slight at the current time, is still very real and needs to be addressed. The life agent should be able to explain that an individual's risk of death is based on a number of factors.

**Current Age and Gender:**

- Sometimes expressing the probability of death in terms of odds helps a client visualize how real the risk of death is.
- The life agent can compare this number to something relevant to the client (e.g. the number of students in the local high school, or the number of people working for his employer, or the number of seats at the local hockey rink), it can emphasize how real the risk of dying is.

| Odds of Dying for Males and Females[39] | | |
|---|---|---|
| Age | Odds of Dying Before Next Birthday Are 1 in... | |
| | Male | Female |
| 10 | 12,500 | 14,286 |
| 20 | 1,515 | 3,226 |
| 30 | 962 | 2,083 |
| 40 | 704 | 1,299 |
| 50 | 345 | 541 |
| 60 | 144 | 227 |
| 65 | 91 | 142 |
| 70 | 56 | 86 |
| 75 | 34 | 51 |
| 80 | 21 | 30 |
| 85 | 12 | 17 |
| 90 | 7 | 9 |
| 95 | 4 | 5 |
| 100 | 3 | 3 |

**Personal and Family Health History:**

- If the person has a history of health problems, or if his ascendant relatives have experienced diseases or conditions that carry a genetic component, then his probability of death is likely higher than the average Canadian.

**Lifestyle Risks:**

- A person's lifestyle choices can also influence his probability of death, such as Smoking, stressful job, drinking, frequent travel, dangerous hobbies. If the life agent learns that the client is exposed to these or other lifestyle risks, he can advise the client that his odds of dying are likely higher than the average Canadian.

**Financial Impact of Death:**

- The agent should help the client understand what his death will mean for his family from a financial standpoint.

**Duration of Risk:**

- The life agent also needs to determine how long the client's risk of death will be a concern from a financial standpoint.

**Other Risks:**

- The agent should consider other risks to which the client may be exposed, other than the risk of death, particularly those that could be covered under a life insurance rider or that could interfere with the ability to pay the policy premiums.

**Risk of Illness or Disability:**

- The risk of becoming disabled for a period of three months or longer is significantly higher than the risk of death for all age groups. If the client does not have adequate disability coverage or a sizeable emergency fund, he may be interested in adding a waiver of premium benefit, or a dread disease rider, to his life insurance policy. These may help him keep the policy in force if he becomes ill and is unable to earn an income.

**Risk of Unemployment:**

- The agent should try to ascertain the stability of the client's income, to ensure that he will have adequate cash flow to pay the required premiums. If his income fluctuates from year to year, he may benefit from a universal life (UL) policy that provides some flexibility in the policy's deposits.

Chapter 9 - 2

## Insurance Needs Analysis - Income Replacement Approach

- A life insurance needs analysis based on the income replacement approach would determine the value of the income that would be lost upon his death.

**Capitalization of Lost Income:**

- Under the income replacement approach, the insurance need is determined by calculating the amount of capital that would have to be invested to generate the lost income, as follows:

**Capitalized value = annual income ÷ rate of return**

(Rate of return is the net gain or loss of an investment over a specified time period, expressed as a percentage of the investment's initial cost.)

**Impact of Investment Returns, Inflation & Income Tax:**

**Accounting for Income Taxes:**

- When using an income replacement approach, lost income may be expressed either as a gross salary, or an after-tax amount, and the capitalization of income should be calculated on the same basis.

$$\textbf{After-tax rate of return} = \textbf{rate of return} \times (1 - \textbf{tax rate})$$

**Accounting for Inflation:**

- can be addressed by using an inflation-adjusted rate of return when calculating the capitalized value. The inflation-adjusted rate of return is calculated as follows:

$$\textbf{Inflation-adjusted rate of return} = \frac{(1 + \textbf{return})}{(1 + \textbf{inflation rate})} - 1$$

**Accounting for Income Taxes & Inflation Simultaneously:**

- In reality, the amount of capital needed will be affected by both income taxes and inflation. To account for both factors, the after-tax, after-inflation rate of return should be used, which is calculated as follows:

$$\textbf{After-tax, after inflation rate of return} = \frac{(1 + \textbf{after-tax return})}{(1 + \textbf{inflation rate})} - 1$$

**Weaknesses of the Income Replacement Approach:**