Module 4: Individual Life Insurance Products - Participating Policies, Dividend Options, Non-forfeiture Benefits, and Term-100 Insurance

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- policy loans

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- participating vs. non-participating policies
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- non-forfeiture benefits
- policy loans
- term-100 insurance: what it is and what are its features

What You Will Learn in this Module

To learn and understand the concepts presented in this module, you will require approximately 1 hour.

Participating vs. Non-participating Policies

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- insurance policy dividends represent a partial refund of premiums
- non-participating policies do not pay insurance policy dividends
- insurance policy dividends are not taxable

Insurance Dividend Options

5 insurance policy dividend options:

- received in cash

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- premium reduction: dividend applied to next year's premiums

Premium Reduction Option

Premium for this year	$500
Dividend	<u>($100)</u>
Premium for next year	$400

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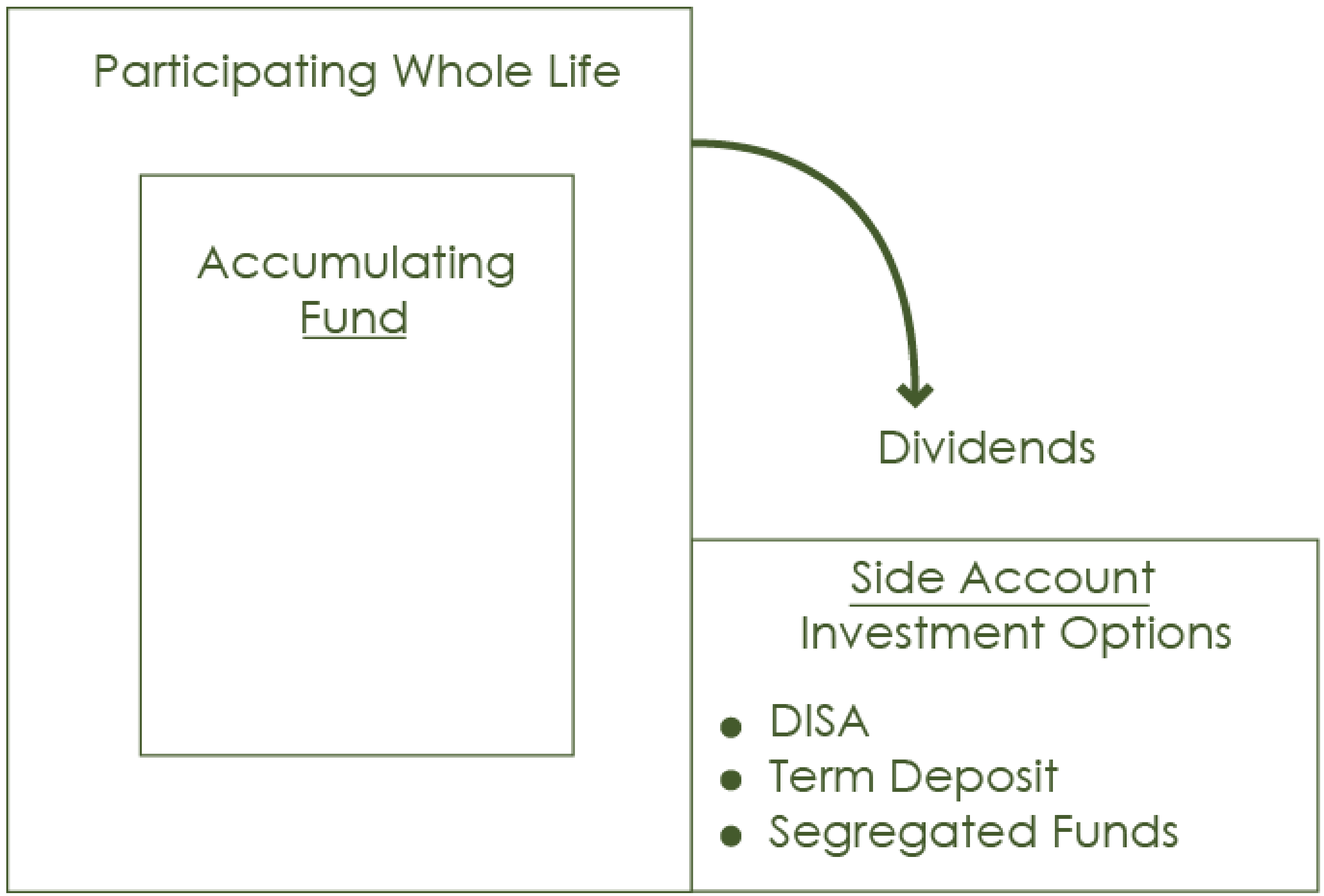
- accumulation with interest: dividend deposited to 'side' account

Accumulation with Interest Option



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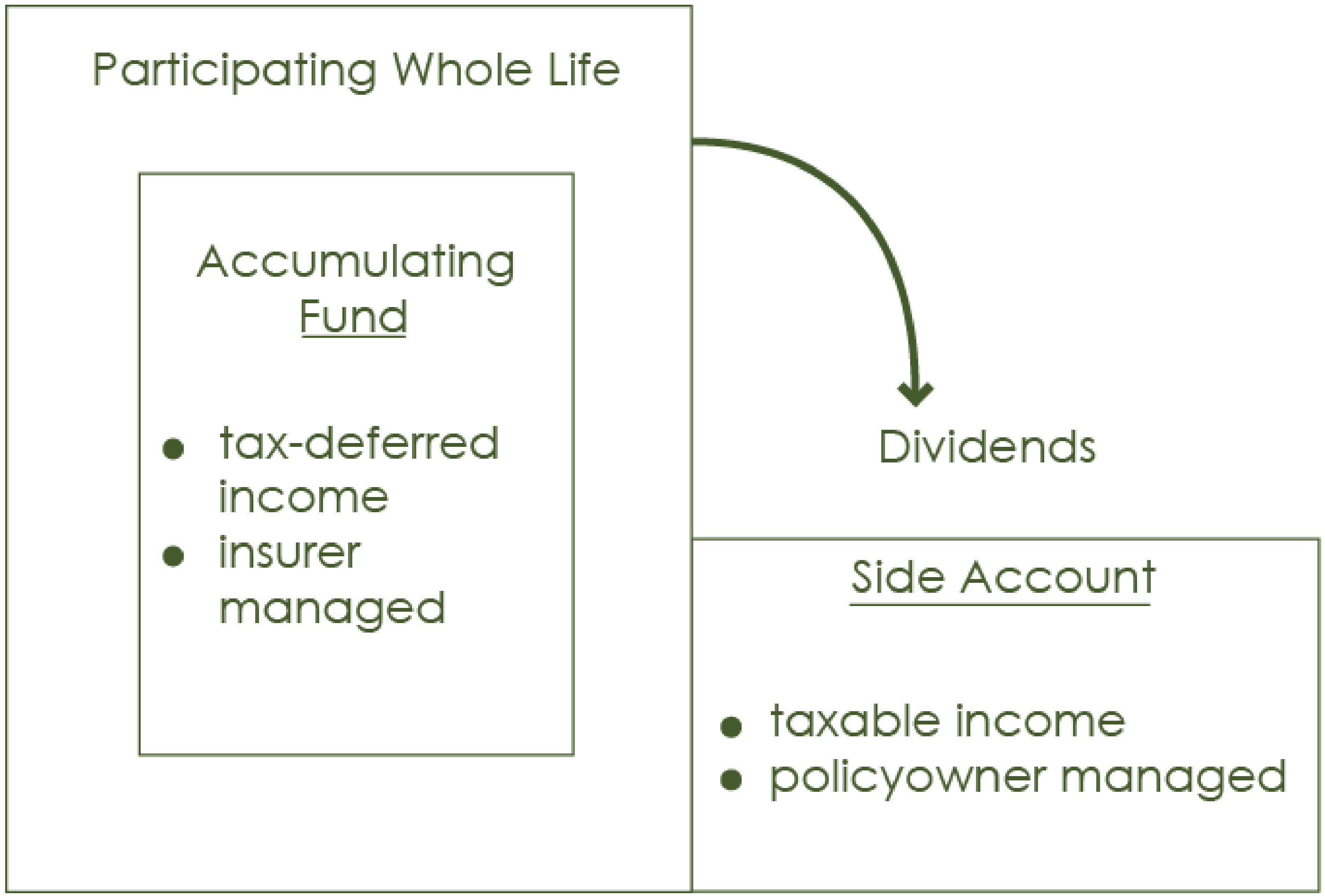

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- accumulation with interest: dividend deposited to 'side' account
- additional paid-up insurance: dividend buys paid-up additions
- additional term insurance: dividend buys one-year term insurance

Policy Loans

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- policyowners do not have to service the loan on a regular basis
- any outstanding loan balance at death will decrease the death benefit

Non-forfeiture Benefits

- benefits that are not lost when contract is terminated

Non-forfeiture Benefits

- benefits that are not lost when contract is terminated
- non-forfeiture benefits are only triggered upon termination or the lapsing of contract

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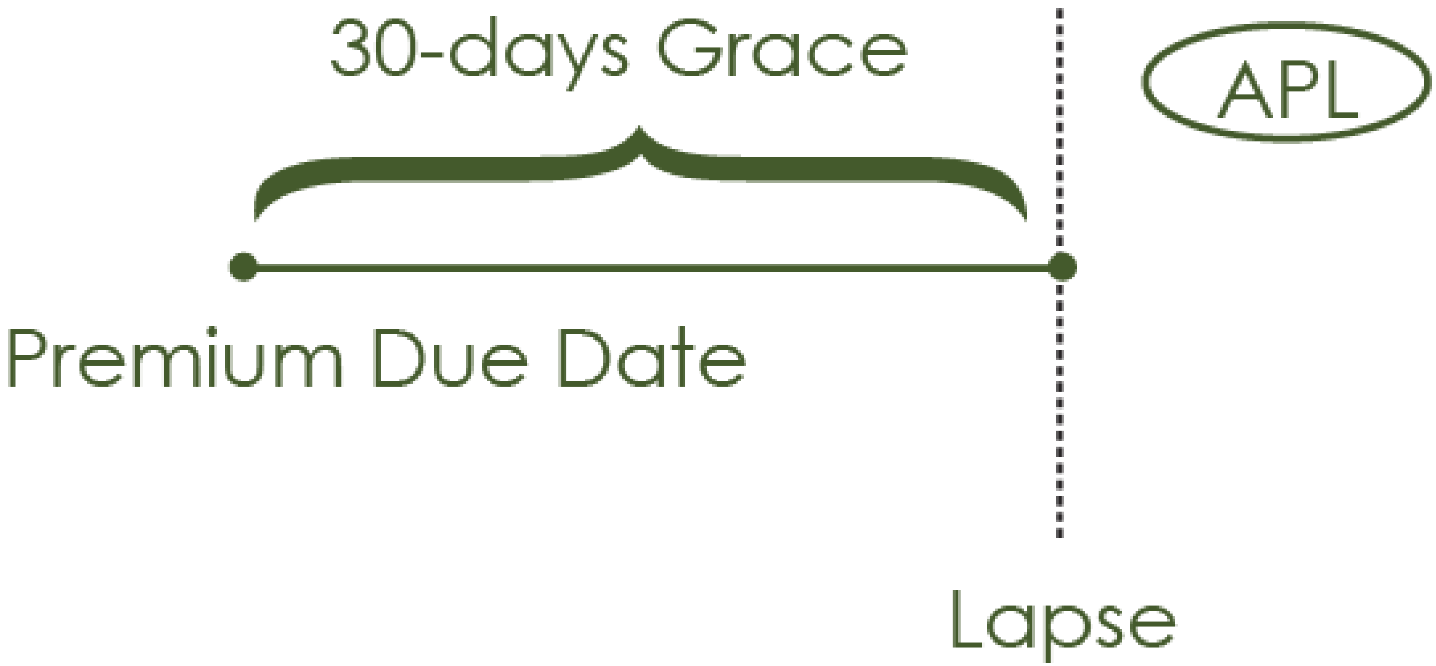
- CSV for a participating policy = guaranteed amount + variable amount
- CSV for a non-participating policy will be a guaranteed amount only

Cash Surrender Value (CSV)

Milo owns a whole life insurance policy with a $50,000 face amount of insurance coverage, a $2,100 cash surrender value and an annual premium of $1,200. If Milo decides that he no longer requires the insurance coverage, he can decline to pay the premium and request termination of the policy. The policy would be cancelled, the coverage would be voided and Milo would receive a cheque from the insurer for the policy cash surrender value of $2,100 less applicable surrender charges.

Automatic Premium Loan (APL)



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- APL prevents policy from lapsing

Automatic Premium Loan (APL)

If Milo was unable to pay the $1,200 premium due this year, but wished to retain the insurance coverage, he could elect the automatic premium loan non-forfeiture option. The insurance company would borrow $1,200 against the $2,100 cash surrender value of the policy and keep the policy in force.

Automatic Premium Loan (APL)

Next year, should Milo again not pay the annual $1,200 premium, the insurance company could again borrow against the policy (assuming that the cash surrender value had grown to at least $2,400 by then) to keep the policy in force.

Automatic Premium Loan (APL)

In future years, it would be unlikely that there would be enough cash surrender value in the policy to support additional premium loans, so the policy would lapse. Milo would be paid the net cash surrender value (net of the premium loans plus interest), if any, and the insurance coverage would be cancelled.

Automatic Premium Loan (APL)

- takes effect following expiration of grace period
- loan from CSV used to keep policy in force if premium payments are missed
- APL prevents policy from lapsing
- APL represents a loan so therefore, interest charges will apply

Reduced Paid-up Insurance

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- if premium payments are missed and grace period has expired, insurance coverage is cancelled
- coverage is replaced with a new reduced, paid-up contract based on CSV
- new contract will offer coverage between 5% and 80% of original coverage

Reduced Paid-up Insurance

~~$100,000 WL~~

5%
$5,000

80%
$80,000

Reduced Paid-up Insurance

If Milo chose not to pay the premium due this year and selected the reduced paid-up option, his insurance company advises that he could receive in exchange for his $50,000 policy a brand new whole life policy. Under the new policy, Milo would not have to pay any future premiums, but the policy's face amount of coverage would be only $12,800. In other words, the policy has been reduced by approximately 74%.

Extended Term Insurance

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- coverage is replaced with a new term insurance contract equal to 100% of original coverage

Extended Term Insurance

- if premium payments are missed and grace period has expired, permanent insurance coverage is cancelled
- coverage is replaced with a new term insurance contract equal to 100% of original coverage
- new contract will expire without value at the end of the term

Extended Term Insurance

~~$100,000 WL~~

$100,000 Term

Short

Long

Extended Term Insurance

If Milo elected the extended term option, the cash surrender value ($2,100) of his policy would be used to purchase a brand new $50,000 term insurance policy, with no future premiums payable by Milo (i.e., it is paid-up), for the next 22.6 years. At the end of that period the coverage would expire.

Term-100 Insurance

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- generally, does not offer non-forfeiture benefits or if offered, they are significantly reduced
- guaranteed level premiums
- guaranteed level death benefit

Term-100 Insurance

at age 100:

- policy will go paid-up: no further premiums required

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Example

Tomas wished to leave a $100,000 legacy to his church when he died. Rather than tie up other estate assets, Tomas took out a $100,000 term-100 policy on his own life, at a premium of $2,200 a year, naming the church as its beneficiary.