

# The Cost of Waiting



Designed for: **John Sample**  
John Sample, Male, 40 Non Smoker

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Newfoundland and Labrador

## Introduction

There are two general types of life insurance policies, term and permanent.

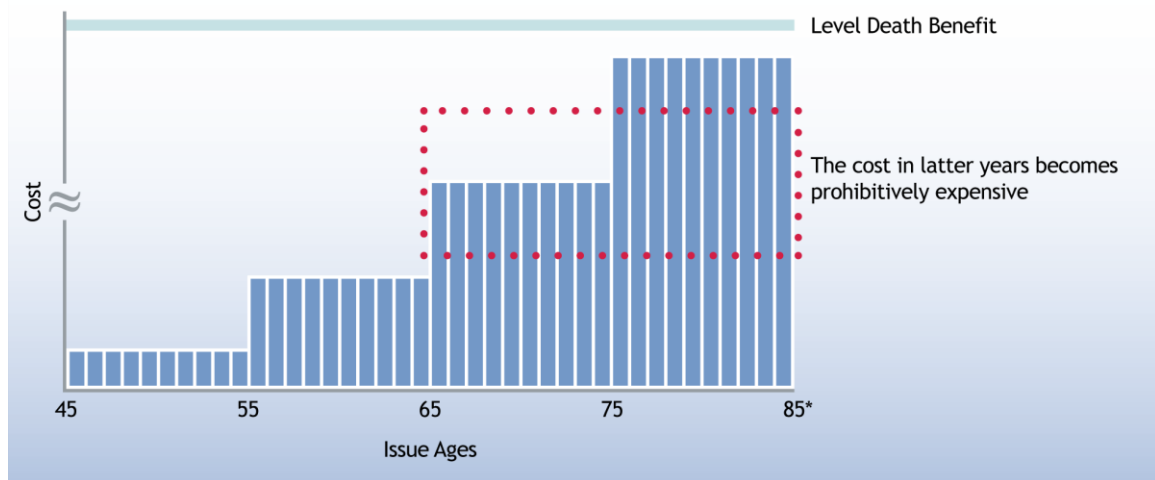
Term insurance policies provide temporary coverage and usually have a payment schedule that increases every ten years. These policies usually terminate between age 75 and 85.

Permanent insurance policies, including Term to 100 and Universal Life, offer lifetime coverage.

## Term Funding

- Term insurance has the advantage of low initial premiums, but offer very little payment flexibility and no pre-payment options.
- Term insurance provides short term protection, usually until age 75 to 85.
- Depending on the term selected, premiums will increase over the life of the policy. Typically every 10 or 20 years.
- Every premium must be paid until the end of the coverage period.
- Term policies are usually the most expensive of the funding alternatives on a long-term basis.

Ten Year Term - Example



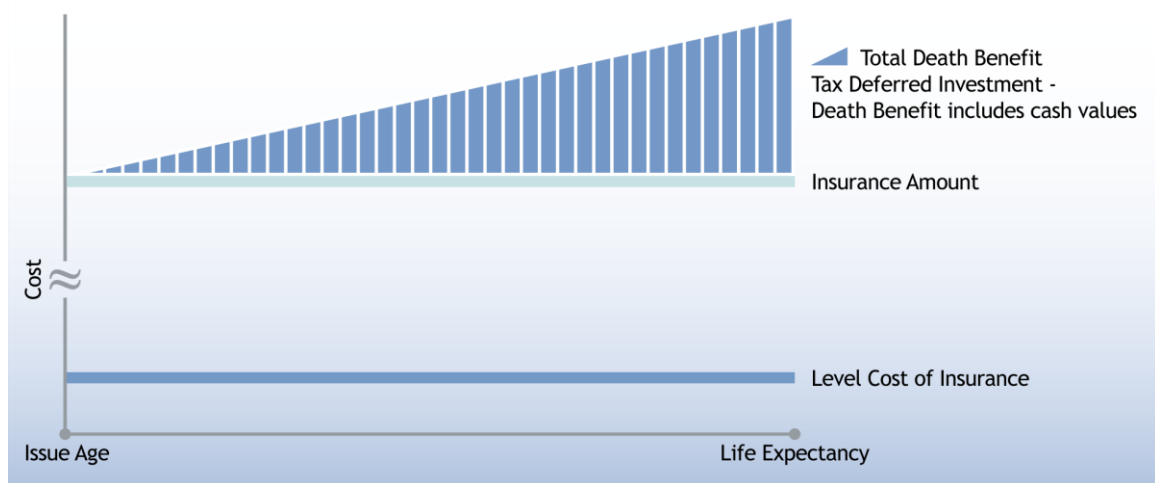
\* Coverage Terminates at Age 85

## THE COST OF WAITING

### Permanent Coverage

- Term to 100 provides coverage on a level, guaranteed cost of insurance basis until the death of the insured.
- As long as all premium payments are paid on time the insurance policy will remain in force.
- Owners of Term to 100 products must continue to pay level premiums until the death of the life insured.
- Universal life policies offer a more flexible solution including a greater range of coverage options, insurance charge options and funding options.
- Universal Life (minimum pay level cost) was developed to overcome many of the problems associated with traditional term insurance policies. Universal Life provides coverage on a level, guaranteed cost of insurance basis until the death of the insured. The key advantage of Universal Life coverage is certainty.
- Universal Life insurance policies offer the policy owner tax-exempt accumulation on the growth of the cash value inside the policy. This effectively enhances the investment yield by allowing maximum compounding investment returns during the accumulation period.
- This tax-exempt accumulation can be deferred, even until the death of the policy owner, at which time the death benefit passes totally tax-free to the estate. Withdrawal of the cash accumulation may result in the policy owner paying some tax.

Universal Life - Example



# THE COST OF WAITING

## The Cost Comparison - 1

### Assumptions

- John Sample, Male, 40 Non Smoker
- Insurance Amount: \$500,000
- Tax Rate assumed to be: 49.80 %
- Present Value rate assumed to be: 3.00 %
- All cash flows assumed to occur at beginning of year
- No termination cost factored in this cash flow analysis

This table outlines the annual cost of Permanent Insurance if converted at future ages.

Policies are converted at the attained age of the insured, resulting in greater annual costs after the conversion when compared to a permanent policy obtained today.

	BMO Insurance	Annual Cost of Permanent Insurance if converted at future ages
Year/Age	T10	
1/40	360.00	5,266.92
2/41	360.00	
3/42	360.00	
4/43	360.00	
5/44	360.00	
6/45	360.00	
7/46	360.00	
8/47	360.00	
9/48	360.00	
10/49	360.00	
11/50	2,255.00	7,824.72
12/51	2,255.00	
13/52	2,255.00	
14/53	2,255.00	
15/54	2,255.00	
16/55	2,255.00	13,282.32
17/56	2,255.00	
18/57	2,255.00	
19/58	2,255.00	
20/59	2,255.00	
21/60	5,920.00	
22/61	5,920.00	
23/62	5,920.00	
24/63	5,920.00	
25/64	5,920.00	
26/65	5,920.00	
27/66	5,920.00	
28/67	5,920.00	
29/68	5,920.00	
30/69	5,920.00	
31/70	17,795.00	22,220.52
32/71	17,795.00	
33/72	17,795.00	
34/73	17,795.00	
35/74	17,795.00	
40/79	17,795.00	
45/84	39,700.00	
50/89	-	
55/94	-	
60/99	-	

# THE COST OF WAITING

## The Cost Comparison - 2

Assumptions		T10	Convert to UL			
		BMO Insurance	Manulife	Manulife	Manulife	Manulife
Year/Age	Guaranteed	Today	Year 11	Year 21	Year 31	
• John Sample, Male, 40	1/40	360.00	5,266.92	360.00	360.00	360.00
• Non Smoker	2/41	360.00	5,266.92	360.00	360.00	360.00
• Insurance Amount: \$500,000	3/42	360.00	5,266.92	360.00	360.00	360.00
	4/43	360.00	5,266.92	360.00	360.00	360.00
• Tax Rate assumed to be: 49.80 %	5/44	360.00	5,266.92	360.00	360.00	360.00
	6/45	360.00	5,266.92	360.00	360.00	360.00
	7/46	360.00	5,266.92	360.00	360.00	360.00
• Present Value rate assumed to be: 3.00 %	8/47	360.00	5,266.92	360.00	360.00	360.00
	9/48	360.00	5,266.92	360.00	360.00	360.00
	10/49	360.00	5,266.92	360.00	360.00	360.00
• All cash flows assumed to occur at beginning of year	11/50	2,255.00	5,266.92	7,824.72	2,255.00	2,255.00
	12/51	2,255.00	5,266.92	7,824.72	2,255.00	2,255.00
	13/52	2,255.00	5,266.92	7,824.72	2,255.00	2,255.00
	14/53	2,255.00	5,266.92	7,824.72	2,255.00	2,255.00
	15/54	2,255.00	5,266.92	7,824.72	2,255.00	2,255.00
• No termination cost factored in this cash flow analysis	16/55	2,255.00	5,266.92	7,824.72	2,255.00	2,255.00
	17/56	2,255.00	5,266.92	7,824.72	2,255.00	2,255.00
	18/57	2,255.00	5,266.92	7,824.72	2,255.00	2,255.00
	19/58	2,255.00	5,266.92	7,824.72	2,255.00	2,255.00
	20/59	2,255.00	5,266.92	7,824.72	2,255.00	2,255.00
	21/60	5,920.00	5,266.92	7,824.72	13,282.32	5,920.00
	22/61	5,920.00	5,266.92	7,824.72	13,282.32	5,920.00
	23/62	5,920.00	5,266.92	7,824.72	13,282.32	5,920.00
	24/63	5,920.00	5,266.92	7,824.72	13,282.32	5,920.00
	25/64	5,920.00	5,266.92	7,824.72	13,282.32	5,920.00
	26/65	5,920.00	5,266.92	7,824.72	13,282.32	5,920.00
	27/66	5,920.00	5,266.92	7,824.72	13,282.32	5,920.00
	28/67	5,920.00	5,266.92	7,824.72	13,282.32	5,920.00
	29/68	5,920.00	5,266.92	7,824.72	13,282.32	5,920.00
	30/69	5,920.00	5,266.92	7,824.72	13,282.32	5,920.00
	31/70	17,795.00	5,266.92	7,824.72	13,282.32	22,220.52
	32/71	17,795.00	5,266.92	7,824.72	13,282.32	22,220.52
	33/72	17,795.00	5,266.92	7,824.72	13,282.32	22,220.52
	34/73	17,795.00	5,266.92	7,824.72	13,282.32	22,220.52
	35/74	17,795.00	5,266.92	7,824.72	13,282.32	22,220.52
	40/79	17,795.00	5,266.92	7,824.72	13,282.32	22,220.52
	45/84	39,700.00	5,266.92	7,824.72	13,282.32	22,220.52
	50/89	-	5,266.92	7,824.72	13,282.32	22,220.52
	55/94	-	5,266.92	7,824.72	13,282.32	22,220.52
	60/99	-	5,266.92	7,824.72	13,282.32	22,220.52
		Policy expires at age 85	Deposits continue for life	Deposits continue for life	Deposits continue for life	Deposits continue for life
After 40 Years (Age 80)		263,300.00	210,676.80	238,341.60	291,796.40	307,555.20
Total Outlay		111,117.89	125,395.96	120,706.77	130,598.22	127,137.21
NPV* of Cash Flows @ 3.00 %		-	6.16 %	6.29 %	4.71 %	3.30 %
Equivalent Pre-Tax IRR**, if death occurs at life expectancy (year 45)		-	6.16 %	6.29 %	4.71 %	3.30 %
Equivalent Pre-Tax IRR**, if death occurs at age 85		-	6.16 %	6.29 %	4.71 %	3.30 %

## The Result/Summary

Universal Life insurance provides every Canadian with beneficial tax and estate planning opportunities. Unlike Term Life insurance, Universal Life insurance is much more than a single payment upon death of the insured. The purchase of an asset like a Universal Life policy can set the stage for many opportunities that have only been afforded to the ultra wealthy in the past.

The earlier in life that an individual purchases a Universal Life policy, the greater the impact it can have as a financial instrument. Universal Life insurance can play an integral:

- Tax-Deferred Savings Plan
- Estate Enhancement
- Insured Annuity

### Some Important Notes

#### \*Net Present Value

The NPV is a sum of all future premiums paid, discounted at an appropriate market rate, to determine the total cost in today's dollars.

#### \*\*Internal Rate of Return

The IRR assumes a return based on a series of cash flows represented by the premiums paid. The illustrated values are calculated to determine what could be expected (before tax) if the same cash flow were to be invested outside the policy. Based on these calculations, this presentation assumes that the premiums are paid at the beginning of each year. Beginning of year values have been used for both the Cash Value and the Life Benefit. These figures are projected values, based on inputted criteria and should only be used for illustrative purposes.

#### Notice

This presentation discusses many elements concerning life insurance policies. Any premiums or cash values illustrated in this presentation have been calculated without verification from the illustrated insurance company. These numbers must be verified before proceeding with any purchase. The above analysis assumes that if after the conversion option of any in-force policy has expired, the client is assumed to be insurable at standard risk. This presentation is for general information purposes only. Please refer to the policy information package for further details.

This presentation includes examples that are based on the facts and assumptions noted. The illustrated values are neither estimates nor a guarantee of future performance. Actual performance will vary over time and may differ from the example illustrated.