The A-Team Presents

High Impact Training

Class 3

CBC Marketplace

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Marketplace
CANADA'S INVESTIGATIVE CONSUMER SHOW
CBCnews

IN DENIAL

Mortgage insurance: Not always a sure thing

If you have a mortgage on your home, chances are good you also have mortgage insurance. The idea is that if you should become seriously ill or die before paying off the mortgage, the coverage will kick in and pay it off for you. It's meant to offer peace of mind and to reassure you that your family will be able to stay in your home if anything should happen to you.

The reality falls a little short of that. In this week's Marketplace investigation, we meet two families who bought the coverage and thought they were protected, only to have their claims denied when they became sick or died. In each case, the insurer said the applicant person had lied on their initial application form.

It turns out a routine test at the doctor could be reason to deny your claim, if you don't mention it. Had a cuff inflated on your bicep? That counts as being tested for high blood pressure.

As Erica Johnson reports, the bank staffers selling mortgage insurance are unlicensed and rarely trained to explain the details and legalities of those insurance products. The result is people who pay premiums and think they are covered, only to realize later that they are not.

Mortgage life insurance vs. traditional individual life insurance

According to insurance and financial experts we spoke with, an individual life insurance policy may be preferable to a credit insurance policy. Here are the key differences between the two types of insurance.

CREDIT MORTGAGE INSURANCE	INDIVIDUAL LIFE INSURANCE
Post-Claim Underwriting: Unlike individual life insurance, credit insurance sold through the bank is usually not underwritten until a claim is made. This means the insurance company may determine you are not eligible for a payout even though you have been paying premiums. For instance, a claim may be denied because an investigation of your medical records indicates you once had high blood pressure or high cholesterol that you did not disclose.	**Underwriting:** When you apply for individual insurance through a licensed insurance broker your medical history will be examined before a policy is issued and you start paying premiums. The insurance broker will ask detailed questions and may arrange for a nurse to conduct a physical. You will know upfront whether or not you are covered.
Standard premiums: The mortgage insurance policy sold at the bank is a one size fits all policy. This means everyone who qualifies is considered to be of equal risk. The premiums you pay on mortgage insurance are a fixed amount based on your age and the amount of your mortgage. There is no discount for non smokers or for women. The premium does not reduce as the mortgage is paid down.	**Individual premiums:** With an individual life insurance policy, the premiums you pay are based on your individual risk. Your health history and exam will help to determine how high or low your premiums are. Non-smokers and women pay a lower premium. The face amount of the coverage remains level.
Decreasing payout: The Mortgage insurance sold at the bank covers a decreasing amount. While your premiums remain the same the amount left on your mortgage decreases. Mortgage insurance will only pay off the balance of your mortgage when you make a claim.	**Fixed payout:** When you purchase an individual insurance policy you pay premiums for a pre-determined amount of coverage. Therefore, if you pay premiums for $100,000 of coverage your beneficiary will receive $100,000.
The bank gets the payout: Mortgage insurance is designed to pay off the bank if anything happens to you. Therefore the insurance payout will be made directly to the bank.	**You choose who gets the payout:** With an individual policy you are free to choose the beneficiary or beneficiaries. If something happens to you, it is up to your beneficiaries to decide what to do with the insurance proceeds.

Term Insurance Carryback

Assuming pre-agreement has been obtained, refer back to that page of your notes from the info-gather and review the insurance amount obtained:

Bob and Mary generally we recommend someone to have at least 10 to 20 times their annual income in life insurance coverage. So let's take a look at your situation. If you earn $80,000/yr that would be a minimum of $800,000 in coverage.

10x - 20x
$80k/yr x 10 = $800k

1) Debt
2) Income

$800k
- $400k
$400k @ 5% = $20k/yr

Bob, if something terrible happened to you or Mary, and there was a sum of money paid out tax free to the surviving spouse, the first thing its design to do is pay off any debt, and the second is to replace your income. So, if you have $400,000 in debt that would leave about $400,000 for income replacement purposes.

Usually that money would be invested in a conservative portfolio designed to generate income. That type of portfolio would possibly generate a 5% return. So 5% of $400,000 would generate an income of about $20,000/yr. So having $800,000 in coverage would pay off your debts and replace about $20,000/yr in income.

Does that make sense?

So here's what that would look like for you. (Show illustration. Highlight name, 20 year, amount, monthly cost)

So, based on your overall situation, Bob and Mary, my recommendation is that we apply for this term insurance to see if you can qualify, and then when your cashflow situation improves we can explore the idea of converting it to a permanent plan.

Does that sound good to you guys?

Applicants

CLIENT 1 - Male

Tobacco use: No

Birth Date: Not provided

Insurance Age: 40 years

Province: Alberta

Marginal tax rate: 48.00%

IMPORTANT NOTICE

The information found on this page corresponds to the personal data of the applicants, the insureds, as well as the requested coverages. Since this data is used for underwriting purposes, it is very important to check its accuracy and inform your advisor of any correction to be made.

Insureds

CLIENT 1 - Male

Tobacco use: No

Birth Date: Not provided

Insurance Age: 40 years

Coverage Type: Individual

Insured Person Coverages	Amount	Monthly premium
Pick-A-Term 20 years	$500,000.00	$46.80
- Premium payment period before renewal: 20 years		
- Maximum period including renewals: For life		
- Projected period as per illustration: For life		
Total monthly premium		$46.80

Summary of coverages

Premiums Details

First-year monthly premiums	
Premium (excluding fees)	$46.80
Policy fees	$5.40
Total premium (1st year)	**$52.20**

How to Recommend a Child Rider

After going through the term insurance carryback, you may choose to explain how a child rider works:

> On the policy we've also got a child rider, which covers your kids for $_____(10-30k), I know it's something we never want to think about with kids, however it gives them coverage incase something did happen and also guarantees that your child can have life insurance for the rest of their life, regardless of any potential health issues that could come up. However much they get now, they can automatically get up to 5 times that much coverage later on. Does that make sense to you?

Layered Term Insurance Strategy

You may choose to "layer" your client's term insurance. One reason to do this would be that if your client is older they may not be able to afford the full amount of insurance they need on a term 20 or a term 30. Layering means splitting part of the coverage to term 10 or 20. This will make it much more affordable.

Example:

For a 55 year old male non-smoker it would be **$266** a month to get a term 20 for $500,000.

If you split the coverage into $250,000 term 20 and $250,000 term 10 it lowers the monthly amount to **$198**.

Insurance Tax Shelter Carryback

1. Review Pillars of Wealth – Focus On ITS:

So Bob let's go back to the pillars of wealth. Let's do a quick review. The Insurance Tax Shelter (ITS) is where you protect your family and have a tax sheltered investment account.

Review pre-agreement on **(refer back to notes from info-gather):**

1. Amount of insurance
2. Type of insurance

Now the last time we talked about insurance we felt that $800,000 was a good number for you right?

2. Basics of How an Insurance Tax Shelter Works (using #'s based on their plan)

Now let's look at the basics of how an Insurance Tax Shelter works:

You have an insurance side and an investment side. (Draw chart below as you talk. The amounts can be found on the second page of the illustration. The annual charges divided by 12 will be their monthly cost for insurance)

	Ins	Inv
$100	$49	$51
$100	$49	$51
$100	$49	$51

How to close these policies

1. Show term option first
2. Explain basics of ITS (listed above)
3. Show UL illustration
4. Highlight cash value at the end of the length of term and 65
5. Show summary/comparison (listed below)

So based on your overall plan, if you have $100 a month, then $49 would go to the insurance and $51 would go to the investment side. The next month same thing happens, $100 goes in, $49 covers the insurance and $51 goes to the investment… and that happens month after month. Does that make sense?

So you are not just using this plan for insurance purposes…. you're also using it as an investment vehicle.

So WHY would you do THAT? Well, because:

1. Tax free growth
2. Tax Free Income in retirement (when set up properly)
3. Tax Free to family when you pass on (unlike an RRSP)

So Bob, does this make sense? Any questions come up?

Use on larger contributions in policy or very technical

3. Accessing the Money

So Bob there are a few ways you could access the money. You could take it out in cash, but you'll pay some tax. So let's take a look at how you access the money tax free.

Let's say you have $500k in your plan when you retire, now what you do is use this policy as collateral for a Line of Credit.

Now depending on what investments you have inside your policy, a bank will lend you up to 90% of the amount you have in your plan at a rate of around prime plus one (today).

So why would you do this? 3 reasons:

1. Tax Free Income

When you borrow money, you don't pay tax. So Bob, when you borrowed money in the past, like a mortgage or car loan or something like that, did you ever pay tax?

No.

Same here. So you don't pay any income tax on any of the money.

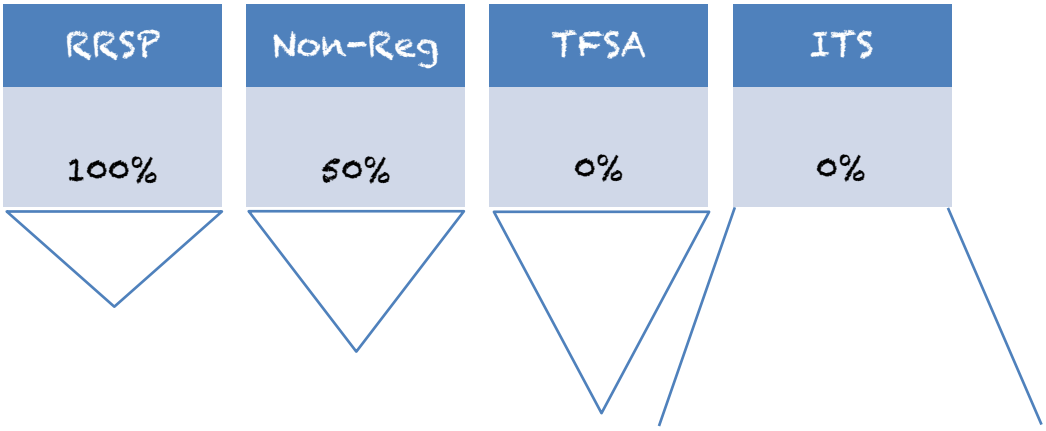
2. Don't Pay the Interest

Second reason, the bank will capitalize the interest, which means you don't have to pay interest while you're living, your death benefit would pay for it when you pass on!

3. Not Attacking the Principle

When you borrow against the policy, you're not attacking the principle. So if you're not physically removing the money, but instead borrowing against it, what's the full amount able to keep doing inside the policy? (hand gesturing) **Growing right?**

So let's compare the difference between having an ITS vs other investments:



With an RRSP, if you keep pulling money out and it's getting fully taxed, it eventually runs out. A non-registered account is taxed less so it last longer, but still eventually runs out. Even a TFSA, you don't pay any tax to withdraw money, but if you keep pulling money out eventually it will run out. With an insurance tax shelter, because you never physically pull the money out of the investment, it just keeps growing and growing.

So can you see how an ITS would outlast the other areas in retirement?

Do you see why wealthy people use this concept?

Start going through the illustration.

4. Go Over The UL Illustration

Explain: Insurance Coverage Summary Page

Based on your overall plan, (the money we freed up, what you said you had to work with etc.) **I put together an illustration to show you what $100 per month could look like in the ITS.**

Explain: Coverage

So Bob you have $500,000 in coverage. $100,000 is permanent coverage, and $400,000 is a 20 year term.

So as I explained before, every time you deposit $100 into your plan, roughly $49 covers the insurance and the rest goes to your investment account. Does that make sense?

Based on this illustration you have $100 a month going in for 30 years.

For this illustration I used a return of 7%. I'd rather under-promise and over-deliver. Based on past history we believe there is a good opportunity your return will be higher. (If necessary, refer to the fund that you are recommending/appropriate materials)

Explain: Policy Projected values

There is a few important things to notice in here, one is if you look at how much you're putting in per year, $1200 we have you paying until 65 and then no longer paying into it. Then there is your accumulation fund which is what your investment is worth and the total surrender value is what you can access. If you notice the first few years, you cannot access all money in it, so the downside to these policies is that they are not good for short term savings. Once you're in year 10, you can access all of the money, so we want to make sure you're using this for long term savings only. Does that make sense to you?

Now let's look at this at 25 years, you would have $43,230 in your investment and by the time you are 65 you would have about $67,019 in it.

Now summarize to close:

So basically, if we look at the term option, over the 25 years, you would end up paying **Example:** ($52.20/m X 12 x 20 years) $12,528. Hopefully, we didn't need to use the insurance(haha), and at the end you would get nothing back.

If we look at the combination policy of term and permanent, you would end up paying **Example:** ($100/m x 12 x 25 years) **$30,000** and at the end of 25 years, you would get **$43,000 back(example). And then by the time you are 65, you would have contributed $36,000 and get $67,000 back)**

So based on that, which makes more sense to you guys the term only or the combination policy?

Perfect, my recommendation is we apply for the policy to see if you qualify, does that sound good to you?

then start on online application

Intangible

Make sure to use their exact term monthly amounts and exact UL amounts / cash value when showing them the number

iA Financial Group

EVO Version 2.6

Summary of coverages

Prepared By

BEN SPANGL

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Applicants

JOHN SMITH - Male

Tobacco use:	No
Birth Date:	January 1, 1986
Insurance Age:	35 years

Province: Alberta

Marginal tax rate: 48.00%

IMPORTANT NOTICE

The information found on this page corresponds to the personal data of the applicants, the insureds, as well as the requested coverages. Since this data is used for underwriting purposes, it is very important to check its accuracy and inform your advisor of any correction to be made.

Death Benefit: Face amount only

Automatic optimization of the face amount (AOFA): Active

Insureds

JOHN SMITH - Male

Tobacco use:	No
Birth Date:	January 1, 1986
Insurance Age:	35 years

Coverage Type: Individual

iA Financial Group

EVO Version 2.6

Summary of coverages

Insured Person Coverages	Amount	Monthly premium
Genesis 9 - Universal life, Yearly Renewable Term (YRT)	$100,000.00	$53.90
- Duration of premium payment: 55 years		
- Duration of protection: For life		
Term 20 years	$400,000.00	$27.00
- Premium payment period before renewal: 20 years		
- Maximum period including renewals: 50 years		
- Projected period as per illustration: 20 years		
Total monthly premium		$80.90

Premiums Details

First-year monthly premiums	
Minimum premium	$49.10
Reference premium	$80.90
Maximum premium	$1,747.53
Selected premium for the first year of projection	**$100.00**

Monthly Premium deposits[1]	Period	Amount ($)
Specify	From year 1	100.00
Specify	From year 31	0.00

Note:

(1) Corresponds to the level of premiums you wish to pay into your contract. You can consult the annual amounts in the Policy Projected Values section of the report.

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Policy Projected Values

Values Based on your Investment Assumptions

Year	Age	Annual Premiums Paid	Weighted Average Yield (incl. bonus) (%)	Accumulation Fund	Total Surrender Value	Shuttle Fund (Before Taxes)	Death Benefit Insured 1	After-tax Withdrawals	Extended Insurance[1]
1	36	1,200.00	7.80	618	0	0	500,000	0	1
2	37	1,200.00	7.80	1,281	0	0	500,000	0	2
3	38	1,200.00	7.80	1,994	927	0	500,000	0	3
4	39	1,200.00	7.80	2,760	1,725	0	500,000	0	5
5	40	1,200.00	7.80	3,583	2,548	0	500,000	0	7
6	41	1,200.00	7.80	4,468	3,498	0	500,000	0	9
7	42	1,200.00	7.80	5,417	4,512	0	500,000	0	12
8	43	1,200.00	7.80	6,437	5,661	0	500,000	0	16
9	44	1,200.00	7.80	7,531	6,949	0	500,000	0	20
10	45	1,200.00	7.80	8,705	8,705	0	500,000	0	23
11	46	1,200.00	7.80	9,966	9,966	0	500,000	0	25
12	47	1,200.00	7.80	11,320	11,320	0	500,000	0	27
13	48	1,200.00	7.80	12,775	12,775	0	500,000	0	28
14	49	1,200.00	7.80	14,338	14,338	0	500,000	0	29
15	50	1,200.00	7.80	16,018	16,018	0	500,000	0	30
16	51	1,200.00	7.80	17,827	17,827	0	500,000	0	31
17	52	1,200.00	7.80	19,774	19,774	0	500,000	0	31
18	53	1,200.00	7.80	21,860	21,860	0	500,000	0	32
19	54	1,200.00	7.80	24,096	24,096	0	500,000	0	32
20	55	1,200.00	7.80	26,492	26,492	0	500,000	0	33
21	56	1,200.00	7.80	29,386	29,386	0	100,000	0	33
22	57	1,200.00	7.80	32,488	32,488	0	100,000	0	115
23	58	1,200.00	7.80	35,814	35,814	0	100,000	0	115
24	59	1,200.00	7.80	39,389	39,389	0	100,000	0	115
25	60	1,200.00	7.80	43,230	43,230	0	100,000	0	115
26	61	1,200.00	7.80	47,360	47,360	0	100,000	0	115
27	62	1,200.00	7.80	51,803	51,803	0	100,000	0	115
28	63	1,200.00	7.80	56,570	56,570	0	102,475	0	115
29	64	1,200.00	7.80	61,637	61,637	0	108,759	0	115
30	65	1,200.00	7.80	67,019	67,019	0	115,238	0	115
31	66	0.00	7.80	71,513	71,513	0	119,885	0	115
32	67	0.00	7.80	76,304	76,304	0	124,769	0	115
33	68	0.00	7.80	81,373	81,373	0	129,851	0	115
34	69	0.00	7.80	86,727	86,727	0	135,131	0	115
35	70	0.00	7.80	92,372	92,372	0	140,609	0	115
36	71	0.00	7.80	98,310	98,310	0	146,280	0	115
37	72	0.00	7.80	104,619	104,619	0	152,250	0	115
38	73	0.00	7.80	111,253	111,253	0	158,442	0	115

5. How to Ask for the Cheque for Temporary Insurance

So Bob, the way this application works, is the insurance company is going to withdraw the first premium right away and you will get temporarily covered (Assuming you will be approved). So, they will take the initial premium now and when your policy is approved they will apply that to your first month's premium. This means that between now and your approval you will basically get free coverage.

Does that make sense?

NOTE: Attempt to get a cheque every time, but do not argue with the client if they just don't want to apply with one.

Delivering a Rated Policy

Still congratulate them on the phone for being approved and set a time for delivery. When you get together with them say:

When we apply for an insurance policy there are three things that can happen:

1. **It can be declined**
   Based on a health issue of some kind.
2. **It can be approved with a rating**
   Meaning you can still get the policy but based on something to do with health or family history you will have to pay a bit more money**.**
3. **It can be approved standard**

In your case it has been approved with a rating so your cost will be_____. I always recommend people take a rated policy because if they don't take this one they may never get another one and it's good that you at least got the policy since a lot of people get flat out declined.

You may need to bring an alternate illustration to lower coverage and cost. (ie: change part of coverage from 20-year term to 10-year term / reduce part of the coverage.)

Critical Illness Carryback

(Go through this part for all companies)

Imagine you were to get a serious illness, now you've got to focus on getting better and finding a way to keep working and pay all your bills. What do you think the financial stress is going to do?

"It would make it worse"

Ya, it wouldn't be good. So the way critical illness insurance works, there are 25 conditions it covers and if you were to get one of the illnesses the insurance company is going to pay you a one-time, lump sum, tax-free payout that you can use for whatever you want:

- If there's a treatment in another country
- If you want to take time off work to focus on getting better,
- If you find out you only have 6 months to live and just want to travel the world
- You can literally use the money for whatever you want.

Stand Alone Policy with Return of Premium (Equitable Life or Industrial Alliance)

If you were to have a car insurance where you pay a little bit more for it, but if you never get into an accident you got all your money back, you'd get that insurance, wouldn't you?

This works the same way. After a certain period of time **(depending on company),** if you never get an illness, you can choose to surrender your policy and get back all the money you paid into it. So your worst case scenario is you get sick and you get the payout. Best case scenario – you never get sick and never have to use the insurance, and you will get every dollar back. Does that make sense?

So in your case, I put together an illustration for ($50k, 100k, whatever the amount is) The reason I chose that amount is you want to have at least one to two years of income if you were to get sick. This policy will cover you until age___as long as you keep it in force.

Any questions on that?

"No"

Great, my recommendation is we apply for the policy to see if you get approved, does that make sense?

Critical Illness Rider (Ivari)

(Add this part into explaining the UL Illustration)

So in your case, I put together an illustration for ($50k, 100k, whatever the amount is) The reason I chose that amount is you want to have at least one to two years of income if you were to get sick. This policy will cover you until age 65 **(or the length of term you chose)**

Disability Carryback

IA – Accijet / Superior Disability

Target Market for this product: Self-employed, business owners, people that don't have disability coverage though work, or only have a long term disability plan

Disability Insurance is important because your ability to earn income is your number one asset. If you got hurt at work, and you couldn't earn an income would you be able to sustain your lifestyle?

Here's how it works. The maximum coverage you can get is_____. You need to wait 30 days before you can get the benefit. It covers you for 24 hours, so it covers you if you get hurt at work, or on the ski hill, anywhere.
Since you don't have any in place, my recommendation is we apply. Does that make sense?

"WCB will cover me"
What happens if you get hurt outside of work?

Note: Explain how WCB will not cover them if they get hurt outside of work. Share any stories you may know about it not paying out, and recommend that they still have a personal policy.