

## Transcript

### Slide 1 - title

**Michael Stinchcombe:** Hi everyone, Welcome to our presentation What's new with Canada Life's additional deposit option, Creating opportunities with your clients. Evan and I are really excited to be here today to expand on last year's 'Introductory ADO presentation'.

### Slide 2 – Presenters: Michael Stinchcombe

**Michael Stinchcombe:** For those of you who don't know me, my name is Mike Stinchcombe. I am an Actuary and Director of Product and Large-Case Support here at Canada Life. In my role, I provide actuarial expertise to all our wholesaling partners, and top advisors across Canada. I travel around Canada (in non-COVID times) to present at industry meetings and help with your new sale product/illustration questions.

### Slide 3 – Presenters: Evan Connell

**Evan Connell:** Thanks Mike! Good morning/afternoon everyone! I also wanted to thank you for taking the time to sit in on our call today. We're thrilled to be able to share some of the enhancements we've made to our ADO offering over the last few months. Over the last 13 years I've worked in various roles with Canada Life. Ranging from a wholesaler working directly with advisors like you to most recently working on the Sales Enablement team who is focused on creating sales strategies/tools/presentations that you can use with your clients to drive discussions around insurance planning. Back to you Mike.

### Slide 4 - Agenda

**Michael Stinchcombe:** On our agenda today, we will cover What is an ADO, the different enhancements that Canada Life have recently come out with and how they will appeal to your clients. We will also go through a case study to help you get a better sense of how they work and give you some resources that give you more information on these enhancements.

### Slide 5 – What is the additional deposit option (ADO)?

**Michael Stinchcombe:** So, ADO or the additional deposit option is an additional benefit that a client can add to their policy. Clients can put additional premium payments between a minimum and a maximum amount and those deposits are used immediately to buy paid-up additional insurance coverage.

### Slide 6 – Why would a client add ADO to their policy?

**Michael Stinchcombe:** So why would your client add ADO to their policy? There are many great reasons which include:

- **Larger payout** – Since ADOs immediately buy paid-up additional coverage, clients can grow their death benefit which may help them leave a larger legacy.
- **Increased cash value:** ADO gives higher cash values, compared to a policy without ADO. If clients need access to money, they can cancel some of their paid-up additional coverage for cash or take a policy loan. Clients may have to report taxable income on any withdrawal or borrowed amounts.
- **Higher internal rate of return (IRR):** ADO may give clients a higher return (IRR) on their premium payments, including an earlier break-even point (when the policy's total cash value equals total premiums paid).

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- **Premium flexibility:** ADO offers an unlimited start-and-stop period. However, we may limit the amount a client may pay in future years, if they stop their payments. Another great feature of ADO is clients can continue to make ADO payments after the premium payment duration ends.
- **Premium offset flexibility:** Clients may be able to stop out-of-pocket premium payments sooner using premium offset. ADO can also reduce sensitivity to future dividend scale reductions, which means less risk of premium offset date delay. However, if the policy is on premium offset, the client won't be able to make ADO payments. If premium offset is terminated, the client can resume their ADO payments.

## Slide 7 – Unlimited start and stop period flexibility

**Michael Stinchcombe:** Since launching the ADO enhancements, we have made another enhancement to the unlimited start-and-stop period to give your clients even more flexibility.

## Slide 8 – ADO unlimited start-and-stop period flexibility

**Michael Stinchcombe:** Since July 26, clients who add ADO to eligible policies issued Jan. 1, 2017, or later can start and stop ADO payments anytime they want, thanks to the new unlimited ADO start-and-stop period. Now we've changed the rules so that starting in the fourth year after ADO is added to a policy, we will use the maximum ADO paid over the last four years plus \$100,000 until the maximum yearly ADO premium amount is once again reached. This is a change where we previously considered the prior year's ADO payment plus \$100,000 to determine the maximum. These limitations may change in the future.

Because ADO purchases additional insurance coverage, the added flexibility further aligns with your clients' changing insurance needs – for life as they know it – and gives you a more competitive feature to offer clients.

## Slide 9 – ADO unlimited start-and-stop period flexibility

**Michael Stinchcombe:** These examples demonstrate the flexibility clients having in making ADO payments, once approved – up to their initial maximum yearly ADO premium payment. Canada Life may limit the amount of ADO premium a client pays, below the maximum amount specified in the client's policy, in accordance with our rules at the time or as otherwise set out in the policy.

As of July 26, 2021, for ADO added on that date or later to a new policy, or to an in-force policy issued Jan. 1, 2017, or later, payment amount may be limited. This will depend on the maximum amount specified, past payment amounts made, the amount proposed to be made, and the timing of ADO premium starts and stops.

ADO premium payments cannot be made if there is a policy loan, or if premium offset (Premium Vacation) applies.

## Slide 10 – ADO unlimited start-and-stop period changes

**Michael Stinchcombe:** As you can see there have been some changes to our start/stop rules. What hasn't changed is that ADO payments can continue after the limited payment premium product period of 10 or 20 years ends, and you still can't make ADO payments when your policy is on premium offset.

**Evan Connell:** This sounds fantastic. Can you tell everyone why you can't make ADO payments when there's a policy loan?

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**Michael Stinchcombe:** This restriction is in place to avoid anti-selection and mitigate risk to the participating account. As well, the primary purpose of the ADO benefit is to enhance a policy's death benefit over its original amount at issue, whereas policy loans have the opposite effect.

**Evan Connell:** You mentioned a maximum yearly ADO premium amount can you explain what it is and how it would work?

**Michael Stinchcombe:** I'll show a numerical example in the next few slides.

## Slide 11 - What can limit the maximum yearly ADO premium my client can pay each year?

**Michael Stinchcombe:** If a client has made partial payments or missed a payment throughout a four-year period, we may limit future payment amounts. Limits will be based on the maximum ADO premium amount paid over the previous four-year period plus \$100,000 until the amount returns to the ADO maximum for which they were approved. This is a change from when we reviewed only one year to help determine the maximum. These limitations may change in the future.

For a client with a maximum yearly ADO premium amount of \$100,000 or less, for which the client was underwritten, our four-year reviews will not affect the ADO premium payments we'll accept. This is because the "lesser of" amount, as determined above, will never be less than the amount for which the client was underwritten.

At each ADO rider anniversary after the fourth rider year, we'll review the previous four-year period. From that review we'll determine the highest total ADO premium payment made over the course of any single rider year within that four-year period (whether made as single payment or as several payments over the course of the year).

Following our review, the total maximum ADO premium amount we'll accept over the course of the current ADO rider year will be determined. We'll accept an amount up to the lesser of:

The maximum yearly ADO premium amount, for which the client was underwritten. The highest total ADO premium payment made over the course of a single rider year within the four rider years reviewed (see above), plus \$100,000. If no ADO premium payments were made during the four rider years reviewed, the highest total ADO amount is \$0 plus \$100,000.

Payments must be accepted and remain accepted by us to be considered valid. Limitation rules may change in the future. Maintaining a policy's tax-exempt status or other factors may independently require us to limit ADO premium payment amounts we'll accept.

## Slide 12 – Initial maximum yearly ADO premium amount \$175,000 at issue, which is equal to max available for tax texting

**Michael Stinchcombe:** Here's the numerical example that show the first 5 years the maximum yearly ADO premium remains unchanged. The available maximum yearly ADO premium for policy year 6 is limited to \$100,000 based on missing the ADO payments in the previous 4 years (policy years 2-5).

When looking at this example, we look at the previous 4 years of ADO payments. The maximum paid in that 4 year period +100K is the new amount that you can pay in the next year, as long as it is under the ADO you were initially u/w for, or you are capped at that amount.

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If the amount that was u/w was \$90K, then the limit every year would be 90K because no matter what you pay in a four year period, 0 +100K would be over what is u/w for.

The initial maximum yearly ADO premium amount may be decreased in any given year in an effort to maintain a policy's tax-exempt status. The above example is for illustrative purposes only. Situations will vary according to specific circumstances.

## Slide 13 – Which clients benefit from the unlimited stop-and-start period?

**Michael Stinchcombe:** By adding ADO at the point of issue, you can provide your clients, whether they be business owners or in the family market, with more flexibility to meet their changing cash flow needs.

This unlimited stop/start flexibility can be particularly effective for clients who have/will have the cash flow in the future to fully fund their policy to maximize tax-advantaged growth.

Overall, this enhancement provides any client with the most funding flexibility available on our participating shelf today.

## Slide 14 – Increased ADO amounts for new sales with term riders

Michael Stinchcombe: The next ADO enhancement is Increased ADO amounts for new sales with term riders. This enhancement is available for new sales for policies with a basic annual premium of \$25K or greater. A special quote illustration is needed for this type of enhancement.

Before the first policy anniversary we'll allow a 12-month exchange, and we'll factor the term rider coverage into the ADO maximum. After the first year, a term rider can still be added through a policy change, but the ADO amount will not change.

## Slide 15 - Increased ADO amounts for new sales with term riders

**Michael Stinchcombe:** When a term rider is added to your par policy, we will now take that rider into account into the ADO maximum calculation. In some cases, this may increase your ADO maximum on your policy. However, even though a higher ADO maximum may be available, Canada Life will not let you illustrate less than 5 out of pocket payments, and your clients must be underwritten for the entire policy including the additional ADO amount.

## Slide 16 – Increased ADO amounts for new sales with term riders

**Michael Stinchcombe:** To obtain one of these quotes, talk to your local wholesaler. These quotes are only available on cases where the annual base premium is 25K or more. All illustrations are tax tested, and we make sure that they pass tax testing at the primary and reduced dividend scale scenarios. We also illustrate the term rider terminating at the end of its initial term. However, it is important that your client realizes that the term rider will automatically renew at the end of the term unless it is cancelled by the client – if the client no longer requires the additional insurance coverage provided by the term rider.

Send request to your wholesaler who will provide you with a list of all required information.

**Evan Connell:** Why did we decide on a \$25,000 minimum base premium?

**Michael Stinchcombe:** Generally, we see this as a solution in the large case market which is why we set this threshold.

## Slide 17 – Increased ADO amounts for new sales with term riders – examples

**Michael Stinchcombe:** All examples are based on a new standard-rated issue with full underwriting

Example 1 – Our current max ADO available on \$3 million base

Example 2 – Current max ADO available on \$3 million base with \$1 million T-10 rider – no change in available ADO room

Example 3 – New process requesting max ADO available on \$3 million with \$1 million T-10 rider – max ADO available \$183,258

Canada Life will not illustrate fewer than five out-of-pocket payments.

So for this example say you have a client wanting to purchase a Wealth Achiever Plus pay to age 100 policy with \$3 million of base coverage. Right now, the ADO maximum would be \$120,030.

## Slide 18 – Increased ADO amounts for new sales with term riders – examples

**Michael Stinchcombe:** All examples based on a new standard-rated issue with full underwriting

Example 1 – Our current max ADO available on \$3 million base

Example 2 – Current max ADO available on \$3 million base with \$1 million T-10 rider – no change in available ADO room

Example 3 – New process requesting max ADO available on \$3 million with \$1 million T-10 rider – max ADO available \$183,258

Canada Life will not illustrate fewer than five out-of-pocket payments. Before if you added a term rider we wouldn't change your ADO premium.

## Slide 19 – Increased ADO amounts for new sales with term riders – examples

**Michael Stinchcombe:** All examples based on a new standard-rated issue with full underwriting

Example 1 – Our current max ADO available on \$3 million base

Example 2 – Current max ADO available on \$3 million base with \$1 million T-10 rider – no change in available ADO room

Example 3 – New process requesting max ADO available on \$3 million with \$1 million T-10 rider – max ADO available \$183,258

Canada Life will not illustrate fewer than five out-of-pocket payments. However now we use that Term rider in the ADO calculation, and it increase the ADO maximum to \$183,258. You can also see that earliest premium offset on the reduced scale because the same as the primary scale with this increase in ADO.

## Slide 20 – Increased ADO amounts for new sales with term riders – examples

**Michael Stinchcombe:** All examples based on a new standard-rated issue with full underwriting

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Example 1 – Prior to the enhancement, term rider didn't bring any benefits. Our current max ADO available on \$3 million base

Example 2 – Current max ADO available on \$3 million base with \$2 million T-10 rider - no change in available ADO room

Example 3 – New process requesting max ADO available on \$3 million with \$2 million T-10 rider – max ADO available \$212,025

Canada Life will not illustrate fewer than five out-of-pocket payments. Now with the Wealth Achiever Plus 20-pay product for this case, you can see that the earliest premium offset date was after 7 payments on the primary, and 8 payments on the reduced.

## Slide 21 – Increased ADO amounts for new sales with term riders – examples

**Michael Stinchcombe:** All examples based on a new standard-rated issue with full underwriting

Example 1 – Prior to the enhancement, term rider didn't bring any benefits. Our current max ADO available on \$3 million base

Example 2 – Current max ADO available on \$3 million base with \$2 million T-10 rider - no change in available ADO room

Example 3 – New process requesting max ADO available on \$3 million with \$2 million T-10 rider – max ADO available \$212,025

Canada Life will not illustrate fewer than five out-of-pocket payments.

## Slide 22 – Increased ADO amounts for new sales with term riders – examples

**Michael Stinchcombe:** All examples based on a new standard-rated issue with full underwriting

Example 1 – Prior to the enhancement, term rider didn't bring any benefits. Our current max ADO available on \$3 million base

Example 2 – Current max ADO available on \$3 million base with \$2 million T-10 rider - no change in available ADO room

Example 3 – New process requesting max ADO available on \$3 million with \$2 million T-10 rider – max ADO available \$212,025

Canada Life will not illustrate fewer than five out-of-pocket payments. But by adding a term rider you increase your ADO, and earliest premium offset can happen after the 5th payment on both the primary and the reduced scale.

## Slide 23 – Where does ADO fit?

**Evan Connell:** Of course, with any of the solutions we're about speaking today, the foundation of the solution is around your clients' insurance need

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The term rider gives your large case clients the opportunity to maximize their coverage and growth within their participating solution. For clients looking the flexibility to offset their policy sooner due to the enhanced cash value growth from the higher ADO limit with a reduced sensitivity to dividend scale changes.

We particularly see an opportunity with IFAs, in that the additional ADO contributions can reduce the need for additional collateral when working with a lending institution. This is highly desirable with business owners as they'd generally like to keep their money in the business or within their investments rather than tying it up in a financial agreement with a lending institution.

## Slide 24 - Maximizing ADO on attained age term conversions

**Evan Connell:** Making it easier for advisors to offer clients the maximum ADO available without additional underwriting.

## Slide 25 – Maximizing term conversions with ADO without underwriting

**Evan Connell:** This enhancement streamlines the process and makes it easier to offer clients the highest ADO amount without underwriting and without having to reduced the basic death benefit amount. Clients can now convert their full term amount and obtain a higher ADO amount without additional underwriting. For amounts up to \$2 million, whether it's a full or partial conversion, they're always getting the maximum ADO amount without underwriting with the new, enhanced process. If the amount to be converted is greater than \$2 million and **the full term amount is not being converted**, the existing NAAR process may give them a higher amount of ADO without underwriting.

For all subsequent conversions: regardless of the amount, you must follow the existing NAAR process and reach out to your insurance sales partner.

- Maximum ADO using the NAAR process There are some circumstances where the NAAR process is required, including:
- For any term policy that's been through a partial conversion, any remaining amount to be converted

These enhancements don't apply if a term policy has been fully or partially converted from a previous term policy – for example, term 10 to term 20. Continue to follow the existing NAAR process and reach out to your insurance wholesaler.

## Slide 26 – How this enhancement works

**Evan Connell:** We allow maximum ADO on up to \$2 million of converted coverage with no underwriting, or 50% of the maximum ADO amount over \$2 million (whichever is greater).

Under our new process we would allow the client to convert \$3 million of term with a maximum ADO amount of \$80,020 without underwriting. Between the maximum ADO allowed on converting \$2 million of coverage and 50% of the maximum ADO allowed for \$3 million of coverage, \$80,020 is larger.

## Slide 27 – Illustration software

**Evan Connell:** Our illustration software was updated to include a term conversion without underwriting check box(1) that will show whichever is greater between \$2 million with max ADO or 50% of the ADO on a higher face amount. For example, the screen shot above shows the \$3 million term conversion.

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The maximum ADO allowed with underwriting on \$3 million of coverage in this example is \$120,030. (2)

The maximum amount we will issue without underwriting is \$80,020 which is the better of the maximum ADO on \$2million (\$80,020) or 50% of the maximum ADO illustrated on \$3million of coverage ( $\$120,030 \times 50\% = \$60,015$ ). (3)

The error message in the illustration summary indicates that the calculated maximum ADO of \$120,030 would be subject to underwriting.

## Slide 29 – Case study – meet June

**Evan Connell:** Let's take a look at how the maximum ADO amount with term conversion works for June.

## Slide 30 – Case study – meet June

**Evan Connell:** June and her late husband's business has seen great business success over the years.

June's \$2 million term insurance with the business is coming up for renewal. She is wanting to look into what insurance options she has available for conversion to permanent coverage. Given her retirement goals she would like to have the option to stop premium contributions in approximately 10 years.

## Slide 31 – Case study – meet June

**Evan Connell:** Looking at June's goals, we see she wants to maximize both growth in her insurance solution and get the flexibility to access cash if needed in retirement

If June borrows against or withdraws money from the policy, it may reduce the policy's cash value and death benefit and may be subject to tax. Even though June and her late husband's business is established, the loss of her partner has also made her be mindful of cash flow both professionally and personally. As a result, she gets choice by allowing her to maximize her premium to the insurance solution or simply cover the base premium.

## Slide 32 – Case study – plan comparisons

**Evan Connell:** In advance of meeting with June, we have run a plan comparison to determine which product aligns with June's needs best. Given June's time horizon and goals around potential liquidity in retirement, we found the early value product suits her needs best. When running a comparison between early value payment periods, we determined the early value pay to 100 met her needs best because:

- It was lower cost of insurance
- There was higher ADO deposit room
- And it offered enhanced premium offset availability

If June were to convert to the early value pay to 100 product without ADO it would look like what's on screen

## Slide 33 – Case study – plan comparisons

**Evan Connell:** Previously, the maximum that June would be able to attain without underwriting is \$18,259.

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Using ADO June is also able to premium offset her policy earlier if she chooses to do so. Under this example she can offset at year 13.

## Slide 34 – Case study – plan comparisons

**Evan Connell:** With our new enhanced term conversion with ADO, June can have a much higher ADO limit.

Under our previous term conversion with ADO, June was limited to \$18,259 of ADO coverage.

With our new term conversion with ADO limit June can add \$94,900 of ADO coverage to her policy. That's roughly four times the room that she had under the NAAR process.

Note that June's ADO contribution is under the 100K threshold. Therefore, she won't have any restrictions on her ADO contributions moving forward as her max is ~95K. Therefore, she will be able to stop/start ADO deposits and choose anywhere from 0-95K for her deposits given her cash flow at any given year.

## Slide 35 – Case study - cash surrender values comparisons

**Evan Connell:** You can see from the graphic representation of the cash values what the difference is between:

- No ADO in blue
- Our previous maximum limits in grey
- And our new term conversion with ADO enhancement in red.

The term conversion with ADO enhancement also gives June much greater cash value at age 65 should she need to access it. If June borrows against or withdraws money from the policy, it may reduce the policy's cash value and death benefit and may be subject to tax.

The IRR ((internal rate of return) illustrates that even though the total premium is higher in the red and grey lines each dollar of ADO results in more efficient cash value growth.

## Slide 36 – Case study death benefit comparisons

**Evan Connell:** There is a similar relationship with the differences in death benefit between:

- No ADO in blue
- Our previous maximum limits in grey
- And our new term conversion with ADO enhancement in red

The IRR illustrates that even though the total premium is higher in the red and grey lines, each dollar of ADO results in more efficient death benefit growth.

This provides a much higher death benefit of \$9.9M compared to \$4.7M at age 85 and the ability to premium offset much earlier (year 7 compared to 13).

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The earlier offset and premium funding flexibility aligns nicely with June's goals of premium funding flexibility and the ability to offset/stop premiums earlier if she has changes in her cash flow.