FILE 1: License Terms and Renewal, Revocation and Suspension

License Terms and Renewal

Although they vary provincially, all provinces except British Columbia specify a date on which all agents' licenses expire.

All licenses may be renewed for a one-year term by application and payment to provincial Superintendents of the prescribed provincial fee. In British Columbia, licenses are issued for a two-year period, and are renewable on the second anniversary date of their issue.

Except in P.E.I. and Newfoundland, licenses listing the name of every party authorized to act as an agent are issued in the names of partnerships and corporations formed with the express intention of carrying on business as an insurance agent.

Generally, each corporate director or partner makes an application to be licensed in the firm's name. If the partnership or corporation is wound up or ceases to exist, the members of the partnership or officers of the corporation must inform the Superintendent who will then revoke its licence. The Superintendent also has the authority to suspend or entirely revoke the licence of a partnership or corporation as an entity or any individual member, partner, or officer.

If a person ceases to act as an agent for an insurer usually the insurer must give written notification to the Superintendent including the reasons why the agent has left the firm. In some cases (e.g. Ontario) the agent must return his or her license to the Superintendent upon termination of employment with an insurer.

The Superintendent may revive these licenses if another insurer subsequently employs the person.

License Revocation and Suspension

Superintendents of Insurance have the authority following investigation to suspend or revoke an insurance license for:

- Violation of any provision of the Insurance Act or regulations
- Omissions or misleading information on a licensing application
- Acts of fraud, incompetence or of an untrustworthy nature

All provinces except P.E.I. and Newfoundland have advisory boards that deal with complaints from agents or firms that arise out of a refusal by the Superintendent to grant or renew, or to revoke an insurance license.

FILE 2: Case studies to reinforce understanding of the Suicide Exclusion and Incontestability contract provisions

Suicide exclusion

Life agent Claire Mackinnon met with Edgar Poe on November 12 last year. Edgar seemed well established with a lovely home and happy family so it seemed likely he would be considering life insurance as income protection in the event of his premature death.

Somewhat surprisingly to Claire, Edgar decided on a one-year term policy, non-renewable, with a $2 million face value and an accidental death rider. For all intents and purposes, Edgar was covered with $4 million in life insurance. Edgar designated his wife as beneficiary. He paid the annual premium, $3,760. with his application.

On January 10, Edgar's wife called Claire to inform her that Edgar had died when his car crashed into a tree. Claire contacted the authorities to determine the circumstances of the crash: it was a beautiful sunny day, clear driving conditions, and Edgar had been driving his small compact instead of the SUV. The police declared the accident as intentional and Edgar's death **suicide**.

There would be no death benefit from the policy and the insurance company returned the premium to the widow.

N.B. The suicide exclusion clause prevents a death benefit to be paid within a specified period, usually two years, when the cause of death is suicide. The premium is returned.

Incontestability

Early in 1996, a perfectly healthy, 35-year-old Joe Bicker, applied for, received and paid premiums on a whole life policy, issued by Covert Casualty Limited (Covert). The policy, with its $1 million death benefit, listed his wife Constance as the beneficiary.

His application correctly listed his age, occupation, and smoking status. The application did not reveal, nor did it specifically ask for the fact that Joe's grandfather, father, and older brother had all died of heart failure before reaching the age of 40.

True to Bicker form, Joe died of heart failure at 39, and Covert sought to deny coverage on the basis that the family medical history was not included in the application.

Constance Bicker brought a successful suit against Covert by invoking the **incontestability** provision.

Since the failure to go into family medical history could hardly be viewed as a material misrepresentation, Covert had to honour the coverage under the policy.

N.B. A life insurance contract is incontestable by the insurer when it has been in effect continually for two years after the issue or reinstatement date, unless fraud has been committed.

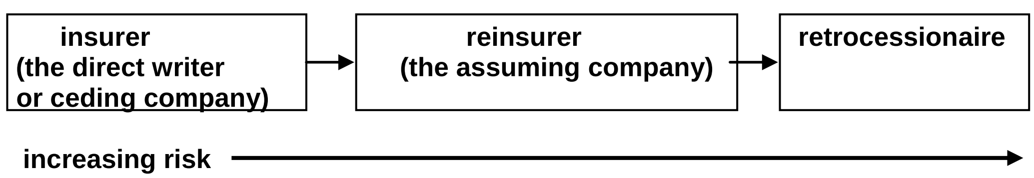
FILE 3: Reinsurance

Insurance companies place a cap or upper limit on the amount of coverage that they will place on an individual life. This is called the ***retention limit***. If the retention limit of an insurer is exceeded, part of the risk will be passed along to a reinsurer in a process called ***reinsurance***. The reinsurer, or company that accepts the transferred risk, is called the ***assuming company*** while the insurer that has issued the policy to the applicant is called the ***direct writer*** or ceding company. Thus, reinsurance spreads the risk of large claims between the original insurer and a second insurer.

The second insurer, the reinsurer, shares risk above its retention limit with a retrocessionaire (a third insurer), or a number of different retrocessionaires in a process called ***retrocession*** (which can be interpreted as reinsuring the reinsurance!)

Proportional or non-proportional premiums: Reinsurers charge premiums for their services to the insurers. The premiums are either proportional or non-proportional. Proportional rates are proportionate to the amount of risk assumed and the amount of premium. Non-proportional rates determine the premium in advance.

The Three Degrees of Risk-Taking



FILE 4: R&C Term Insurance

Shelley and Larry Monika are in their early 30s. They have three young children. Larry has just started his own small business, a fitness club, FitPro. He has incorporated the business because he wants to limit his personal liability in case a member of the club is hurt working out. The value in the business is, foremost, good will, and then, the resale value of some small pieces of the exercise equipment — perhaps $8,000. The large pieces of equipment are leased. Larry takes $2,000 in salary monthly, $24,000 annually, enough to pay their rent, and basic household expenses.

Shelley works full-time at the club as a receptionist and fitness instructor while Larry is the manager. Larry pays Shelley the minimum wage; her annual income is about $13,400. Shelley puts $100 a month into an RESP for their children and receives the Canada Education Savings Grant (CESG) contribution from the government. She realizes it will not be enough but she is uncertain that all three will attend university especially since one is a special needs child.

All the Monikas' money and energy is being poured into FitPro to make it a success. They advertise constantly and offer special discounts to bring bodies in the door. They also have structured a unique cooperative marketing strategy in their community where others in the fitness and fashion industries work together to build and maintain a clientele.

There is a family history of heart failure in Larry's family. He is determined not to be the third generation of Monikas to die from a heart attack (part of the reason he is very serious about fitness). However, if he died, not only would his income be lost but so would Shelley's because there wouldn't be a way for the business to continue. Shelley worries about their total dependence on the revenues from FitPro.

The Monikas rent a three-bedroom townhouse not far from the club. They have about $1,200 in savings. They have no other assets. They owe about $2,000 on a store credit card that charges them 21% interest on the unpaid balance. They drive a 1988 van with about 146,000 km and hope that it doesn't quit until their financial picture has improved. Larry has an RRSP, established before FitPro, with about $11,000. He soon hopes to be able to participate in an RRSP Home Buyer's Plan as he would like to use this money for a down payment on a home so that he and Shelley build an asset in the form of a principal residence.

Question

Should the Monikas own insurance? If so, what type and how much?

Situation Analysis

- Larry's life and good health is key to the family since his business provides an income to both Shelley and himself. With his family health history, it is essential that Larry acquire a policy that will replace his income if he should die.
- money is tight
- both Larry and Monika are relatively young and in good health
- they have dependents

Capital Needs Analysis

- Cash needs
  - Assets (savings, RRSP, and club equipment) $20,200
  - Final expenses (funeral, legal expenses, credit card) $13,200
  - Total cash needs (amount by which assets exceed expenses) $7,000

- Continuing income needs
  - Continuing income 0
  - Continuing expenses (replacing the lost salary of Larry and Shelley) $37,400
  - Total income needs $37,400

- Total needs
  - Capitalized value of Larry's life (assuming 4% interest rate) (determined by total income needs ÷ 0.04) $935,000
  - Total cash needs $7,000
  - Insurance required $928,000

Recommendations

- a 10-year renewable and convertible term policy on Larry’s life will provide insurance coverage at the lowest cost while the business is becoming established
- at any time, the term policy can be converted to a permanent policy
- Larry acquires this policy as soon as possible while his health is still good
- they cannot afford premiums for a $900,000 policy so the Monikas decide to make “do” with a $250,000 policy since this is all their finances allow with a GIB rider

Agent’s Course of Action

- The agent writes a policy for $250,000 face value with Larry as life insured and Shelley as irrevocable beneficiary so that even if the Monikas were to divorce, Shelley would still receive a death benefit to support the children.
- The agent visits the Monikas on their policy anniversary and learns that the business is prospering and Larry’s income has doubled.
- The agent proposes increasing the face amount of insurance to $500,000.
- The Monikas agree.

FILE 5: The Grace Period

When John Parker decided to take a four-week holiday last April, the last thing he thought about was his insurance policy. The policy had been in force for 14 years, and he had always paid his premiums with every notice.

Four days after he left on his holiday, his premium notice arrived. The due date was one week before John was scheduled to return home.

Once home, John tackled the stack of mail awaiting his attention and found the premium notice. He was horrified to think that his policy had terminated for lack of premium payment. Luckily for John, the 31-day **grace period** provided 31 days after the due date for the premium to be paid during which time the policy remained in full force.

After paying the premium, he switched to a preauthorized payment plan to ensure his premiums would be paid in his absence.

N.B. The grace period can be 30 or 31 days after the date the premium is due.

FILE 6: The Distinction between ETI and RPU

Angela Kelly and Kimberley Weinberg both have straight life participating policies with a face value of $100,000. Angela, who is 56, has a $12,000 cash surrender value in her policy. Kimberley, 37, also has a $12,000 cash surrender value. Neither wishes to continue paying premiums because of other financial pressures.

What will each receive if they choose extended term insurance (ETI) or if they choose reduced paid-up insurance (RPU)?

If they decide on extended term insurance (ETI), the cash surrender value of their policies will be used to buy **term insurance** with the same face amount as their straight life policies. The cash surrender value of Angela's policy will buy a term policy with a $100,000 face value. The policy, however, will expire after 6 years and 127 days: the exact amount of term insurance that $12,000 (acting as a single premium) buys for a woman of Angela's age. The cash surrender value of Kimberley's policy will buy a $100,000 term policy that will expire after 17 years and 43 days.

The term of Angela's policy is much shorter than Kimberley's because Angela is older and poses a higher insurance risk to the insurer.

If reduced paid-up (RPU) insurance was chosen, the cash surrender value will purchase a $25,000 straight life policy for Angela and a $50,000 straight life policy for Kimberley. Each of these policies is "paid up," meaning no more premiums must be paid to keep the insurance in force. The two policies each have a different value, again due to the different ages of the two women. The reduced paid-up policy — a whole life policy — has no expiry date, and will grow in cash value the longer the policy remains in force.

It is then the decision of each woman: does she want a larger face amount payable over the specified term or insurance with a smaller face amount guaranteed at death?

FILE: 7: Limited Payment Non-par Whole Life Insurance

Joseph Stewart owns a gas station in the Annapolis Valley. He inherited the business from his father when his father was killed in an accident in 1972, when he was just 18. The business was valued at $80,000 and at that time Joseph took an $80,000 mortgage on the property that has since been paid off. The income from the gas station supports Joseph and his family, and his mother.

Seven years ago, Joseph incorporated the gas station as Stewart Fuels Inc. He has three employees but Joseph is the sole shareowner. Revenues last year from sales at the pumps were $290,000, from the coffee bar $123,000, the service bays $98,000, and delivery of fuel $166,000. He owes the bank $218,000 for equipment purchases, and has his eye on acquiring another property, about 50 km away for another gas bar, for $600,000. This would mean a mortgage of $450,000.

Joseph has four sons: Todd, Jason, Benjamin, and Hatfield. Todd is the only one who has expressed any interest in the business and Joseph wants to be sure Todd can take over the business someday without assuming debt to do so. Joseph was widowed two years ago when his wife was killed in a car accident. It is Joseph's intention to work until the day he dies, and then have Todd continue Stewart Fuels.

If Joseph died, the business would continue to produce the same, or close to the same, revenues. Joseph wants life insurance to be in place on his death to pay the capital gains tax that will be due on the disposition of his property to Todd.

Question

What type of insurance should Joseph acquire?

Situation Analysis

- Joseph is 48, and a heavy smoker.
- Any policy will be rated to reflect the fact that he is a smoker.
- There will be significant capital gains tax due on the business when Joseph dies.
- Joseph has a large income from the business, but he is "time poor" — that is, he has little time to spend at other interests.

Recommendations

- Joseph's age and income would indicate that a term policy is not the best. More importantly, he must have insurance in place on his life when he dies to pay capital gains tax.
- Therefore, he must have a permanent policy.

- A limited payment life policy to age 60 will mean that his income needs will decline after age 60 since he will not need to pay premiums after that date when Todd will require the business income to support himself and his family.
- Joseph has the income to pay for such a policy.
- Joseph wants the insurer to manage the policy reserve; he doesn't have the time or inclination to monitor investments, as he would have to with a universal life policy.
- He will be able to make loans against the policy instead of always going to the bank.
- Joseph declines to make it a par policy; he doesn't believe in "getting something for nothing" and does not want to pay the higher premium attached to a par policy when there is no guarantee of a return.

Capital Gains Tax Needs Analysis

Fair market value of Stewart Fuels Inc (estimated)	$1,890,000
Cost of property	80,000
Outstanding loans	218,000
Capital gain	$1,592,000

Capital gains

Amount to be taxed (50% of $1,592,000)	$796,000
Lifetime capital gains exemption	750,000
for a Canadian controlled private company	
Tax owed	$ 46,000

Agent's Course of Action

- Agent writes a limited payment whole life policy for Joseph with a death benefit of $18,000 ($46,000 x an assumed marginal tax rate of 40% = $18,200); they decide to include an accidental death & dismemberment rider.

FILE 8: Adjustable Premium Whole Life with Riders

Jimmy Chu emigrated to Canada in 1999 when he was 39. Accompanying Jimmy were his elderly parents, his wife, and his infant son. With the capital that he brought into the country, he bought a restaurant supply business — the same business he worked in Hong Kong prior to immigrating. He operates the business as a sole proprietor, despite his 22 employees and fleet of trucks. Coming to Canada has been a challenge for Jimmy and his family; they had to leave behind a business that had been in the family for 55 years and they were unable to extract some of their other capital from investments.

After they lived here for one year, Jimmy's wife became pregnant. Also, because he feels Canada holds such opportunity, he sponsored his brother, his wife, and their two children to come to Canada. Jimmy supports all his family members from business revenue, the salary he pays himself, and one small rental property he bought in a foreclosure.

Life in Canada brings new surprises daily. Jimmy researches the wealth of financial planning products and discovers life insurance. Life insurance is virtually unknown in Hong Kong and he is amazed to learn how widespread life insurance coverage is here. Jimmy likes to gamble and the one absolutely sure bet he can make is that, some day, he will die.

Jimmy shopped around for insurance with three different brokers: Golden Star Insurance, Mandarin Specialty Insurance Products, and Extra Insurance Brokers. A representative of each came to Jimmy's office. His office is in an undesirable neighbourhood, and the only car in the parking lot was an ancient Pontiac 2000. Jimmy picked this location for his office because his trucks can easily get in and out. His own car, a Mercedes S-class, was in for an oil change. Jimmy was the only person in the building; he attended the meetings in an old T-shirt, runners, and jeans while the rest of his employees were out making deliveries.

Each firm made a different recommendation to Jimmy.

Question
Which firm makes the best choice?

Situation Analysis
Golden Star and Mandarin Specialty both began the process of insurance by building a net worth statement for Jimmy. They felt otherwise they could not estimate his financial situation. Extra Insurance felt this was unnecessary based on their assessment of Jimmy.

Net Worth Statement

Assets

Amount paid for business	$240,000
Truck fleet	420,000
Real estate	
warehouse	190,000
rental property	210,000
cash	325,000
jewellery	260,000
Total assets	**$1,645,000**

Liabilities

Mortgages	$125,000
Total liabilities	**$125,000**

Net assets	**$1,520,000**

Capital Needs Analysis

Cash needs

Assets	$1,520,000
Final expenses (funeral, legal expenses)	$32,000
Total cash needs (amount by which expenses exceed assets)	**$1,488,000**

Continuing income needs

Continuing income	
rental property	$19,000
business income	$745,000
Continuing expenses	
loss of Jimmy's annual income	$288,000
Total income needs	**$288,000**

Total needs

Capitalized value of Jimmy's life (assuming 4% interest rate) ÷ (determined by Jimmy's annual income ÷ 0.04)	$7,200,000
Total excess cash from cash needs analysis	$1,488,000

Insurance required	**$5,712,000**

Recommendations

	Golden Star	**Mandarin Specialty**	**Extra Insurance**
Sum insured	$5,700,000	$5,700,000	$2,000,000
Type of insurance	universal life	adjustable premium whole life	term
Riders	accidental death	accidental death + waiver of premium	none
Policy expiry date	death	death (5 year guarantee period)	10 years
Other recommendations	death benefit in the form of level death benefit, plus account value		
Rationale	- there is a large amount of money available to pre-fund the policy - there is a long period of time before the policy will likely settle so the account value should grow considerably - the accidental death benefit will double the payment if Jimmy dies	-interest rates at the time of purchase are the lowest they have been in decades; they are going to start increasing -at the end of the 5 years, if interest rates have increased, premiums can decrease while the sum insured stays the same - the accidental death benefit will double the payment if Jimmy dies and the waiver of premium will be beneficial if Jimmy is disabled at work	-premiums are the least expensive -riders only add to cost and are rarely used -Jimmy should take difference between permanent premium cost and term premium and invest in seg fund with 100% guarantee

Conclusion

- Jimmy has already experienced first hand the loss of investments that are not highly liquid. As his assets show, he is investing in property and his business. There are no other stock, bond, or mutual fund type investments in his portfolio. Therefore, he does not respond well to the Golden Star concept of universal life.
- Jimmy likes to gamble, so therefore he is a risk-taker in that way. He sees the chance of a risk with the Mandarin Specialty recommendation and yet he is willing to bet that interest rates will rise. He knows this from negotiating mortgages on his properties.

- Jimmy has the money to spend on that which suits his needs the best. His needs are not to invest through life insurance but to insure his life. Therefore, Golden Star has missed the point.
- Extra Insurance has not taken Jimmy seriously. They assessed his workplace, his appearance, and apparent asset (the old car) and decided that money was tight. They didn't take the time to learn about Jimmy and/or his business. Their lack of financial analysis has produced a recommendation that seriously underinsures Jimmy in an effort to save him money. As the other firms saw, this is not an issue.
- Mandarin Specialty's recommendation is most suitable; Extra Insurance's is least suitable.

<u>FILE: 9</u>: A Comparison Between Term-to-100 and Whole Life

	Term-to-100	Whole life
Cash surrender value	not usually provided	yes
Death benefits	guaranteed	guaranteed
Non-forfeiture options	reduced paid-up insurance*	automatic premium loans, extended term insurance and reduced paid-up insurance
Policy dividends	no	yes, if a participating policy
Policy loans	no	yes
Premium payment period	for life or to age 100	for life
Premiums	level	level
Refund of premium	sometimes available if policy has been in force for at least 20 years	no

*if cash value exists

FILE 10: Making a Case for T-100

Jean and Jane LaFlamme are 50 and 45 years old respectively. Jean is a computer programmer for a small software company and Jane is a part-time bookkeeper. Last year their income was $118,000 ($86,000 for Jean and $32,000 for Jane). They have three children, Alex who is 13, Serge who is 11 and Natalie who is 9.

The real estate market in their commuter community outside Ottawa has been booming. They are convinced this is a good time to move up to a larger home. It will mean a bigger mortgage but they are confident they can handle the payments in addition to their other financial obligations.

They find the house of their dreams: 5 bedrooms with an in ground pool, hot tub, and close to the best school. Their offer of $389,500 is accepted and they are able to quickly sell their existing home for $217,000. Their mortgage stood at $62,000; it will now be $234,500. The mortgage is structured with bi-weekly payments over a 15-year period. Their home is their only asset. For this reason, they do not need to be concerned about capital gains tax if Jean should die, because the principal residence would pass to Jane tax-free.

They also have a personal loan. The loan was $2,200 but they increased it when they moved into the new house to pay for new draperies, some new furniture and to have the house painted. There is now an outstanding balance of $17,000 on the loan and they owe about $8,800 on two credit cards they used to pay for their last vacation. They lease two vehicles: a van for Jane and a Honda Accord for Jean.

Jean has a group life policy through his alumni association; it is valued at two times his salary ($170,000). They also have a personal term policy with a $500,000 death benefit. Jane does not have any life insurance. They feel that over half a million dollars in insurance is pretty "rich" and that they have more than covered themselves if Jean was to die. The policy premiums on the personal policy are $2,900 annually. Next year (when Jean has had his 51st birthday), the premiums will increase to $3,700.

Question

Are the LaFlammes adequately covered with their existing policies?

Situation Analysis

- Jean is the main income earner and his income is essential for his family
- Jean will soon find his term premiums become very expensive because of his age and, in fact, in just five more years he will not be able to afford the premium.

- In five years when Jean allows his policy to lapse, he will still have considerable financial obligations (outstanding mortgage, education expenses for children)
- Jean and Jane are worried about the impact of their new mortgage on their insurance needs. The following illustrates their changed circumstances as a result of the new house assuming they allow Jean's policy to lapse.

Capital Needs Analysis

	Old mortgage	**New mortgage**
Cash needs		
Assets		
Death benefit of existing insurance	$670,000	$670,000
Other assets	0	0
Total assets	$670,000	$670,000
Final expenses		
Funeral and legal expenses	$9,000	$9,000
Credit card and loan	$11,000	$25,800
Mortgage	$62,000	$234,500
Total final expenses	$82,000	$269,300
Total cash needs	$588,000*	$400,700*

*Note that these numbers are actually a surplus of assets over expenses in this case. Thus the numbers are subtracted from the capitalized value of Jean's life on the next page.

Income needs		
Continuing income	$32,000	$32,000
Continuing expenses	$93,000	$93,000
Income needs	$61,000	$61,000
Total needs		
Capitalized value of Jean's life (assuming 4.5% interest rate)	$1,355,555.50	$1,355,555.50
Minus cash needs	$588,000	$400,700
Insurance required	$767,555.50	$954,855.50

Recommendations

- The new mortgage has not changed their insurance needs to a significant extent: they were underinsured before they bought the new house and continue to be underinsured with the new house.
- They need to acquire additional insurance but term is an unattractive proposition due to Jean’s age.
- They cannot afford straight whole life premiums for the total amount of insurance Jean needs.
- They decide on two policies: one, a 10-year non-renewable joint and first to die term policy for $250,000. This policy will cover their mortgage if Jean or Jane dies. Their second policy is a term-to-100 policy with a face amount of $700,000. The costs of this policy are less than straight life though the policy does not provide many of the “frills” of straight life. This way Jean obtains insurance that otherwise he would not have if he continued with his term insurance only.

Agent’s Course of Action

- The agent writes the two policies but indicates to the LaFlammes that Jane has no permanent insurance with this strategy. They decide to add a term rider to the term-to-100 policy that will provide $100,000 coverage on Jane’s life.
- The policies name each other as irrevocable beneficiary.
- The agent visits the LaFlammes on each policy anniversary. After six years, Jean’s salary has tripled and he now has stock options with his employer with a fair market value of $440,000. Jean decides to let the term policy that covers the mortgage lapse.
- Four months later, Jean dies while shovelling snow. His death benefit on his group policy pays $516,000 and his term-to-100 policy pays $700,000. His stock options revert to his employer; Jane cannot exercise them. However, she receives more than enough from the two policies to cover last expenses and pay for her continuing income needs.

FILE 11: Universal Life Presentation

Here is how a universal life policy might be presented to a prospective policy owner:

Concepts and principles of universal life

Scenario

details on which cost of insurance is based

Primary Life Insured: Thomas T.
Insurance Age: 51; Sex: M
Class: Non-smoker; Rating: Standard

initial sum

mortality charge

Coverage: Single life
Initial Sum Insured: $100,000
Cost of Insurance: Level

death benefit

Death Benefit Option: Increasing

interest rate used

Interest Rate: 4%
Selected Premium: $120.00 monthly

minimum and maximum premiums

Minimum Annual Initial Deposit: $1,359.00
Maximum Annual Variable Deposit: $6,218.64

amounts would be listed for every year in a real presentation

Year	*Age*	*Deposit*	*Account value*	*Death Benefit* **@ 4%**	*Account value*	*Death Benefit* **@ 2.5%***
1	51	$1,440	0	$100,165	0	$100,163
5	56	$1,440	0	$100,894	0	$100,861
10	61	$1,440	$1,980	$102,005	$1,831	$101,856
15	66	$1,440	$3,382	$103,407	$3,000	$103,025
20	71	$1,440	$5,131	$105,156	$4,356	$104,381
25	76	$1,440	$7,312	$107,337	$5,929	$105,954
30	81	$1,440	$10,033	$110,058	$7,753	$107,778
40	91	$1,440	$17,659	$117,684	$12,324	$112,349
49	100	$1,440	$28,973	$128,998	$17,775	$117,800

* a less favourable rate scenario is presented against the primary or requested rate to illustrate the impact of a lower interest rate on the account value.

FILE 12: The Danger of Leveraging

Since universal life offers attractive tax-deferred growth, it can be tempting for the sophisticated investor to consider ***leveraging*** the policy. Leveraging uses borrowed money to invest. Therefore, someone who borrowed money from a bank to invest in a universal life policy would be employing leveraging. If the cost of borrowing was 6% annually, the returns on the investments in the policy would need to be greater than 6% to produce a positive gain and pay expenses. If the returns were 3%, the policy owner would actually be losing money by borrowing to invest (leverage).

Likewise, a policy owner who borrows against the policy's account value to invest in stocks, for instance, is leveraging. In that case, if $20,000 was borrowed from the policy (called a *partial surrender*) and the stocks, or other investment, then decreased in value, the loan might not be repaid and, consequently, the death benefit of the policy would be reduced.

Leveraging is not recommended for the passive or unknowledgeable investor. Successful leveraging means that the investor must be able to earn higher returns on the investment than the cost of borrowing, and still be able to repay the principal on the loan. Someone who leverages a policy must be highly confident and prepared to take a large loss!

FILE 13: Guidelines for Selecting Investments

There are a variety of guidelines to assist in the selection of an appropriate investment:

- ✓ past returns on the different types of investments available
- ✓ the risk tolerance of the client
- ✓ the client's need for guarantees
- ✓ the length of time the investment can grow before withdrawal
- ✓ goals of the investor
- ✓ the personal preferences of the investor
- ✓ types of investments available

Past returns: Past returns must NEVER be considered an indication of future returns. However, they will provide an idea as to the returns offered by one type of investment (e.g., savings accounts) compared to another (an investment fund, for instance).

Risk Tolerance: It is essential to match the risks of the different types of investments that can be acquired through a universal life policy to the risk tolerance of the policy owner.

Risk tolerance is determined by:

- personality
- age
- experience

Personality: Some people just take more risks than others. You can pretty much guess where a stamp collector and a skydiver are on the scale of risk-taking. To find out someone's personal risk tolerance, you will need to talk with him or her and learn a little about his or her lifestyle.

Do not act just on verbal clues: there are many more reliable indicators besides what a person says. They include the type of job (self-employed people are known to be greater risk-takers than the more conventionally employed), where they live (suburban bungalow or downtown loft?), the vehicle they drive, how they dress, and particularly, their age. A Risk Tolerance Questionnaire or Client Profile Questionnaire can be a useful tool to determine client risk tolerance.

***Age*:** As people age they become more conservative and less likely to take on risk. They have worked hard for their savings and they don't have the luxury of time to rebuild their savings if something goes wrong. Risk tolerance among those nearing or at retirement is typically very low.

***Experience*:** Positive risk-taking experiences can lead to a level of risk comfort. A bad experience, or worse still, a *series* of bad experiences can turn the most aggressive risk-taker into one of the most conservative. Asking about previous investment experience is important to assess risk tolerance.

N.B. A safe approach is to work with the risk tolerance of the client, not against it — even if you believe your strategy is a better one. Recommend investments that suit the risk tolerance of the client; if the client makes a different choice, or choices, these actions must be recorded and initialled by the client to protect you from a future lawsuit.

Guarantees: A client who wants guarantees must be directed towards only the most conservative investments, even though the returns will be modest in comparison. This client will have a very low risk tolerance. Segregated funds may be a good choice for those oriented towards guarantees since they offer an opportunity to invest in funds, normally a riskier proposition, but only run the risk of losses no greater than 25% of money invested. Some seg funds provide a 100% guarantee of deposits. The specific conditions of the seg fund, however, must be met.

Time for Growth: The time available for the investment to grow is, for the most part, related to age. A younger investor has many years before he or she will need to fund retirement. Therefore, in the early years a riskier investment might be called for. Later, the investment could be converted into something safer.

The longer the investment stays in the policy, the greater the chance for growth. This is particularly true when one considers the power of compounding. Also, investing for the long term reduces the impact of market fluctuations.

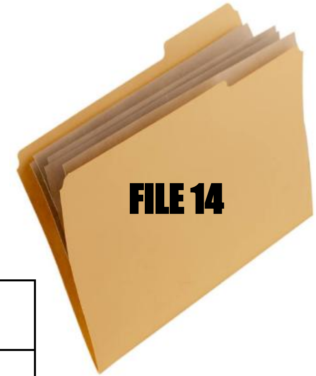
Consider a man who is in his second marriage, 58-years-old, and still has young children to support and educate. His age would dictate a safe investment; his circumstances dictate a high degree of risk is required to give him the returns he needs to retire before age 70. This requires a creative approach like that offered by setting up two investment accounts: one that will conservatively, yet dependably, produce a small return, and the other invested in a high-risk investment fund in an effort to produce maximum growth.

Goals of the Investor: There are some uses of funds that must be taken far more seriously than others. Individual priorities will vary but they can include care for a dependent child or retirement. More frivolous needs (an around-the-world trip, a motor home) can indicate a different approach.

Preferences: Never overlook or fail to pay attention to what the client wants to do. You may wish another plan of action, but clients can be guided by needs of which you are unaware (e.g., the ethical issues that surround investment in certain investment funds).

Types of Investments Available: The types of investments available for the universal life policy owner range from very conservative (such as GICs that provide a low rate of return) to highly speculative (such as global equity funds that have the potential to provide a very high rate of return). Once you have been able to assess the risk tolerance of the policy owner and he or she understands the relationship between risk and return, you will be able to review investment possibilities together.

FILE 14: Comparing Term, Whole Life, and Universal Life



The following is a summary of the most popular types of life insurance.

Feature	Term	Whole Life	Universal Life
automatic premium loans	no	yes	yes
cash/account reserve owned by policy owner	no	no	yes
cash surrender value	no	yes	yes
death benefit options	no	no	yes
dividends	no	yes (if a par policy)	no
effective for estate planning	no	yes	yes
extended term insurance	no	yes	no
evidence of insurability	yes	yes	yes
flexibility for coverage and premiums	no	no	yes
low administration fee	yes	yes	no
need to monitor policy	no	no	yes
paid-up insurance	no	yes	no
policy loans	no	yes	yes
proceeds on death received tax free by beneficiary	yes	yes	yes
tax-deferred growth	no	yes	yes
use for investment	no	no	yes
use for savings	no	yes	yes
variable premiums	no	no	yes

FILE 15: Making a Case for Universal Life Insurance

Jack Spratt is a 34 year old "wunderkind." He is single, and has just been appointed the newest partner of the law firm where he works. His income over the last six years has averaged out at just less than $400,000 annually. Last year was his best earnings year yet with just over $550,000 coming in from salary and bonuses. Jack has used some of this money wisely, investing in real estate, the stock market, art, and fine wine. He has had lots of fun, too: skiing every year in Whistler, taking weekend jaunts to Los Angeles, and spending two weeks every April at one of Thailand's premier beach resorts. Jack is quite dedicated to life as a bachelor and does not see a likelihood of a serious girlfriend anytime in the near future.

Jack has a will in which he named his mother, Marg, who is 68, widowed, and of limited means, as his sole beneficiary. Jack dreams of making Marg a millionaire if anything ever happened to him.

Jack's real estate investments include two condos in downtown Vancouver that he rents out, and a cabin on Saltspring Island. The rents cover the mortgages on the condos. His principal residence is a loft in a fashionable neighbourhood; he has a mortgage on the property of $123,000. He owns the cabin outright.

Over the past two years, Jack's stock market portfolio has lost about 30% of its former value. For this reason, he has a large outstanding balance on his account with his stockbroker that ideally he would like to eliminate in the next six months. His art collection is his joy and passion. Jack attends auctions, gallery openings, and studio tours looking for Impressionist works. He has only bought three small watercolours but he is convinced their value will skyrocket in years to come.

Question: Should Jack own insurance? If so, what type and how much?

Situation Analysis

- Jack has no dependents
- he has considerable financial resources
- he is young and in good health
- Jack will face significant tax liability if he should die.
- Jack does not need life insurance to provide an income to his spouse and dependents; he needs life insurance to fund tax liability of his estate so that Marg receives as much as possible from Jack's assets.
- there is no need for income so a statement of net worth is used to reveal capital gains tax due on Jack's death; also since Jack does not have a spouse to whom capital property could be transferred on death tax-free, all of Jack's capital property will be subject to capital gains tax

Net Worth Statement

Assets	
Investments	$412,600
real estate	490,430
cash	21,900
art	117,000
Total assets	$1,041,930
Liabilities	
Account with stockbroker	$94,800
Mortgages	290,800
Personal Line of Credit	47,300
Income tax	47,700
Total liabilities	$480,600
Net assets	$561,630

Tax liability

If $561,630 passes into Jack's estate as capital gains, Jack's capital gains tax due will be $561,630 ÷ 50% = $280,815 x 47% (his marginal tax rate) = $131,983. Thus, Marg will receive $429,647 from Jack's estate.

Recommendations

- While Marg will still receive a significant bequest from Jack, it is a long way from the $1 million he would like her to receive.
- Jack should acquire a universal life policy. As an astute investor, Jack will have the opportunity to manage the investments in the policy. If he selects the death settlement option of level death benefit plus account value, Jack is confident that the growth in the account will be considerable and thus will enhance the death benefit.
- Since universal life is best funded with a lump sum, Jack sells some bonds and one of his rental properties to acquire a policy with a $500,000 face value.
- Between the value of the estate and the life insurance policy, Jack comes much closer to the $1 million bequest he had in mind.

Agent's Course of Action

- The agent writes a policy for $500,000 face value. The policy names Marg the beneficiary of the policy so if Jack dies, the policy benefit will pass to Marg directly and not to Jack's estate.
- The agent visits Jack on the policy anniversary to discover Jack is now married. Jack adds his new wife to the policy as another life insured. He leaves his mother as beneficiary of his life insurance policy and changes his will to name his wife as beneficiary of his other assets.

FILE 16: The Effectiveness of the GIB Rider

Kerry Autio took out a whole life policy for $100,000 with a GIB rider that allowed him to purchase an additional $25,000 of coverage on each of a series of specified dates.

The first date arrived and Kerry felt there was no need to add insurance since there were no new circumstances in his life since his policy was first acquired.

Three months later, Kerry and his wife bought a new house that doubled the size of their mortgage. Kerry exercised his GIB option and purchased an additional $25,000 to reflect the increase in debt he had taken on. His premiums increased accordingly, but he did not need to provide evidence of good health to acquire this extra coverage.

FILE 17: Disability Income Insurance

This case study illustrates how the circumstances surrounding a need for disability income insurance impact the insurance considerations.

Circumstance	Insurance considerations
Harry Outerbridge owns a car dealership in a small, rural town. He owns the dealership as a sole proprietor. Farmers and other local folk from miles around drive to do business with Harry because of his reputation for fairness and honesty. There are three other full-time employees at the dealership, and seven part-timers. Harry is on the lot at 7:30 am Monday to Saturday. He personally inspects every car that the dealership sells—new and used. He always goes along on the test drives, and is happy to slide under a car to check the finer points of the exhaust system. When he is not on the lot, he supervises repairs in the garage attached to the dealership, does his paperwork, and attends the car shows every year in the U.S. to see what's new. Selling cars is all Harry knows; there is no other job he would want. Harry has a wife and four children, ranging in age from 10 to 3. His wife stays at home with the children; the dealership provides a nice, steady income for the family. Harry wants all his children to graduate from university, and hopes that one of them will be interested in carrying on the business. Small business owners like Harry are	Harry is vital to the success of the business. There are not enough full-time employees for even a small group disability income plan. Harry is employed full-time. As a male, Harry's premiums for a disability income policy will be less than they would be for a woman of the same age and occupational classification. It is not unlikely that he could be injured at his job. Harry's occupational classification is in the mid-range; his premiums will reflect this. Harry must choose a regular occupation definition of disability because he will continue to receive income from the business, so only needs to top-up his lost earnings. He has no pre-existing conditions. Harry's family needs his income. Harry's disability income policy will be based on loss of earned income; in Harry's case, this includes the salary he takes from the business and his net business income. Harry does not have group disability income insurance.

unlikely to be covered by group disability insurance because it is unlikely there is a group to which they can belong. Harry did not attend university, nor is he affiliated with any other group of people who would have a group plan in place. Therefore, Harry—and others like him—are likely candidates for disability income insurance.	Harry will pay his premiums with after-tax dollars and will therefore receive benefits tax-free. When an individual is a small business owner, continuing income from the business may possibly provide for an extended elimination period with corresponding lower premiums.

The following case study shows how the use of disability insurance is not restricted to a particular occupational group, age, or gender.

Circumstance	**Insurance considerations**
Maggie and Art Brown are 57 and 62, respectively. Art is looking forward to a well-earned retirement in three years while retirement for Maggie is still another eight years in the future. They have three children, Ian-29, Sarah-27, and Phil-24. All three have their own lives, independent of Maggie and Art, although none are married. In the summer of 2001, Phil visits his friend, Meaghan, at her family camp, in northern Alberta. They go swimming and Phil dives right in. Unfortunately, the water level had dropped since the last time Meaghan was at the camp. Phil breaks his neck and the medical team in Edmonton diagnoses him as a lifelong quadriplegic.	Phil has an accident that can be documented. Phil is totally and permanently disabled.

Phil can no longer care for himself so he returns home to live with his parents. Maggie and Art spend thousands of their retirement savings retrofitting their home with ramps, lifts, special bathing facilities, and widening hallways in the house to accommodate Phil's wheelchair. They also have to buy a van that can fit the wheelchair. While Phil's immediate cares and costs have been assumed by Maggie and Art, they are concerned about Phil's long-term prospects. Maggie and Art recognize that as they grow older they will be unable to lift Phil and to perform the other duties of care. They also realize that Phil will outlive them, possibly by many years. At the time of his accident, Phil had been employed as a teacher for one year. His group plan kicks in immediately after his accident with the short-term disability benefits. After 52 weeks, the long-term disability benefit begins. It is clear that Phil will never recover from his accident so the LTD is paid out as a structured settlement annuity that will pay Phil a monthly income for life.	The maximum length of time for STD benefits is 52 weeks. A structured settlement annuity ensures Phil receives an income for life.

FILE 18: Disability Income Insurance Riders

Future Purchase Option

In 1996, at age 40, Joseph Blough purchased a disability policy containing a $4,000 per month benefit, perfectly suited to his income as a plant foreman at Oldcom Ltd. The monthly premium is $233.00. The plan did not contain a FPO benefit. In 2002, as plant supervisor, he applied for a new policy with a $6,000 per month maximum benefit that better suited his new job and income. Unfortunately, Joe’s health had declined to the point that he was unable to obtain the new policy. However, if Joe’s policy had contained the FPO benefit, he would have been able to obtain the new policy with the increased coverage, regardless of his health at the time of the application.*

*N.B.: The specifics regarding benefits available and the option exercise date(s) may vary depending on the individual policy.

Cost of Living Adjustment (COLA) Option

Fortunately, Joe’s policy contains a cost of living adjustment option (COLA) that will increase his monthly disability benefits over time; the option is tied to rises in the Consumer Price Index. For example, Joe’s $4,000 monthly benefit would increase automatically to $4,052 per month to reflect a 1.3% increase in the Consumer Price Index. In the absence of the option, if Joe’s disability is permanent, the purchasing power of the flat $4,000 monthly benefit would be seriously eroded over time.

Waiver of Premium Option

Joe’s policy also contains a waiver of premium with a 3-month waiting period. This means if Joe is disabled, he must continue the premium payments for the first three months of disability. Beginning in month four, the insurer will waive all future premium payments for the remainder of the disability. The policy will continue as if the premiums were being paid, and the insurer will send Joe a cheque in the amount of $99, which represents a refund of the premiums paid during the waiting period.

Rehabilitation Benefit

If Joe’s policy provides rehabilitation benefits, and Joe is disabled to the extent that he can never work in the plant at Oldcom, and if both parties are satisfied that no private or public plans are available, Joe’s insurer will pay, often up to a defined maximum (e.g. 12 times the monthly benefit: 12 x $4,000 = $48,000) for a rehabilitation program designed to allow him to work at home at a related job.

FILE 19: A Case Study on Accident and Sickness Insurance

Circumstance	Insurance considerations
Natalie Cossette is 34 years old; she is divorced and has custody of her two children, aged six and eight. Her ex-husband is unemployed and has remarried since Natalie and he were divorced. Although he is supposed to make child support payments to Natalie, he has not done so for the last three years and it appears that he will not begin again soon.	
Natalie lives very frugally on a tight budget. She can get by, but she has no way of paying an unanticipated expense: a surprise medical or dental bill would be a financial burden which would take her a long time to pay off.	
Natalie works in a clothing store as assistant manager. Her income is $28,500 annually and she has no group benefits. She has not been to the dentist for many years but she sends her children like clockwork every six months. The last checkup was a financial blow: each needed fillings and special fluoride treatments.	A&S insurance protects against loss. A family policy will cover Natalie and her children and will pay the bills.
Natalie is a good prospect for an accident and sickness policy to cover prescription drugs and dental services. The premiums become another regular expense for her and save her the anxiety of facing large, unknown bills. She declines the extended health plan because the other features offered in the extended health plan, such as a semi-private hospital room, are unimportant. Natalie does not travel in her work, so travel assistance is also unimportant.	There are no pre-existing conditions; only regular, preventative dental care. A pay-direct plan means Natalie will not have to be out-of-pocket during the period of reimbursement.

She buys a policy with a $50 deductible, and no co-insurance factor because she needs insurance that will pay the bills when needed.	The low deductible increases her premium but she can manage this better than a higher, unknown expense that she might face with a higher deductible or co-pay. A plan that provides preventative coverage will give the kids the dental work they need without the frills, like orthodontics, that Natalie cannot afford. Offering a potential client a policy to suit their finances and needs provides a valuable insurance service that creates goodwill for the agent and the industry. Underselling, or just-right selling, can be rewarded in the future with more business when finances or circumstances change. Overselling can lead to policy lapsation because the client does not see the value in the expense, and the expense itself can be onerous.

FILE 20: A Case Study on CI Insurance

Circumstance	Insurance considerations
Dr. William Rubino, 58, is a leading oncologist. Every day he deals with many types of cancer, and sees firsthand the pain and devastation the disease creates in his patients and their families.	Cancer is one of the conditions that can be insured for in a critical illness policy.
He is also particularly aware that the detection rate of cancer has increased enormously since he began his medical practice, thirty-one years ago. For these reasons, he has acquired critical illness insurance for himself and his wife, Nina, 55, despite the fact that both Dr Rubino and Nina are in good health now.	Dr Rubino and his wife meet the age requirements since they are older than 18 and younger than 65.
Dr. Rubino's income is essential to the welfare of his family since Nina does not work. Although he is moderately wealthy, his capital is not liquid: it is tied up in real estate, mortgages, and long-term bonds. His investment income is reinvested in RRSPs for himself and Nina, universal life policies for his children, and trusts he has created for his children after each turns 21. A doctor is essentially self-employed; his billings to the provincial medical plan provide his income. If those billings cease, income also ceases.	There is no pre-existing condition. There is a need for insurance. Nina would not qualify for disability insurance because she is not employed.
He views the CI policy as important for himself because if he was diagnosed with a life-threatening cancer, he would want to receive the lump-sum benefit to provide a continuation of his income while he divested his investments and left his affairs in order. The CI policy means he would not have to incur debt while he was unable to work. Other insurance and investments will provide an income for Nina if he dies. Dr. Rubino also views the CI policy on his wife as important to provide him with "breathing space" if she was	

diagnosed with cancer. This would mean he would be financially freed from having to go to the office every day and he could devote his attention to his wife instead of worrying about paying the bills. Dr. Rubino acquires the policy with a return of premiums rider because he knows that if he and Nina live to age 70 without cancer, they are unlikely to die of the disease after that age. So, at age 70, he would cancel the policy and receive a refund of premiums if no claim had been made. For these reasons, all self-employed people benefit from a CI policy.	The benefit will be paid directly to Dr. Rubino to replace lost income. The insurance benefit would serve as a stop-gap between Dr. Rubino's employment and death. The benefit can be used however the insured desires. The rider makes the insurance almost a no-loss proposition; it will be there if needed and premiums refunded if not needed.

FILE 21: A Case Study on LTC Insurance

Circumstance	Insurance considerations
Katherine Kelly has enjoyed life as a single woman. She has progressed through her firm to a position of vice-president. Her hobbies have included travel, estate auctions, and golf. Her retirement is well-funded through a combination of her private pension, RRSPs, and investments. Katherine is 55 and in good health, except for odd memory lapses. This concerns her because her father had Alzheimer's disease; she does not know how her mother would have been in old age since she died when Katherine was 23. Katherine fully recognizes that her old age will be a solitary one: she has no spouse to contribute towards any health or living expenses she will face, and no children for emotional or financial support.	Premium expense can be afforded. She is between the ages of 31 and 80; she has at least 10 years of work remaining during which premiums will be paid. Family history gives cause for her concern. Katherine has a risk of developing disease. She must provide for her own future; no one else will do so. Does not have a pre-existing condition.
Alzheimer's disease cannot be diagnosed accurately until the patient has died. Therefore, all Katherine and her doctor can do is monitor her symptoms, make judgments based on the evidence, and plan accordingly.	Alzheimer's patients will progress to the point where they are unable to perform many of the ADLs (activities of daily living)
Katherine wants to plan for the possibility of Alzheimer's while she has the financial capacity to do so. She wants the assurance that she will live with dignity, for as long as she may live with her condition.	Katherine manages risk by acquiring the policy. Policy will provide home and chronic care.
Katherine can be prepared in the event of Alzheimer's by a long-term care policy. The policy will provide care for her in her home until she must be institutionalized. The cost of private institutionalized care is very high; Katherine's investments and pension would be inadequate over a long period of care. Her investments can fund a 180-day elimination period on the policy. Because she is uncertain how long care may be required, she acquires the policy with a cost of living rider to protect against inflation.	Benefit can be provided for life. She can fund a long elimination period. Uses a rider for inflation protection. Agent documents this rationale in case Katherine begins to question need for policy.

FILE 22: Term Insurance to Fund a Buy/Sell Agreement

Motiv8 Marketing is an advertising and marketing firm. It is incorporated, and is privately owned with five equal shareowners. Doug, Dave, Linda and Robert are all between 55 and 60 years old. Marilyn is 40. The firm was only established two years ago when all the partners were downsized from the large multinational marketing firm that had been their employer for upwards of 10 years. They received large severance packages that enabled them to start Motiv8 without incurring debt.

Their business philosophy is to operate on the revenues generated by the firm. They do not want business loans. The shareowners run a lean operation; they keep overhead costs to a minimum relative to revenues. Their cash flow statement would show that revenues and expenses almost match. Last year revenues were $6.6 million. Each partner took home a salary of $500,000 and a bonus of $500,000. Overhead expenses were another $1.2 million.

Motiv8 is built on the brains and energy of the partners. They do not want to bring in new shareholders; they are a team that complements each other completely.

The value of the business has been established at $3 million; thus each partner's shares are worth $600,000. The value is considerably less than revenues because it is a company built on brain-power and without the brains of any of the shareholders, it is assumed that the company fortunes will deteriorate to a degree. Momentum, goodwill and a solid track record support the $3 million valuation.

Question

Does Motiv8 or the partners need insurance? If so, what type and how much?

Recommendations

- the business does not need key person insurance because there is an expressed desire not to bring in new shareholders
- the business also does not need business overhead insurance because there is more than one revenue-producer and so revenues can continue to be generated if one partner is disabled
- the business does need buy-sell insurance in order to buy the shares of any one partner
- because the company runs on a tight cash flow, the agent recommends term insurance
- the premiums will be paid by the business and the business will be the beneficiary

- if a partner dies, Motiv8 will use the death benefit to buy the shares from the estate of the deceased partner
- the amount of insurance has been dictated by the value of the business and corresponding value of each partner’s shares: $600,000 of term insurance on each partner

Agent’s Course of Action

- The agent writes the policies in the amount stated as yearly renewable term policies.
- The agent points out that the business should be revalued prior to the policy renewal date so that the amount of insurance keeps pace with the value of the shares.
- The agent also ensures each partner has a personal policy, especially Marilyn, who has a four-year old daughter and is a single parent.

FILE 23: Key Person Insurance

Wilson Engineering Limited is a small firm that specializes in projects for the oil and gas industry. The owner, Chuck, is 64 years old and would rather play golf than engineer. There are two other shareholders in the firm, which is incorporated. Chuck is the majority owner with 60% of the shares, Ralph and Ed are equal minority shareholders with 20% of the shares each. Ralph and Ed are both 60; their energy level is waning. The firm has an excellent reputation for its work even though the amount of work has been scaled back. Randy Woods calls Chuck one day. Randy has been an independent engineering consultant for the past 23 years and has just heard of an incredible opportunity to tender on a government contract for gas drilling in the Arctic. He needs the backing of a firm like Wilson Engineering to proceed with a bid. Chuck agrees to prepare a bid with Randy as "lead man" on the project on the condition that Randy joins the firm if they are awarded the project. Beating much larger firms, Wilson is awarded the $5.5 million project. It must be completed within three years. Randy joins Wilson Engineering at an annual salary of $245,000.

Question: Who needs insurance – Chuck, Randy, or Wilson Engineering? If so, what type and how much?

Recommendations

- Randy is clearly essential to the project Wilson Engineering has been awarded. Wilson should put key person insurance on Randy.
- A one-year renewable term policy will allow the firm to renew the policy over the period of time the project takes until completion.
- The amount of the policy should be $1 million (between 4 and 5 times Randy's salary).
- Wilson Engineering will pay the premiums and be the beneficiary of the policy. While the premiums will not be tax deductible, the death benefit will be paid tax free to the business to find a replacement for Randy if he dies during the contract period.

Agent's Course of Action

- agent writes a one-year renewable term policy with a $1 million face value
- agent visits Wilson on each policy anniversary to renew policy
- agent discovers through her annual visit, that at the end of the project, Randy has assumed the CEO role formerly filled by Chuck. Chuck however still owns 60% of the shares. Chuck and Randy structure a buy-sell agreement using a term-to-100 policy with a value of $3.2 million (the value of the shares as determined by a business valuator) to buy Chuck's shares. Randy pays the premiums and is the beneficiary of the policy. When Chuck dies, 18 years later, Randy uses the death benefit of the policy to buy Chuck's shares from his estate. Randy becomes the majority shareholder of Wilson Engineering.

FILE 24: Group Life Policy Provisions

Many of the provisions of a group life policy, such as the grace period and incontestability, are very similar to individual life standard policy provisions. However, there are some provisions particular to group life. These are the:

- ✓ benefit schedule
- ✓ beneficiary designation
- ✓ conversion privilege
- ✓ misstatement of age
- ✓ settlement options

Benefit Schedule

Group life policies include a ***benefit schedule*** that identifies the amount of life insurance coverage or the method by which the insurer will determine the amount of coverage.

There are three schedules:

- a stated amount per group insured; such as, every group insured has $10,000 of coverage
- a formula that is often a multiple of the group insured's salary (as seen in our preceding case study in which Sam Scanga is insured to one times his salary)
- a stated amount for each job classification among the group; such as, all managers have $100,000 in coverage

If the group insured's spouse and/or dependents are covered, a separate benefit schedule will list the amount of coverage for each.

Beneficiary Designation

On death, a beneficiary designated by the group member will receive a lump-sum payment. The beneficiary can be revocable or irrevocable and the group insured has the right to change the revocable beneficiary as he or she wishes. If a dependent is covered by the policy, the group member is the beneficiary of this coverage.

N.B. A group creditor life policy **requires** the creditor to be designated as the beneficiary.

Conversion Privilege

There are two conditions under which group coverage might stop. Firstly, the group member could leave the group; for instance, if he or she changed employers or changed jobs in which the new position is not covered by the policy. Secondly, the group policy could be terminated; for instance, if the employer decided to discontinue premiums or went out of business.

Regardless of how group coverage ends, the group member is protected by a conversion privilege.

If the member leaves the group, the insurance can be converted to an individual life policy — typically either a term or whole life policy — without providing evidence of insurability. The former group member must apply and pay the first premium for his or her new individual policy within 31 days of leaving the group plan.

When the group policy owner terminates a policy, group life can be converted to individual life if the group insured has been covered by the group plan for at least five years. Conversion must be made within 31 days and evidence of insurability is not required. Again, the insurer will impose limits on the amount of insurance coverage. It will be the lesser of $10,000 or the difference between the old coverage and any new coverage obtained in another group plan. There is no break in coverage if the employer decides to switch carriers.

Group insurance with a waiver of premium benefit requires insurance to continue for any disabled group members even though the policy may be terminated.

The death benefit continues during the 31-day conversion period.

Misstatement of Age

If a group member has misstated his or her age, and the premium would have been affected by his or her true age, then the insurer retroactively adjusts the premium to reflect the group member's true age.

N.B. When age has been misstated in an individual life policy, the death benefit will be adjusted. When age has been misstated in a group life policy, the premium will be retroactively adjusted.

Settlement Options

Usually the beneficiary will receive the death benefit as a lump sum. An insurer may make it possible for the group member or beneficiary to choose other forms of settlement. If the life annuity option is selected, the death benefit must be large enough to warrant this option; the minimum requirement will usually be stated in the policy.

FILE 25: STD and EI

Employers who provide short-term disability may qualify for a reduction in their Employment Insurance (EI) contributions. The employer's plan must:

- provide a minimum of 15 weeks of short-term disability benefits to employees
- equal or exceed benefits provided by EI
- pay benefits within 14 days of illness or injury
- have a probationary period not greater than 3 calendar months after the month in which the employee becomes eligible
- provide coverage 24 hours every day
- rebate 5/12s of the reduced EI premium to employees
- maintain separate payroll accounts for employees with reduced EI premiums from those who pay regular premiums
- adjust earnings annually to keep pace with EI increases

If the employer plan meets these requirements, an application for registration must be made to Human Resources and Skills Development Canada.

Employment Insurance pays 55% of an employee's EI insurable earnings. Regular wages, overtime, commissions, and shift differentials constitute these earnings. Thus, an employer's STD plan must pay a minimum 55% of the same insurable earnings. For example, if an employee earns $500/week, his or her EI benefit would be $275/week ($500 x 55%). Therefore, the employer's STD plan would also have to pay at least $275.

The use of an employer's short-term disability plan to replace EI is a benefit to the employer and the employee. Both pay less EI premiums while employees receive at least the same level of benefits as provided by EI alone. The employer can deduct contributed premiums as a business expense.

FILE 26: A Comparison of Individual and Group Disability Income Insurance

	Individual	Group
Beneficiary	named by individual	named by group plan member
Benefit(s) accrue to	policy owner or beneficiary	group plan members or their beneficiaries
Evidence of insurability	required	not required if group meets size requirement established by insurer
Face amount determined by	policy owner	policy owner on behalf of group plan members
Insured	policy owner or, if a life policy, an insurable interest	group plan member
Policy controlled by	policy owner or irrevocable beneficiary	policy owner on behalf of group plan members
Policy owner	individual	group policy owner
Policy sold by	licensed agent	licensed agent
Premiums paid by	policy owner	policy owner and when a contributory plan, by policy owner and group plan members
Primary advantages	all conditions of the policy are controlled by the policy owner for his or her own benefit	-lower cost than premiums for an individual plan -provides a valuable employee benefit -can be converted to individual policy when certain conditions are met
Primary disadvantage	cost borne by individual	control of policy and its benefits is with the group policy owner; the group member has no say
Riders	selected by the policy owner	selected by the policy owner on behalf of the group plan members
Taxation	premiums are not tax deductible; benefits from a disability policy will be received tax free	premiums are not tax deductible for group plan members; disability income payments will be taxable if premiums have been paid by the group policy owner
Termination of policy	by policy owner	by group policy owner or insurer on annual renewal date
Types of insurance available	all forms available	life, disability, accident and sickness, critical illness
Types of insurance not available	n/a	long-term care
Used by	individuals who want to provide for themselves and their dependents in the event of premature death, disability, or excess health costs	groups who want to provide an employee benefit or creditors who want to ensure debts are repaid if the debtor dies

FILE 27: Group Disability Exclusions and Limitations

Both STD and LTD plans specify conditions and circumstances under which benefits will not be paid. These include:

- any time when the employee is not under a physician's care
- when the employee is absent due to normal pregnancy or parental leave
- when the employee is in a penal institution or house of correction
- when injury is self-inflicted or suicide is attempted while sane or insane
- when injury results from war
- when injury results from committing or attempting to commit a criminal act

Plus when the employee is receiving partial disability or rehabilitation benefits, benefits will be denied:

- if the employee works elsewhere without the approval of the insurer
- if the employee refuses to participate in an approved partial disability or rehabilitation program the insurer requires

Finally, LTD plans exclude or restrict pre-existing conditions when:

- a total disability begins within the first 12 months of coverage **and**
- the insured had received medical treatment from a doctor within 90 days of the start of coverage for the sickness or injury that led to the disability **or**
- the insured had received prescription drugs for the sickness or injury that led to the disability within 90 days of coverage

FILE 28: A Case Study on the Integration of Disability Income Benefits

Josie Loewen is a single-mother with two children, ages 12 and 10. She supports her family by working two jobs: one is as an order packer at a book publishing warehouse at which she earns $465 weekly; the other is as a door-to-door salesperson of cosmetics that brings in about another $80 each week. Her monthly income is $2,180. Despite tight finances, she purchased an "any occupation" cancelable disability policy with a two-year benefit and a two-month elimination period. She is also covered by workers' compensation at her warehouse job; she started contributions to CPP this year.

One day at the warehouse she stoops to pick up the newest order of encyclopaedias. Her back immediately seizes and she is taken by ambulance to the local hospital. X-rays show serious damage to her spine, muscles, and tendons. Josie will probably never regain the ability to work at her usual job.

Her workers' comp benefits begin the day following her accident. They pay $218.50/week ($874/month). Two months after the accident (the length of the elimination period), her private policy begins benefits. Josie had purchased a benefit of $1,308/month (calculated as 60% of her earned income). She receives $874/mo from workers' comp but only $434 ($1,308 — $874) from her own policy since her policy benefits are reduced by the workers' comp benefits. She is not eligible for CPP disability benefits because she would not meet the CPP requirement for "severe and prolonged" disability. She does not receive Employment Insurance sickness benefits because she is receiving workers' compensation.

The amount that is received in workers' compensation cannot be determined before a claim is actually made. Therefore, **planning** to use workers' comp as the only source of disability income is impossible. So, while Josie probably overpaid her insurance premiums to receive only $434 in benefits, she could not run the risk that she might receive far less from workers' compensation.

Three months after her accident, Josie's premiums for her individual policy were waived by the waiver of premium benefit and the premiums she had paid during this period were refunded.

After two years, her policy stopped payments and the policy was not renewed by her insurer. Her disability payments were increased by 3% and 4% for each of the two years she was on workers' compensation. She was not entitled to any other disability income.

FILE 29: Fraudulent misrepresentation

David Smee has been diagnosed with prostate cancer. The doctor informs him that he is likely to live five years, maximum. David, who has no insurance, immediately applies for a 10-year renewable term policy. He does not reveal that he has cancer. When he dies, nine years after diagnosis, medical records reveal the existence of the cancer prior to David's application.

The insurance claim is denied because of the evidence of **fraudulent misrepresentation**. David deliberately, knowing his application to be false, and with the intent of deceiving the other party made a fraudulent representation. Fraud will always void a contract regardless of the number of years it has been in force.

N.B. An *innocent* or *negligent misrepresentation* is a false representation made without the intent to deceive the other party.

Smoking status

Tommy Hofflinger recently received the renewal package for his auto policy. Included in the material was an invitation to buy term life from the insurer. The only requirement was for him to complete a brief application and return it to the company. They would deduct the premium ($32.15) from his account monthly.

Tommy filled in the application and requested $50,000 in term coverage and declared himself a non-smoker. As far as Tommy was concerned, it was a little white lie — and, anyway, he was going to quit next year. He named his partner, Frank, as beneficiary.

Six months after the policy was issued, Tommy died from a rare form of pneumonia. The autopsy results declared Tommy as a smoker.

Tommy's declaration that he was a non-smoker was more than a little white lie. It was a fraudulent misrepresentation, a serious offence in the life insurance application process, and his application deemed fraudulent. Frank's claim as beneficiary of the policy was denied on those grounds.

N.B. A false declaration of **smoking status** is one example of a fraudulent misrepresentation. It is an intentional effort to defraud the insurer. Fraud is a basis on which a policy can be denied.

FILE 30: Joint and Last Survivor Universal Life

Nancy, 44, and Peter Kuepper, 46, are typically middle-aged, middle income earners. They own a house valued at $160,000 with a $70,000 mortgage. Peter makes $43,000 as an elementary school teacher. Nancy earns $33,000 in her job at the local library. They have two children, aged 9 and 11. They owe $5,200 on credit cards and to the bank. They do not have wills or life insurance because they prefer not to think about either of them dying.

Both sets of the Kuepper's parents are much like them: Peter's father was a unionized employee in a large manufacturing plant and Nancy's father was a sales representative for a line of men's clothes. Neither mother worked. Both sets of parents live in small bungalows about 10 miles away from Nancy and Peter.

The Kueppers contribute $3,000 annually to their RRSP and another $1,500 to an education fund for the children.

As they look to the future, they know they would like to do things they have never had the time or money to do during their working lives: travelling the world is first on the list.

Their goals are at odds with their reality but they have hopes that Peter will receive a promotion and that the financial picture will change.

Earlier this year, both of Nancy's parents passed away. Firstly, her mother died from kidney failure. Then, three months later, her father died from a massive stroke. Nancy never had any indication that her parent's estate was worth $835,000. It turned out her father made significant commissions during his working life that he invested wisely. He never spent the money because he thought he might need it "for a rainy day." The $825,000 went to the executor who had to pay over $300,000 in capital gains tax before Nancy received her inheritance.

Nancy and Peter never considered they would have so much money. They are uncertain what to do and turn to a lawyer for help.

Question
What type of insurance should the Kueppers acquire?

Situation Analysis

- Their lawyer suggests they begin by topping up their RRSPs and education fund. Then they should acquire some life insurance.
- They wish to leave an inheritance to their children, just as they have received.
- The amount they have received sounds enormous but a capital needs analysis will show where they stand in regards to insurance requirements. The analysis does not include their inheritance. Also the analysis is done to reflect that they both want insurance, in case they die together.

Capital Needs Analysis

Cash needs	
Assets	$160,000
Final expenses (funeral, legal expenses, credit card, mortgage)	$85,300
Total cash needs (amount by which assets exceed expenses)	$74,700
Income needs	
Continuing income	0
Continuing expenses ($1,000/mo for each child annually)	$24,000
Total income needs	$24,000
Total needs	
Capitalized value of Peter and Nancy's life (assuming 5% interest rate)	
(determined by total income needs ÷ 0.05)	$480,000
Minus cash needs	$74,700
Insurance required	$405,300

Recommendations

- A joint and last survivor universal life policy with a $400,000 face value will provide adequate life insurance for both Nancy's and Peter's life and will pass to one of them if the other should die.
- Their inheritance allows them to "quick pay" the policy so that it requires no additional premiums.
- There are likely to be many years until Nancy and Peter die so that if they choose the death benefit plus account value settlement option, their children are likely to receive an equally large inheritance. In addition, the death benefit will be tax free, unlike Nancy's inheritance that was significantly eroded by capital gains tax.

Agent's Course of Action

- Agent prepares policy as instructed.
- Agent helps the Kueppers select a conservative portfolio of investments for the investment portion of the policy that will ensure modest, long-term growth.

FILE 31: Classes of Beneficiaries

The four primary classes of beneficiaries were altered by legislation in 1962.

Prior to July 1, 1962, beneficiaries were:
- Beneficiaries for Value
- Preferred Beneficiaries
- Ordinary Beneficiaries
- Estate Beneficiaries

Since July 1, 1962, beneficiaries are:
- Irrevocable Beneficiaries
- Revocable Beneficiaries
- Estate Beneficiaries

The *beneficiary for value* designation was designed to provide a creditor with collateral in the policy, plus interest. Today, this type of assignment is called a collateral assignment.

A *preferred beneficiary* (a spouse, child, grandchild or parent) designation placed the beneficiary in control of the policy. Although this designation has disappeared, it has been replaced in many ways by the *irrevocable beneficiary* designation.

An irrevocable beneficiary has control over the policy. Obtaining a cash loan, surrendering the policy for cash or assigning the policy for collateral is denied without the written consent of the irrevocable beneficiary.

Finally, the “ordinary beneficiary” designation was changed to “revocable beneficiary”. This beneficiary may be changed by the policy owner without the beneficiary’s consent.

An estate beneficiary was, and continues to be, the designation of the policy owner’s estate as beneficiary.

FILE 32: Settlement Options

Ron Richardson has a $100,000 term life policy that names his only child, Roger, as beneficiary. Which of the four settlement options is most suitable for Roger?

Lump sum payment

This option suits Roger if Roger has a need for immediate cash and the financial responsibility to deal with a sudden windfall. The principal ($100,000) is paid in one payment.

Interest only

This option suits Roger if he is the type to spend the lump sum of money on two jet-skis, a new 4x4, and the rest at the local watering-hole. It provides many small payments instead of one large one. The interest payments will last as long as the proceeds stay with the insurer instead of arriving in a large payment.

On the other hand, this option is also a good one if Roger was independently wealthy and had no immediate need for a lump sum of cash.

Installment

If Roger was a special needs child who had no prospects for earning an income, this option that pays both interest and principal would provide an income to Roger until the principal was exhausted. It pays more on a regular basis than interest only.

Life annuity

Using this option means that the insurance company uses the $100,000 to purchase a life annuity for Roger. Roger will again receive a permanent income which is suitable if he has need for a steady payment over his lifetime.

FILE 33: Comparing Definitions and Benefits of Individual and Group Disability Income Insurance

	Individual	Group
Purpose	to replace income lost as a result of disability	to replace income lost as a result of disability and return the disabled to the workforce
Definition in policy of own occupation	individual receives disability benefits plus other income for duration of benefit period	group insured receives STD benefit (no other income) for up to two years
Definition in policy of any occupation	individual receives disability benefits only (no other income) for duration of benefit period	group insured receives LTD benefit for duration of LTD plan, unless sufficient income is earned in any other position that replaces the LTD benefit
Definition in policy of regular occupation	individual receives disability benefits that are reduced by any other income earned	not provided
Retraining	paid by rehabilitation benefit rider	paid by insurer during STD
Risk factors	insured transfers risk of losing income to insurer	policy owner controls risk of long-term income replacement costs by instituting retraining
STD benefit	up to 60% of predisability earned income adjusted according to definition of occupation	typically 60% wages or salary
LTD benefit	up to 60% of predisability earned income adjusted according to definition of occupation	typically 60% or 66-2/3 of weekly wages or salary, minus any other income
Taxation of benefit	benefit received tax-free when individual has paid premium	benefit proportionate to amount paid by group insured is received tax-free

FILE 34: Taxation of Group Policies

	Group Life	Group Disability	Group A&S
Premiums are tax deductible for the employer	yes	yes	yes
Premiums are tax deductible for the employee	no	no	no
Premiums are a taxable benefit to the employee	yes*	yes, if paid by employer; not if employee includes premium as taxable income. In Quebec, employer-paid premiums to health plans are a taxable benefit.	no
Benefit paid to employee	death benefit	income benefit	reimbursement
Tax status of benefit paid to the employee	tax-free	taxable if premiums paid by the employer; tax-free if employee has declared premiums as taxable income	tax-free

*when premiums are paid by the employer.

FILE 35: Entire contract

On July 18 last year, Margaret Murdoch passed away in her sleep. She was 93 and had had a whole life policy put on her life by her husband when she was 40. The beneficiaries of the policy were their children, Carol and David.

Carol found the policy when she was clearing through Margaret's things. The death benefit set out in the policy was $100,000 which would come to her and David tax free. Carol filed a claim with the insurer and within 3 weeks received a cheque for $10,000.

The company claimed that the policy application was for $10,000 and premiums had been paid on that basis. The fact the sum insured on the policy was $100,000 was erroneous; they refused to make further payment.

Carol and David sued the company for the balance of the death benefit in the policy.

The court considers only the application and the policy as the **entire contract**. A mistake had been made, but the facts of the policy prevail over that of the application. Thus, Carol and David were able to receive the $100,000.

N.B. The application and the policy are the only evidence of the contract. When there is a discrepancy between the two, the information in the policy prevails.

FILE 36: Right of Rescission

Gerald Cook was at home one Saturday morning while his wife, Martha, was out shopping. He read an article in his daily paper that did a tremendous job explaining the benefits of life insurance. So as not to procrastinate, he looked up a life agent, Claire Mackinnon, in his local Yellow Pages and made an appointment with her for the following Wednesday evening.

When Martha returned from shopping, she and Gerald wasted no time in getting at the weekend chore list; Gerald forgot about his appointment with Claire.

On Wednesday, Martha was at her exercise club when Claire came to meet with Gerald. They discussed all the pros and cons of different policy types, and Gerald decided to purchase a term policy — primarily as mortgage insurance.

By the time Martha got home, Gerald was in bed. Next day, he left for work at 6 am while Martha still slept. He failed to inform Martha of his insurance application.

On Sunday, Martha was reconciling her bank statement from the automated banking machine. She saw a cheque had cleared for $90.90. She had no record of such a cheque and asked Gerald if he knew about it. Gerald informed Martha that the cheque was the initial premium to accompany his application for the term policy.

Martha reminded George that they did not need personal policies because they were both members of a group plan at work and that the group insurance included ample life coverage. The next day, when Claire returned with the policy for Gerald to sign, Gerald cancelled his contract and received his $90.90 using his **right of rescission**.

N.B. The right of rescission lasts for 10 days.

FILE 37: Suicide Exclusion Clause

Life agent Claire Mackinnon met with Edgar Poe on November 12 last year. Edgar seemed well established with a lovely home and happy family so it seemed likely he would be considering life insurance as income protection in the event of his premature death.

Somewhat surprisingly to Claire, Edgar decided on a one-year term policy, non-renewable, with a $2 million face value and an accidental death rider. For all intents and purposes, Edgar was covered with $4 million in life insurance. Edgar designated his wife as beneficiary. He paid the annual premium, $3,760. with his application.

On January 10, Edgar's wife called Claire to inform her that Edgar had died when his car crashed into a tree. Claire contacted the authorities to determine the circumstances of the crash: it was a beautiful sunny day, clear driving conditions, and Edgar had been driving his small compact instead of the SUV. The police declared the accident as intentional and Edgar's death suicide.

There would be no death benefit from the policy and the insurance company returned the premium to the widow.

N.B. The suicide exclusion clause prevents a death benefit to be paid within a specified period, usually two years, when the cause of death is suicide. The premium is returned.

<u>FILE 38:</u> Misstatement of Age

Jacques Bennie decided that, so far as the outside world is concerned, he would remain 39 forever. When he turned 42, he applied for and received a standard rated $100,000 whole life insurance policy in which he named his trusted employee, Rochester, as beneficiary. His application stated his age as 39. When Jacques died at age 70, the insurer became aware of the misstatement of age. When the policy was issued, Jacques, assessed as 39-year-old, was charged a premium of $25 per $1,000 of insurance. Had he been assessed as a 42-year-old, his premium would have been $27 per $1,000 of insurance. What benefit will Rochester receive?

The calculation is: premium charged ÷premium that should have been charged **x** face value of the policy. Therefore, Rochester will receive: 25 ÷ 27 = 0.9259 x $100,000 = $92,592.59

FILE 39: Incontestability Clause

Early in 1996, a perfectly healthy, 35-year-old Joe Bicker, applied for, received and paid premiums on a straight whole life policy, issued by Covert Casualty Limited (Covert). The policy, with its $1 million death benefit, listed his wife Constance as the beneficiary.

His application correctly listed his age, occupation, and smoking status. The application did not reveal, nor did it specifically ask for the fact that Joe's grandfather, father, and older brother had all died of heart failure before reaching the age of 40.

True to Bicker form, Joe died of heart failure at 39, and Covert sought to deny coverage on the basis that the family medical history was not included in the application.

Constance Bicker brought a successful suit against Covert by invoking the **incontestability** provision.

Since the failure to go into family medical history could hardly be viewed as a material misrepresentation, Covert had to honour the coverage under the policy.

N.B. A life insurance contract is incontestable by the insurer when it has been in effect continually for two years after the issue or reinstatement date, unless fraud has been committed

FILE 40: Coordination of Benefits

Amita Saenz suffers from a variety of skin ailments that require numerous prescriptions. Each month she files her prescription receipts together with the necessary paperwork with her employer to forward to their group plan insurer. She has an extended health plan that has a $25 annual deductible and a co-insurance factor that pays 80%. Her husband's plan has a $100 annual deductible and no co-insurance factor. Here is what she is reimbursed for over the first three months of the year:

January:	receipts $185.00
Amita's plan	$185 submitted $25. deductible $32. co-insurance $128 paid
Husband's plan	$185 submitted $100. deductible

$85. could be paid but since $128 was already paid under Amita's plan, husband's plan will pay $57 ($185 - $128)

February:	receipts $185.00
Amita's plan	$185 submitted $0 deductible $37. co-insurance $148 paid
Husband's plan	$185 submitted $0 deductible

$185. could be paid but since $148 was already paid under Amita's plan, husband's plan will pay $37 ($185 - $148)

March receipts $185.00; payments will be the same as February since deductibles are already paid.

Two Dental Plans

Rose Mandible is a member of two group dental plans. Steno Casualty Ltd. does not contain any coordination of benefits provisions in its contract whereas Workforce Ltd. does have coordination benefits as part of its group policy. Both plans pay 80% of eligible dental expenses.

Rose has eligible dental expenses of $235.99 for which she makes a claim under both policies. What amount will each company pay to Rose?

Steno is the primary carrier because its contract contains no coordination of benefits provision. Since its plan pays 80% of eligible expenses, it will pay Rose benefits in the amount of $188.79 ($235.99 x 0.80).

Workforce also would have paid $188.79 if it had been the primary carrier as its coverage also is 80% of eligible claims. However, as the secondary carrier, it pays the **lesser** of the amount it would have paid if it were the primary carrier ($188.79) or 100% of eligible expenses **reduced** by all other benefits payable for the same expenses by the primary carrier. This amounts to $47.20 ($235.99 - $188.79).

