HYBRID

Hybrid life insurance with mortgages

A Case Study

Robert has two clients, Alex, 43 and Julie, 36, both non-smokers, who recently purchased a new home with a $200,000 mortgage. Their mortgage will cost $947 per month with an initial five-year variable rate of 2.99%, amortized over 25 years. Robert recommends using term insurance to cover mortgage costs, and based on his financial assessment, recognizes that Alex and Julie also have a long-term insurance need. Julie already has permanent coverage her parents bought when she was young, but Alex does not own any. Robert's suggestion is for Alex to purchase $100,000 of permanent coverage together with their term insurance policy.

Robert's Dilemma

With interest rates at an all-time low, Robert does not want to lock Alex into paying the high premiums guaranteed products offer today. Alex and Julie have a tight budget so any savings would help if interest rates increase in the future and their mortgage costs go up. Fully guaranteed insurance products do not have any pricing flexibility to offset future cost of living changes.

Robert's Solution

Fortunately, Robert can offer a new product for Alex that will allow premiums to decrease when long-term interest rates go up and his coverage will remain level. Robert recommends Empire Life's new Hybrid Solution 100, which can be added to their term policy with no additional policy fee.

Robert's Recommendation

Purchase a $200,000 joint first-to-die Solution 20 policy for $55.98 per month and add Alex's Hybrid Solution 100 coverage of $100,000 as a rider for an additional $99.81 per month. The total initial cost will be $155.79 per month.

Always Current Pricing

Interest Rate Range	Premium		%
	Annual	Monthly	Change
less than 1.00%	$1,422	$127.98	28%
1.00% to 1.99%	$1,308	$117.72	18%
2.00% to 2.99%	$1,180	$106.20	6%
3.00% to 3.99%	$1,109	$99.81	-
4.00% to 4.99%	$1,038	$93.42	-6%
5.00% to 5.99%	$953	$85.77	-14%
6.00% to 6.99%	$882	$79.38	-20%
7.00% to 7.99%	$811	$72.99	-27%
8.00% or more	$739	$66.51	-33%

Each Hybrid Solution 100 coverage provides a set of premiums, all of them based on original age at issue and each one linked to a specific interest rate range. Every year, Empire Life will determine an annual interest rate by calculating the average for the last six months of the previous calendar year of a monthly benchmark interest rate. This annual rate determines the interest rate range that is used to establish the premium for the year.

Having premium changes linked to a benchmark interest rate makes this product more responsive to market conditions.

Future Value

Alex's Life Stage	Age	Minimum Cash Value	Estimated Cash Value[1]	Minimum Paid-Up Value	Estimated Paid-Up Value[1]	Total Hybrid Premium Paid[1]
Initial Purchase	43	-	-	-	-	-
After 20 years	63	$19,592	$27,805	$41,330	$65,603	$25,488
Mortgage-free	68	$27,439	$36,872	$50,548	$74,336	$31,860

[1] Illustration Only. Assumes original initial interest rate range used to determine monthly premium and factors considered to determine cash and paid-up values remain the same for the entire period. Also assumes mortgage is paid off in 25 years.

When Alex and Julie become mortgage-free, Alex's Hybrid Solution 100 coverage is guaranteed to provide at least $27,439 in cash value and at least $50,548 in paid-up value with actual values potentially higher. Robert also explains the benefit when long-term interest rates rise in Canada. Here is an example of what could happen.

	Mortgage Balance	5-Year Variable Mortgage Rate	Monthly Mortgage Payments	Interest Rate Range	Hybrid Life Insurance Monthly Premium
Today	$200,000	2.99%	$947	3.00% to 3.99%	$99.81
In 5 Years	$170,977	4.01%	$1,037	5.00% to 5.99%	$85.77

While Alex and Julie's mortgage costs increase by 9.5%, Alex's Hybrid Solution 100 premiums decrease by 14%, allowing them to enjoy some savings when other cost of living factors are on the rise.

Hybrid Life Insurance™

Responsive, Adaptable, Contemporary

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