Business growth protection rider – product details

Financial security advisor reference guide

Help ensure your client's life insurance coverage can keep pace with their growing business

The business growth protection rider gives business owners the option to purchase additional coverage when their share of the business grows in value, without providing additional medical evidence of insurability.

Availability

The rider is available to businesses and to business owners whether shareholders, partners or sole proprietors (business owners), for a business insurance need. The business must be headquartered in Canada and have been operating for three consecutive years. Operations in the United States may be considered on a case-by-case basis.

The rider is available for single-life policies and on a single-life basis for joint policies on:

- Universal life insurance policies dated May 30, 2005, and later
- Enhanced Legacy or Enhanced Wealth participating life insurance policies, issued in 2011 and later
- Term 10 and term 20 life insurance policies dated Jan. 14, 2008, and later
- Single life insurance policies – only one business growth protection rider is allowed per policy
- Joint life insurance policies – each insured can have their own business growth protection rider per policy

Each rider can cover only one life and the life insured's interest in only one business.

The rider isn't available for substandard risks. If a client adds a rider to a Great-West Life participating or universal life insurance policy, the insured must be standard risk before applying the rating reduction program.

Issue ages

- 10-year option: ages 18 – 65
- 15-year option: ages 18 – 60

Option amounts

- Issue minimum: $100,000
- Issue maximum: $2.5 million

Great-West Life financial underwriting determines the value of the business for an option date, based on financial statements from the last three fiscal years (and other information as deemed necessary).

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Cumulative maximum amount

The cumulative maximum amount of new life insurance coverage available for purchase under the rider during the chosen option period (10 or 15 years) is the lesser of:

- $10 million
- Four times the rider's option amount limit
- The life insured's ownership share of any increase in the business value measured from the rider date

Option amount increases aren't permitted. Decreases are permitted subject to the minimum option amount of $100,000 and current administrative rules.

Cost

Rates vary by age, sex, smoking status and the chosen option period (10 or 15 years). The premium for the rider isn't banded. The cost is a level rate per $1,000 of the option amount.

The rider price assumes the premium remains level, even as options are exercised. If the rider is approved for an option amount of $2.5 million, and $1 million is exercised, the premium for the rider doesn't change.

Issue requirements

Clients can add the rider at issue or after issue, subject to medical evidence of insurability and financial underwriting approval. At the time of underwriting, clients must choose a rider option period of 10 years or 15 years.

Application documents must include:

- Financial statements for the company's last three fiscal years must be prepared by a public accountant whose qualifications are acceptable to Great-West Life
- Documentation accepted by Great-West Life must show the insured person's current ownership interest in the company

Business valuation

We use one of the following methods to determine the business' value:

- Asset-based valuation: for businesses with low earnings, where value is based on the underlying assets. For example, a real estate holding company or investment company.
- Earnings-based valuation – if the business has a stable track record and predictable prospects, this method uses capitalized earnings or cash flow. If the business has fluctuating earnings or cash flow, then this method uses discounted earnings or cash flow.

Great-West Life may accept alternative valuation methods. Whichever method used for underwriting will also be used to determine the growth in business value when options are exercised.

Exercising an option

Clients can apply to exercise an option, up to four times, for each rider coverage anniversary from years one to 10, or one to 15, depending on the option period chosen. A notification is mailed 60 days in advance. If no action is taken, the option expires 31 days after the coverage anniversary.

An option may only be exercised if the financial underwriting review by Great-West Life concludes the value of the insured person's share of the business has increased since the rider date.

The additional coverage that can be purchased at a single option date cannot be less than the policy minimums for the new insurance at that time. It also cannot exceed any of the following:

- The maximum option amount
- The life insured's ownership share of any increase in the business value measured from the rider date, minus all amounts of new insurance previously purchased under the rider
- The cumulative maximum amount, minus all amounts of new insurance previously purchased under the rider

Clients can use approved options to buy the following Great-West Life products:

- A stand-alone term 10 or term 20 life insurance policy; preferred rates aren't available
- Any participating or universal life insurance policy available at the time the option is exercised, subject to administrative rules
- If participating life insurance is elected for new coverage:
  - Additional coverage must be for a stand-alone policy
  - There are no dividend option restrictions on that new insurance – for example, paid up additions are available without additional underwriting
  - The additional deposit option is available, subject to administrative rules and medical evidence for the additional deposit option amount

If the base policy for the business growth protection rider includes an automatic payment benefit or waiver of premium rider, at the policyowner's request, they can add that benefit to the new insurance without medical evidence of insurability, provided the insured person is not disabled at the time of opting. The automatic payment benefit that can be added to a universal life insurance policy is the minimum premium or target premium for the converted life insurance coverage, whichever is larger.

If the base policy contains an accidental death benefit rider on the life insured at the date of option, at the policyowner's request, a similar rider may be included with the new insurance, without evidence of insurability, unless prohibited by the terms of the rider or by our current administrative rules. The amount of the new rider may not exceed the new insurance amount applied for at the option date and must be within the maximum and minimum amounts allowed under the new insurance policy or coverage.

If the base policy includes other riders, policyowners can add them to the new life insurance with evidence of insurability.

Typically, the policyowner would apply for and be the policyowner of the new insurance policy. If the policyowner doesn't want to apply for new insurance, the rider provisions allow the life insured to apply with the written consent of the policyowner. In this situation, the life insured would be the owner of any new insurance issued. This may result in tax implications and the policyowner and life insured should seek advice from their tax advisor.

Expiration

The rider expires at the earliest of:

- The date of the life insured's death
- The rider expiry date (the 10th or 15th anniversary of the rider, as applicable)
- The date the cumulative maximum amount has been reached
- The date the remaining cumulative maximum amount is less than any available product minimums
- The date the base policy, to which this rider is attached, is fully converted, terminates or lapses

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Information is for financial security advisors only. This material isn't intended for use with clients.