THE Great-West Life ASSURANCE COMPANY

DO MORE with universal life insurance

Case study: Universal life insurance

Life insurance that's flexible for changing needs – A case study on transitioning to permanent insurance

Meet Stephanie and Mark

Stephanie and Mark are both 35 with a three-year-old son. They are partners at the same law firm. They've worked hard, invested well and are good at watching their budget.

When Stephanie and Mark bought their first home, they purchased a Term 10 life insurance policy with a coverage amount of $1.5 million. Now that their son is a toddler, their insurance and cash flow needs are changing.

They're looking for life insurance that:

- Meets their current situation and supports changing needs
- Is cost effective
- Provides permanent protection
- Offers flexibility to help manage future expenses

Their financial situation

Stephanie and Mark regularly contribute to their RRSPs and TFSAs. They have equity in their home as well as some savings. Now that the early expenses of having a baby are behind them, they have a little extra cash flow. They expect even more flexibility in a few years when they no longer have to pay childcare.

Which solution is best?

Their advisor recently talked to them about permanent life insurance. Stephanie likes the guarantees that come with participating life insurance but Mark doesn't feel they need the cash value, nor the associated costs. Instead, they're attracted to the flexibility and lower cost of universal life insurance and the opportunity to manage investment options.

With $1.5 million in term life insurance coverage, they decide to convert $500,000 of it to a joint first-to-die universal life insurance policy. This covers their permanent life insurance needs, leaving $1 million in term life insurance that they can either renew or rewrite. By converting now, they won't have to do a medical exam which means they'll save time and due to their young age, the premiums will be lower.

Their advisor outlines some of the advantages that the coverage plus payout (death benefit) will provide:

- Payout on death includes the coverage amount plus the policy's account value.
- Over time, the payout can grow if the policy's account value grows.
- The coverage amount is guaranteed, as long as required payments are made.

Universal life insurance is also flexible. Stephanie and Mark can customize their insurance coverage to match their changing needs, have choices when it comes to payment options and if they choose they can overfund the policy when they have more cash flow.

Strategy

Initially, they'll use coverage plus with annually increasing payments to age 85. Although the minimum required payment increases each year, this option will help keep the cost of insurance charges low in the early years. Based on their budget, Stephanie and Mark can afford to pay slightly more than the minimum required payment, allowing them to direct more to their chosen investment option(s). This will be an affordable short-term solution that they can adjust later.

At year five of their new policy, Stephanie and Mark plan to switch to the level payment option (cost of insurance). At this point, their son will be in school, allowing them to afford the higher payments. With level, they're guaranteed fixed payments, and the cost of insurance charges won't increase each year as they did with annually increasing payments to age 85. Once the total account value has enough funds, they'll have the flexibility to reduce or temporarily stop paying premiums, or they can access the investment component of the policy to help pay for unexpected expenses.

Managing concerns about cash flow

Like most people, Stephanie and Mark are concerned about cash flow. Having the option to switch payment options and manage the cost of insurance provides the flexibility and affordability they need to secure permanent insurance coverage for their family.

If they decide to overfund the policy by paying more than the minimum required payment, they'll be able to reap the rewards later when they're ready to retire. At that point, the cash value in the policy can be used to supplement their income.