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BACK ISSUES
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Building your Business

Assessing accidental death and CI riders

Planners suggest looking carefully at actual client liabilities and needs before using riders for additional coverage

By Gavin Adamson

Riders on permanent or term insurance policies can be useful, but many financial advisors give them low priority. Knowing which riders are worth the additional cost and those that may not be justified can help tailor insurance coverage for your clients.

Last month, we addressed two common riders on term and permanent life insurance: waiver of premium and the so-called “guaranteed insurability” riders. (That article is available at *www. investmentexecutive.com.*)

This month, we'll address two other riders that are used much less commonly: the accidental death rider and the critical illness rider on permanent insurance. The CI rider is not offered by all insurance companies.

Most advisors generally ignore the accidental death rider, dismissing it as a gimmick that's sold by credit card retailers to clients who often don't understand what they're getting. For a cost — usually upward of $8 a month — the rider adds an additional death benefit if the policyholder is killed in certain types of accidents. This benefit usually ranges from twice to three times the value of the main policy.

But while the cost is very low, so is the risk of such an event. “You're talking about very small chances of these things happening,” says Mark Halpern, a certified financial planner and owner of **illnessPROTECTION.com** in Markham, Ont.

Indeed, financial planners say that planning for long-term insurance needs is a function of financial risks, such as liabilities for debts or particular financing needs for businesses. As a result, the method of your client's death simply is not relevant, says Tina Tehranchian, a CFP and branch manager with **Assante Capital Management Ltd.** in Richmond Hill, Ont.

In other words, if your client dies in a plane accident, it doesn't follow that he or she has more liabilities to cover than if the death occurs due to illness.

The one exception to the rule, notes Halpern, is for clients who may have risky hobbies: for instance, people who race cars or fly their own planes. If a client acknowledges that they are at a much higher risk of death from an accident than the average person, it might be worth the cost to them to acquire the rider as a "double indemnity," he says. In those cases, the premium for the rider may be higher, reflecting the higher risk.

Different considerations apply to the CI rider. It can be a tough sell, as many clients do not believe it is required. And at the same time, problems can arise if the main policy ends for one reason or another, which also ends the rider.

A CI rider will be less expensive than a stand-alone policy for a client. But, on the other hand, if a client is genuinely interested in the product, it usually makes sense to sell it separately.

"The key is to be introducing CI to the discussion in its various forms," Halpern says. "But why I don't generally sell CI as a rider is that it can't be separated from the [main] life insurance [policy]."

If a client decides that he doesn't need the life insurance anymore, he can't keep the CI rider, which may still be of use. For example, in the case of key person insurance, a business may no longer need to pay the premium on an owner or an executive's life. However, the client may still find the CI coverage useful.

Halpern adds that most CI riders provide coverage only as a multiple of the original life insurance policy — and that may or may not match your client's needs. Independent CI products, on the other hand, are available with a wider array of options and coverage.

And, in general, it is important to make sure that the costs and coverages of the main policies are carefully reviewed before the issue of riders is considered. Riders can be important, notes Tehranchian, but the elements of the original policy are far more significant when it comes to what is appropriate for the client. And, she adds, policy costs can vary greatly from one manufacturer to another.

"Different companies use different assumptions," notes Tehranchian. "Maybe some of them don't want to insure certain types of risks, whereas others are willing to accept them. Insurers aren't always clear about the actuarial reasoning, but the reality is, when you look at the market, you see marked differences."

For example, a quote from **LifeGuide CompuOffice Software Inc.** shows that **RBC Life Insurance Co.** offers a 10-year term policy to a smoker for $414 annually, with a renewal option at age 60 of $ 2,298.78 annually. **Equitable Life Co.** offers the same person the same term for a $423 annual premium, with a renewal at 60 of $2,527.20 — a difference of about 10%. Another difference is that Equitable will renew the policy until the policyholder is 85, whereas RBC stops it at 80.

These rates can vary from month to month, so it's worth checking from time to time. The point, says Tehranchian, is that these variations will often mean more to clients than the availability of riders.

Advisors also note that the financial strength of a company can be a greater consideration than a rider. You don’t have to look too far back in Canada to find an insurer that bet the farm on an asset class and lost.

When the once highly ranked Confederation Life Insurance Co. failed in the mid-1990s, following its ill-starred real estate investments, it had obligations to more than 250,000 policyholders, plus to more than a million others through group plans. (Those figures are according to **Assuris**, the non-profit financial protection agency that all insurance providers must join.)

Regulators wound down Confederation Life in 1994. Assuris stepped in to cover the defunct insurer’s obligations. However, Assuris guarantees coverage only up to $200,000 per policy — a level that’s below the average Canadian mortgage’s value. Yet, mortgages are the main liability that many people are covering when they buy insurance.
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