



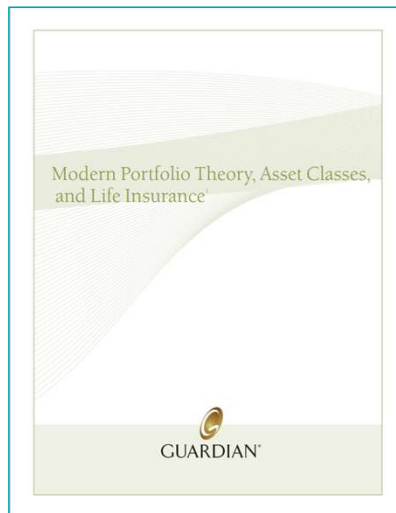
Participating Life Insurance is a Unique Asset Class

Five Reasons Why

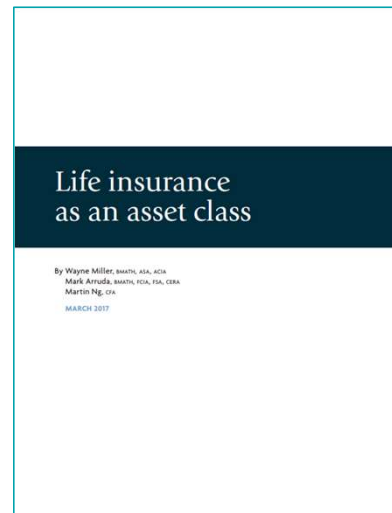


The genesis

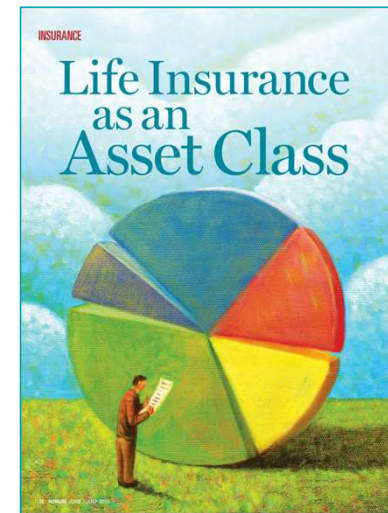
Life Insurance as an Asset Class



2008



2012



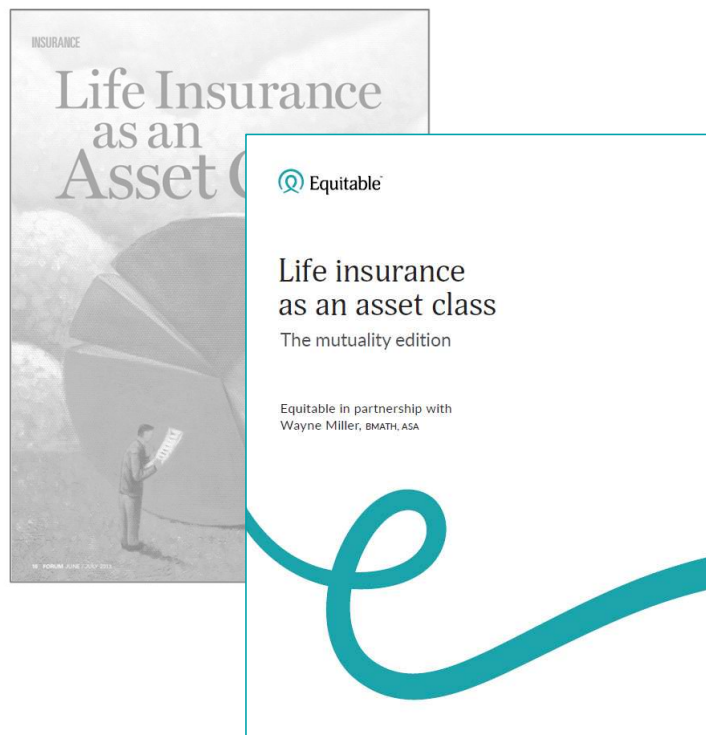
2013

Positioning permanent insurance to help clients' professional advisors understand how re-allocating safe assets to permanent life insurance can improve investment portfolio efficiency



An update, refreshed article is here

Life Insurance as an Asset Class



The wait is over!



Setting the stage

Life insurance and asset classes

NEED

**Income replacement,
repay debts,
education funds for
children, buy-out
shares, pay taxes at
death**



Setting the stage

Life insurance and asset classes

NEED

Income replacement,
repay debts,
education funds for
children, buy-out
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death

WANT

Create and
Preserve
Wealth

**Those who
know, want
it!**



Could life insurance be considered a unique asset class?

Types of Asset Classes

Traditional primary classes



Cash and cash
equivalents



Fixed income
(e.g. bonds and
mortgages)



Real estate



Equities
(e.g. stocks)

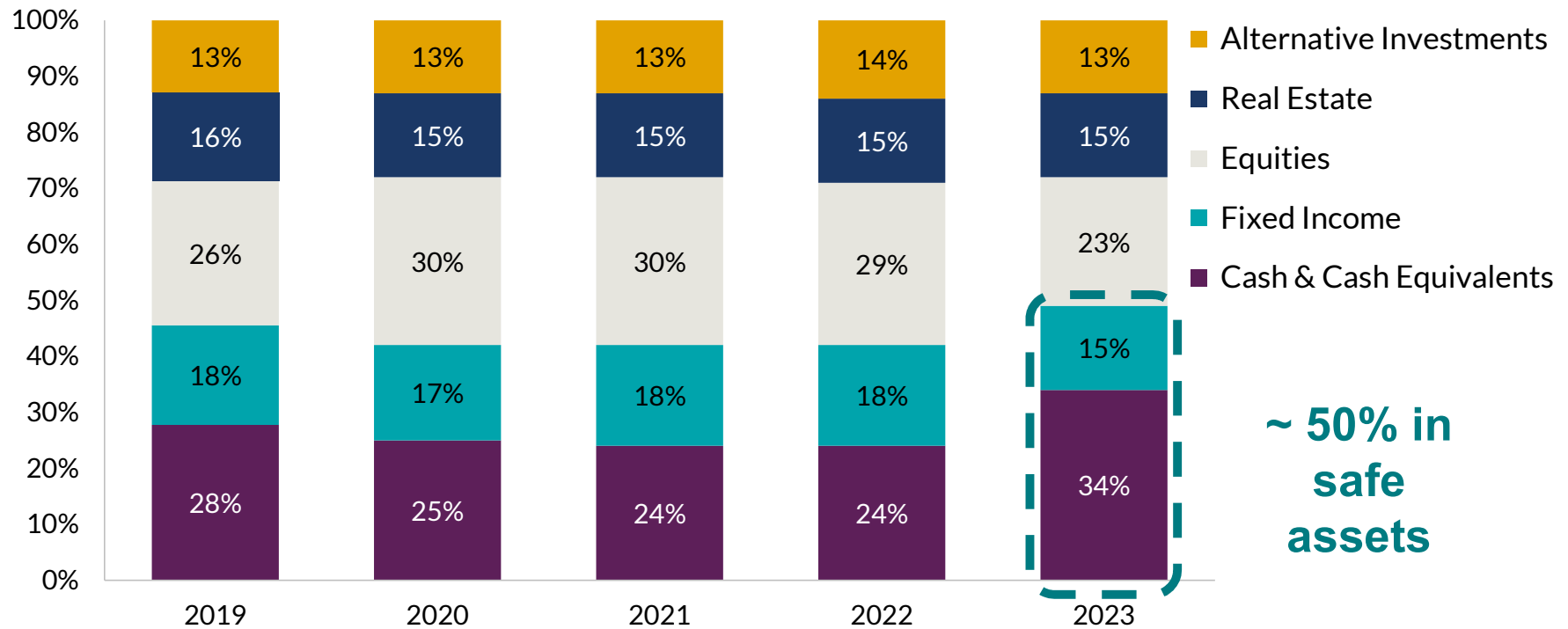


Alternative
investments



A move to wealth preservation

A goal of HNWLs, Capgemini concludes



Source: Capgemini Research Institute, World Report Series 2023

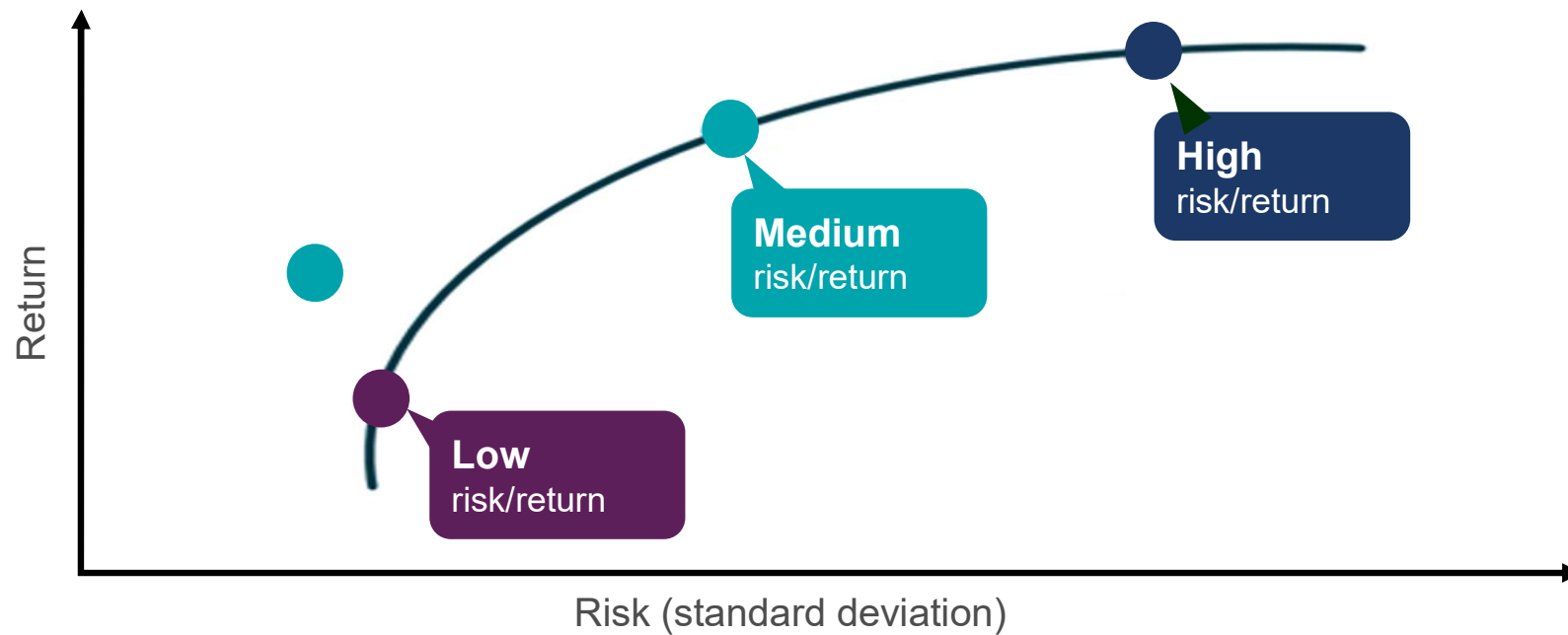
Importance of Diversification

- Diversification of asset classes is an accepted way to reduce risk and increase return
- Diversification strategies:
 - Asset classes
 - Geography
 - Industry or sector
 - Duration
 - Correlation
 - More ...
- Knowing what asset class to choose is not easy – even for professionals
- Is there a model that can help? ➡ *Modern Portfolio Theory (MPT)*



Risk vs. return

The Efficient Frontier*



* Developed by Harry Markowitz in 1952

MPT and Insurance



- Do HNWI's portfolios benefit from including permanent life insurance?



- What permanent insurance can be considered a unique asset class?



What permanent life insurance should be considered?

Are they a “unique” asset class?

- **Non-Participating Whole Life (Term-to-100)**
 - Has no variable investment components
 - If there is CSV, usually guaranteed
 - *Not unique*
- **Universal Life**
 - Investments reflect the same risk/return as investments outside the policy
 - *Not unique*
- **Participating Whole Life**
 - Is unique ... for five reasons



Five reasons

Why PAR is a unique asset class

1. Diversification
2. Stability
3. Liquidity
4. Tax-preferred
5. Capital Dividend Account (CDA)



HNWI case study

Assumptions

- Non-smoking male, aged 50
- Currently 40% invested in safe assets (specifically in bonds)
- Reallocate \$100,000/year for 15 years to 20-pay PAR insurance
 - Equimax Wealth Accumulator®
 - Base premium is \$55,029 + Excelsator Deposit Option premium is \$44,971
 - Face amount is \$1,326,964
 - Premium offset after 15 years
 - DSIR of 5.40% (current-1%)
- Marginal tax rate of 50%, dividend tax rate 45%
- Compare to his current bonds at 4.4% pre-tax rate of return



Why re-allocate safe assets?

Why compare to a bond portfolio?

1. HNWI's have a large portion in safe assets
2. Similar volatility to PAR
3. Safe assets are least tax efficient assets

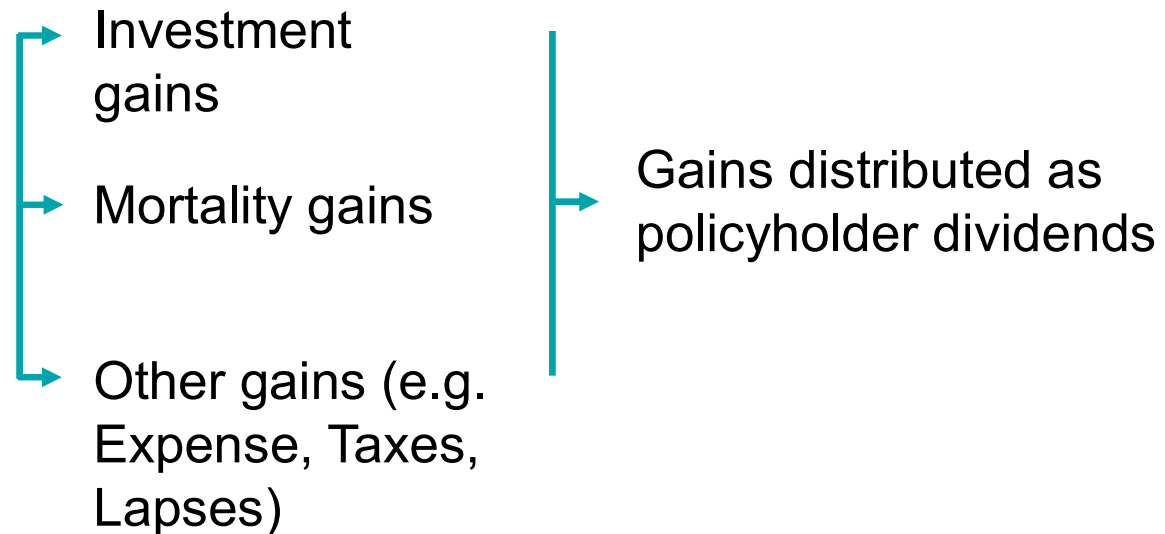


Participating insurance primer

Participating whole life dividends explained

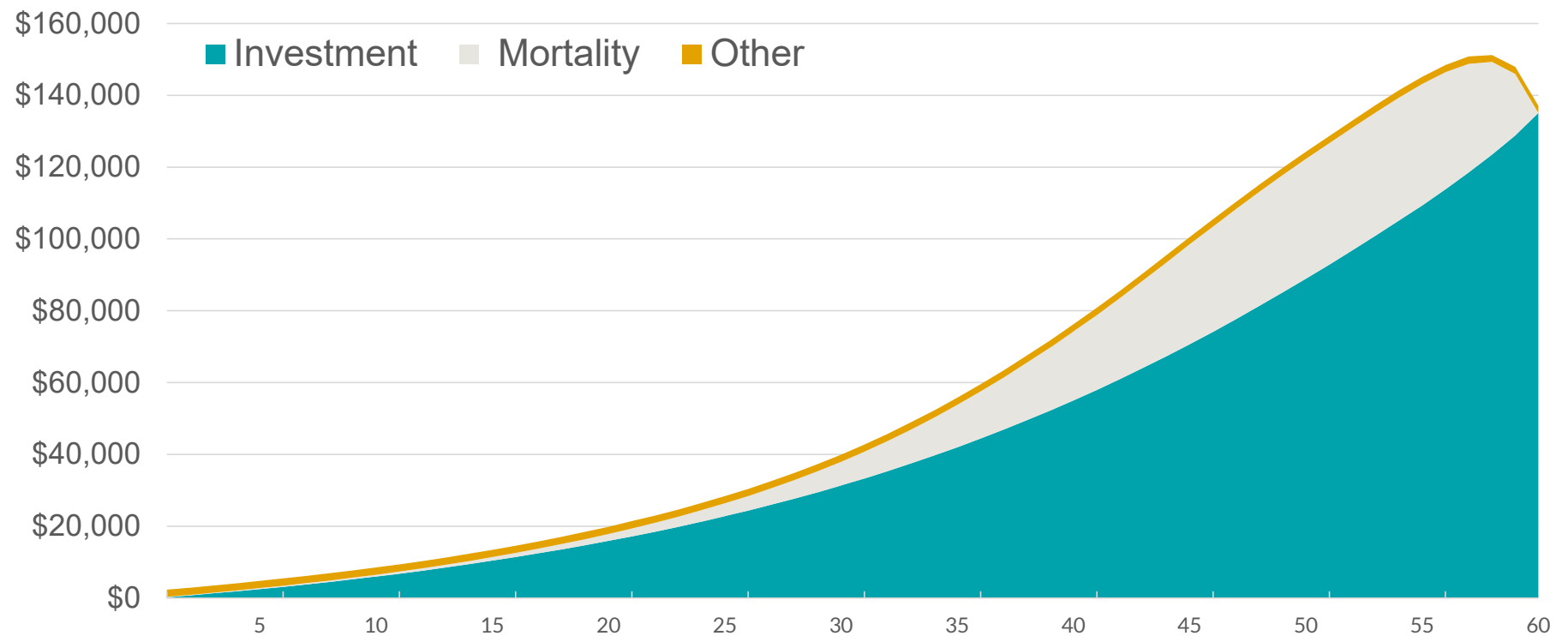
Premiums based on conservative assumptions, like:

- 2-3% interest
- 1980s mortality rates



Dominated by investment gains

Total dividends by source of gain component*



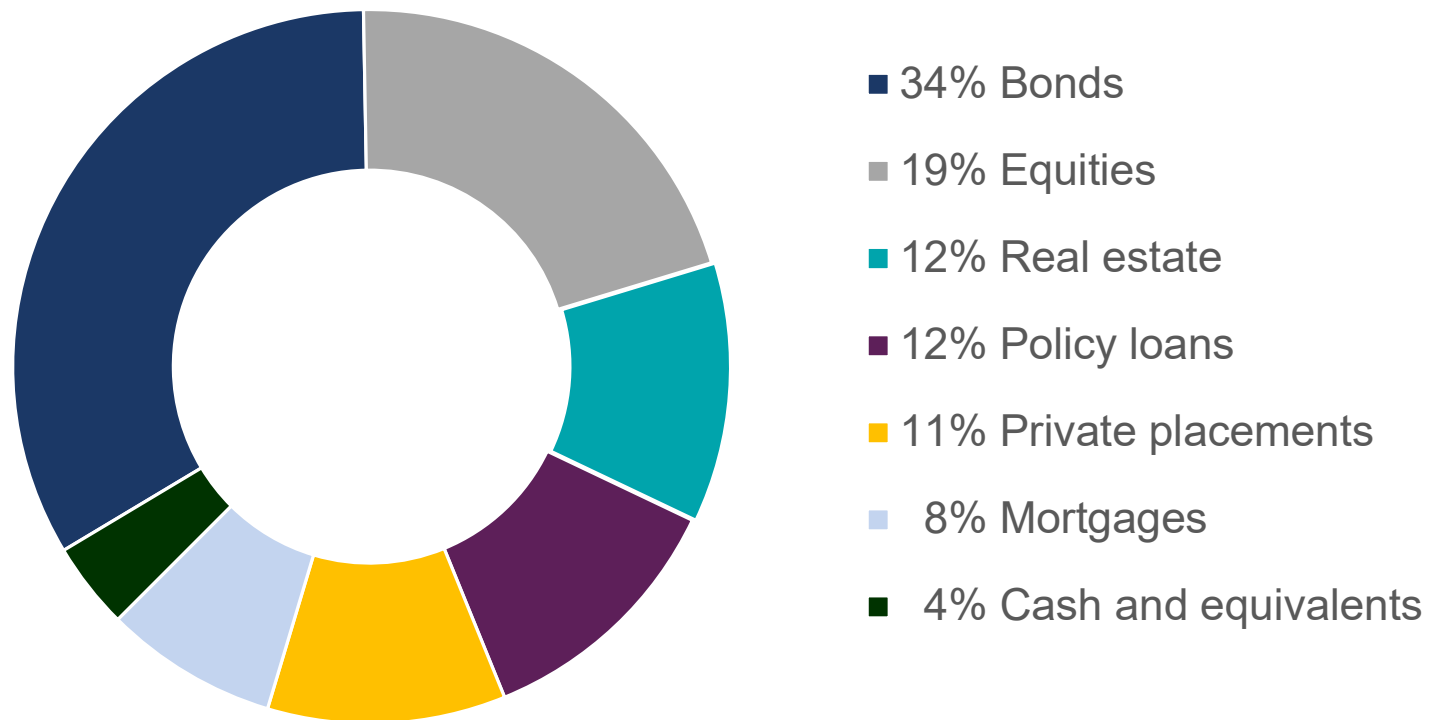
* Based on a \$1 million Equimax Wealth Accumulator® for a male non-smoker, issue age 40



... Now for the 5 Reasons

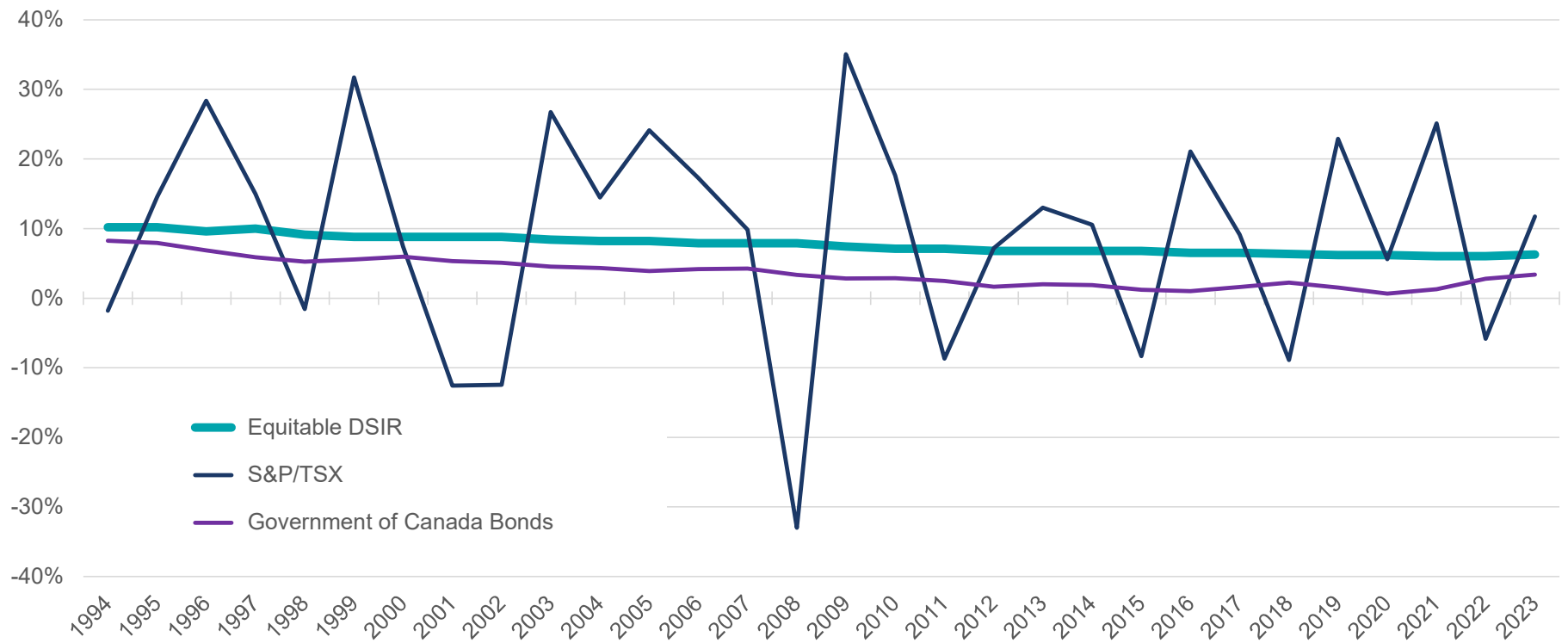
1. Diversification

Equitable Life PAR account as of December 31, 2023



2. Stability

Dividend scale vs. the economy



2. Stability

Average annualized returns over the past 30 years

Period	Equitable PAR Account Return	Equitable dividend scale interest rate	S&P/TSX total return index	Gov't of Canada 5-to-10-year bonds	5-year GIC
5 Years	6.52%	6.15%	11.30%	1.92%	2.20%
10 Years	6.26%	6.37%	7.62%	1.75%	1.89%
20 Years	6.79%	6.95%	7.79%	2.46%	2.15%
30 Years	7.35%	7.72%	8.06%	3.65%	3.10%
Standard deviation over 30 years	1.79%	1.31%	15.57%	2.08%	1.70%



*Average annualized return as of December 31, 2023

3. Liquidity

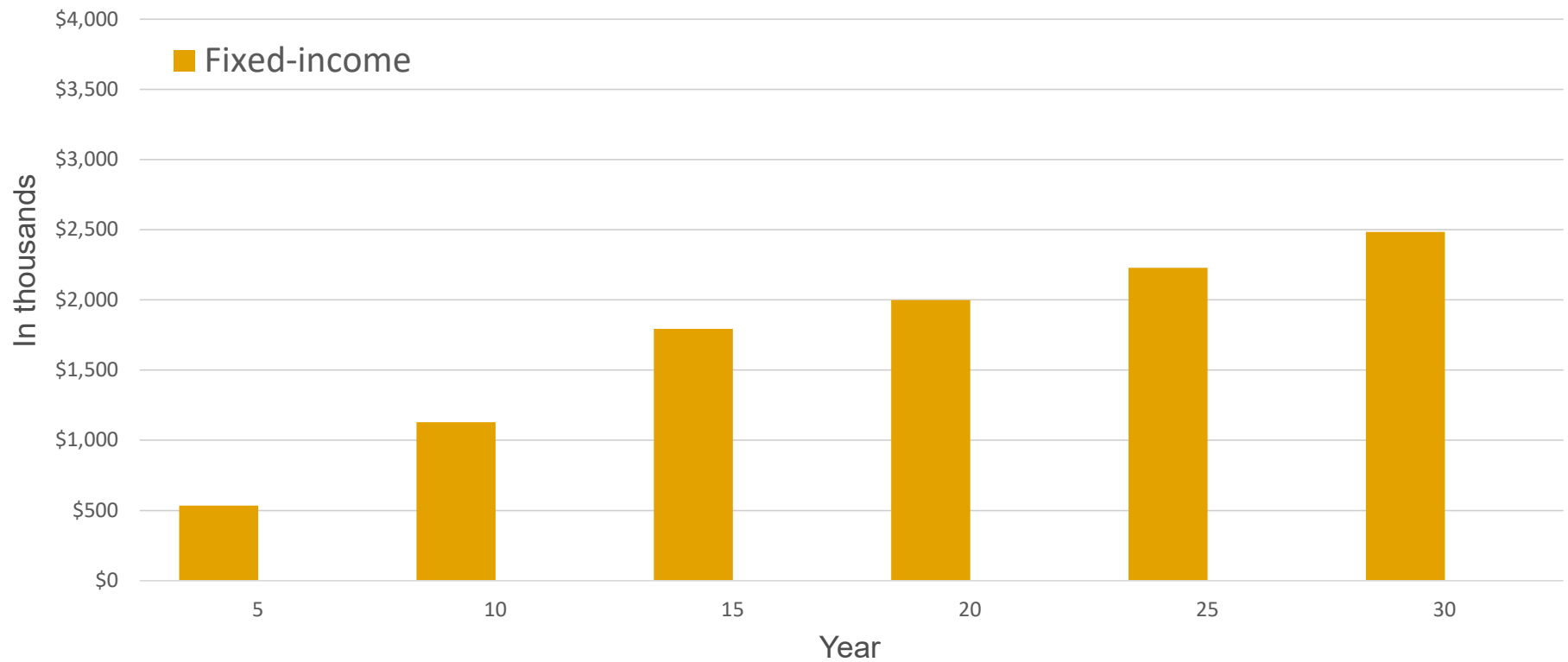
Options with Participating Life Insurance

1. Surrender (cancel) – potential taxation
2. Policy loan – potential taxation
3. Third-party loan



3. Liquidity

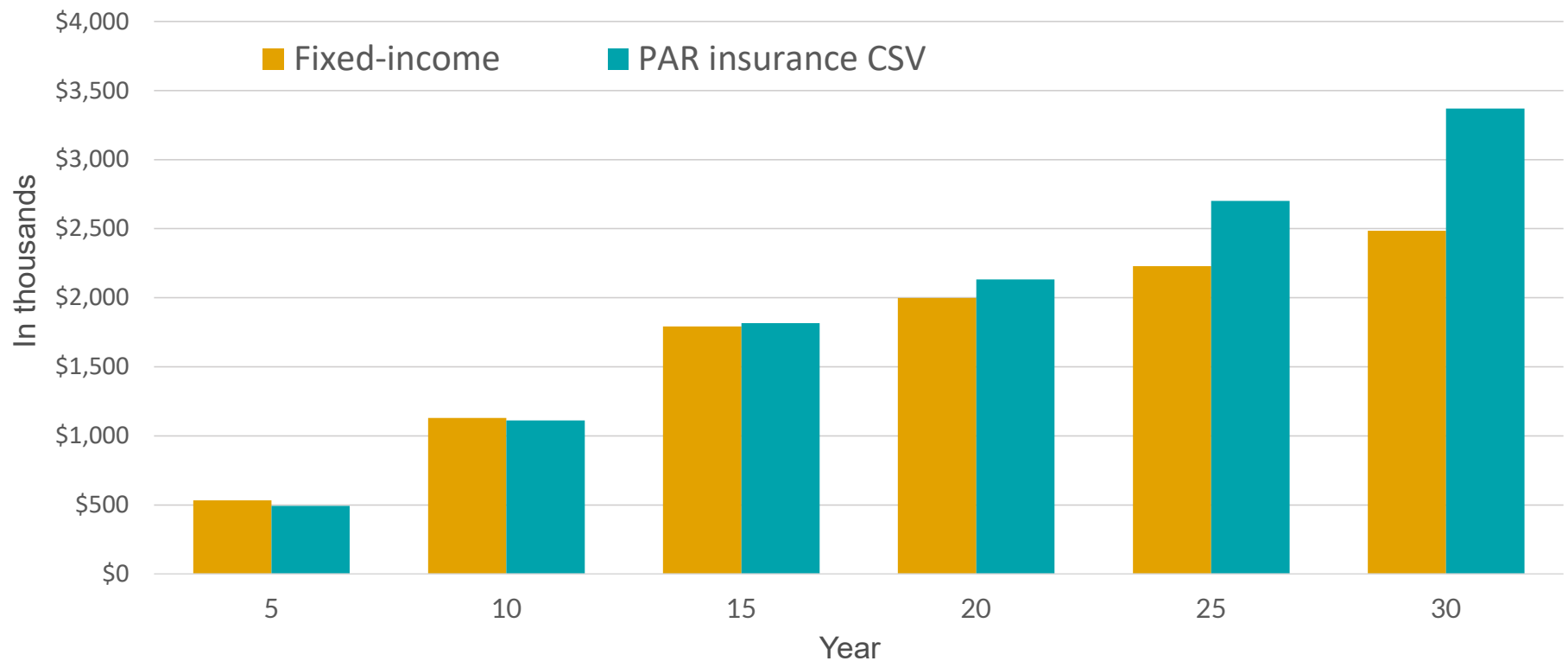
Using assets as collateral*



* Assumes 100% of value is available for collateral

3. Liquidity

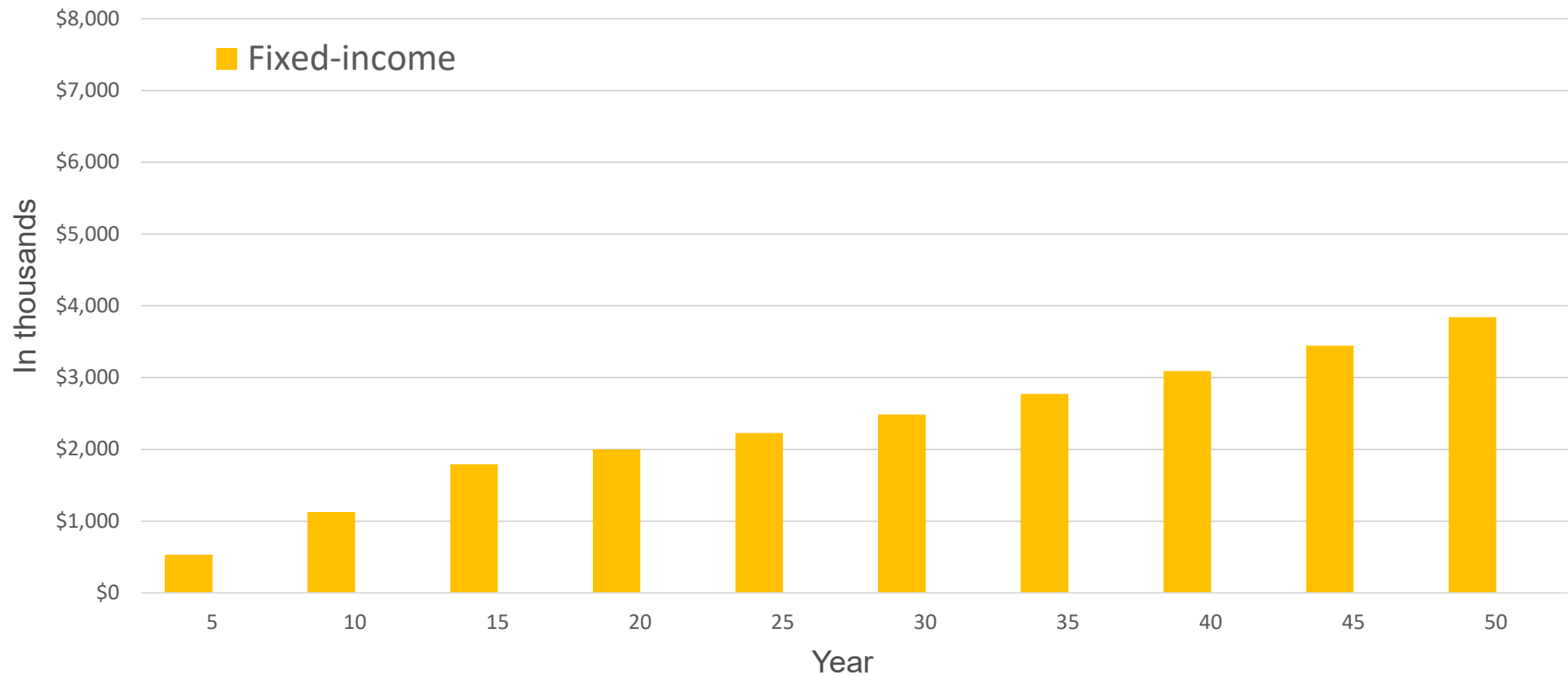
Using assets as collateral*



* Assumes 100% of value is available for collateral for both

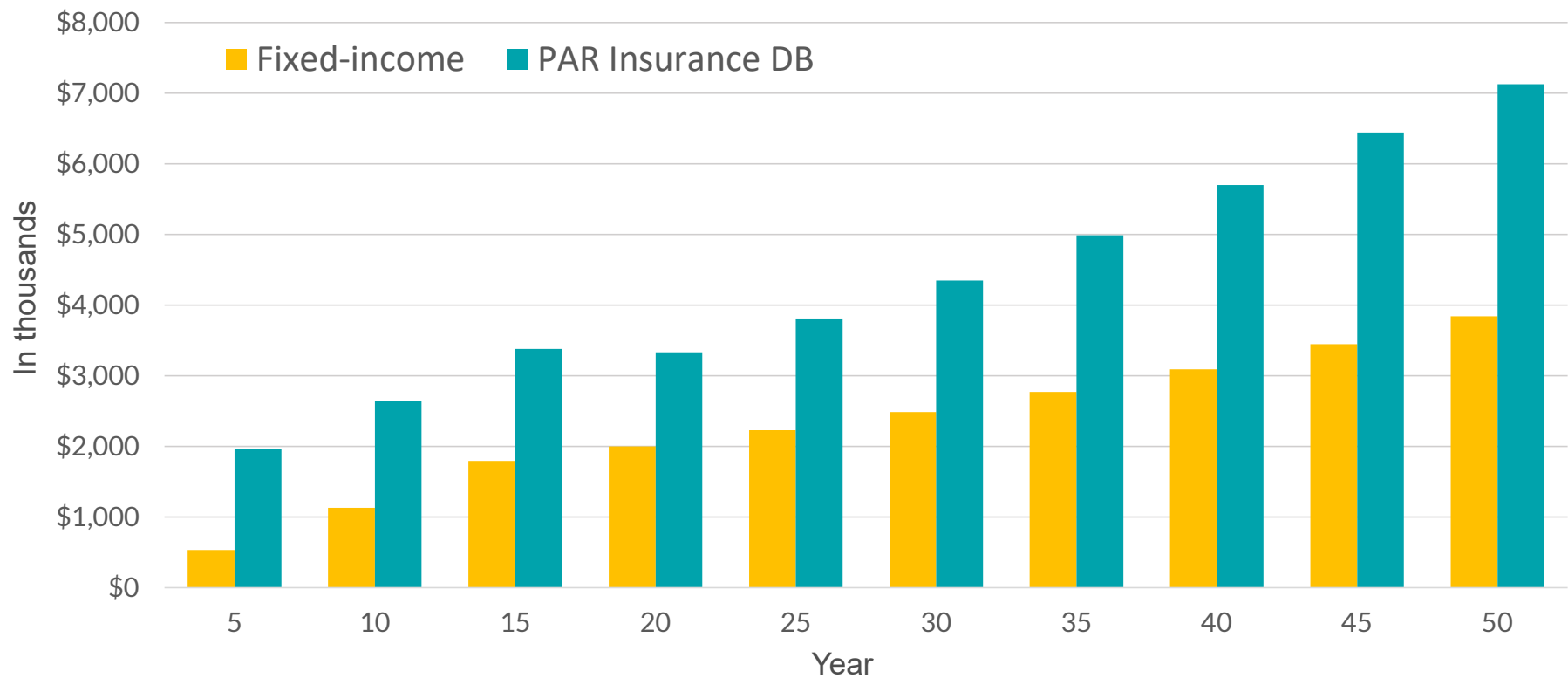
4. Tax preferred

After-tax benefits at death



4. Tax preferred

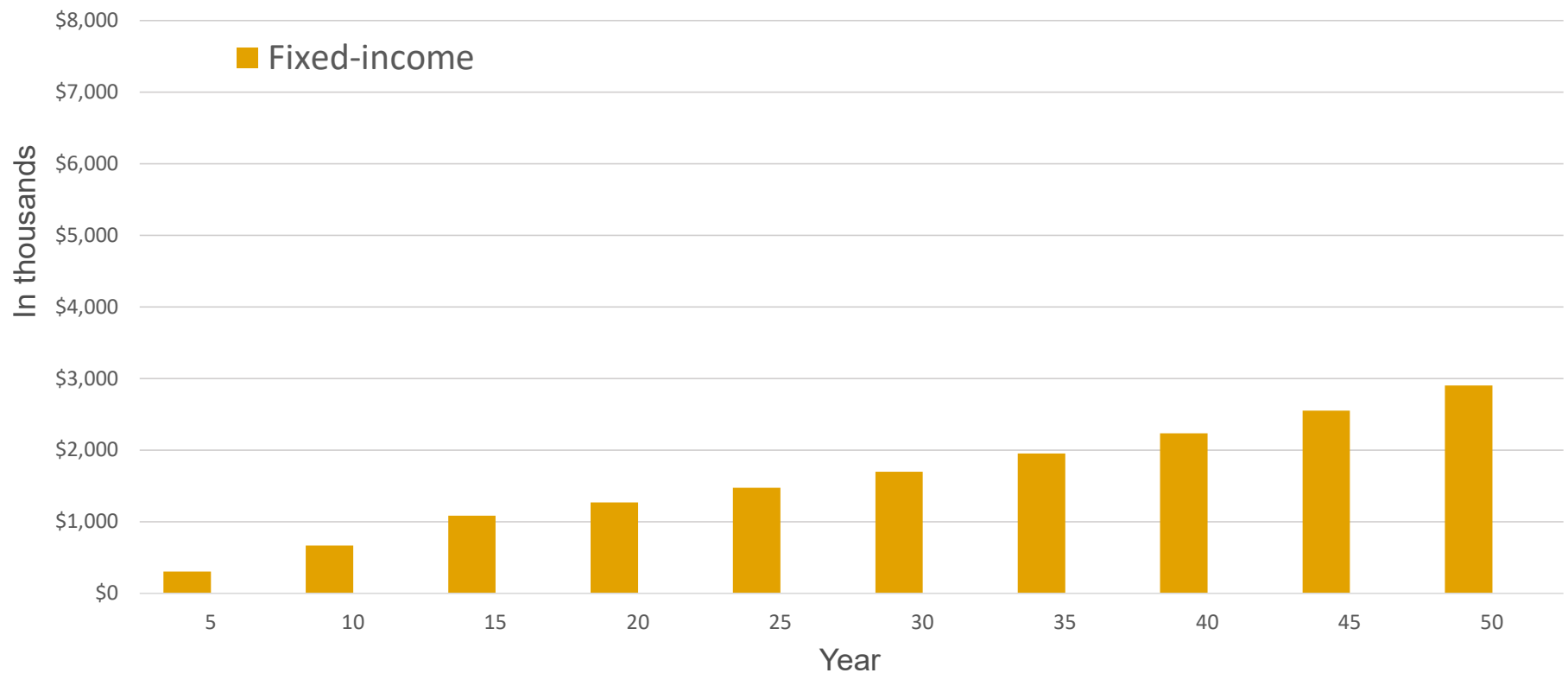
After-tax benefits at death*



* After-tax IRR is 4.32% at age 85 and 3.66% at age 100

5. Benefits of corporate-owned life insurance

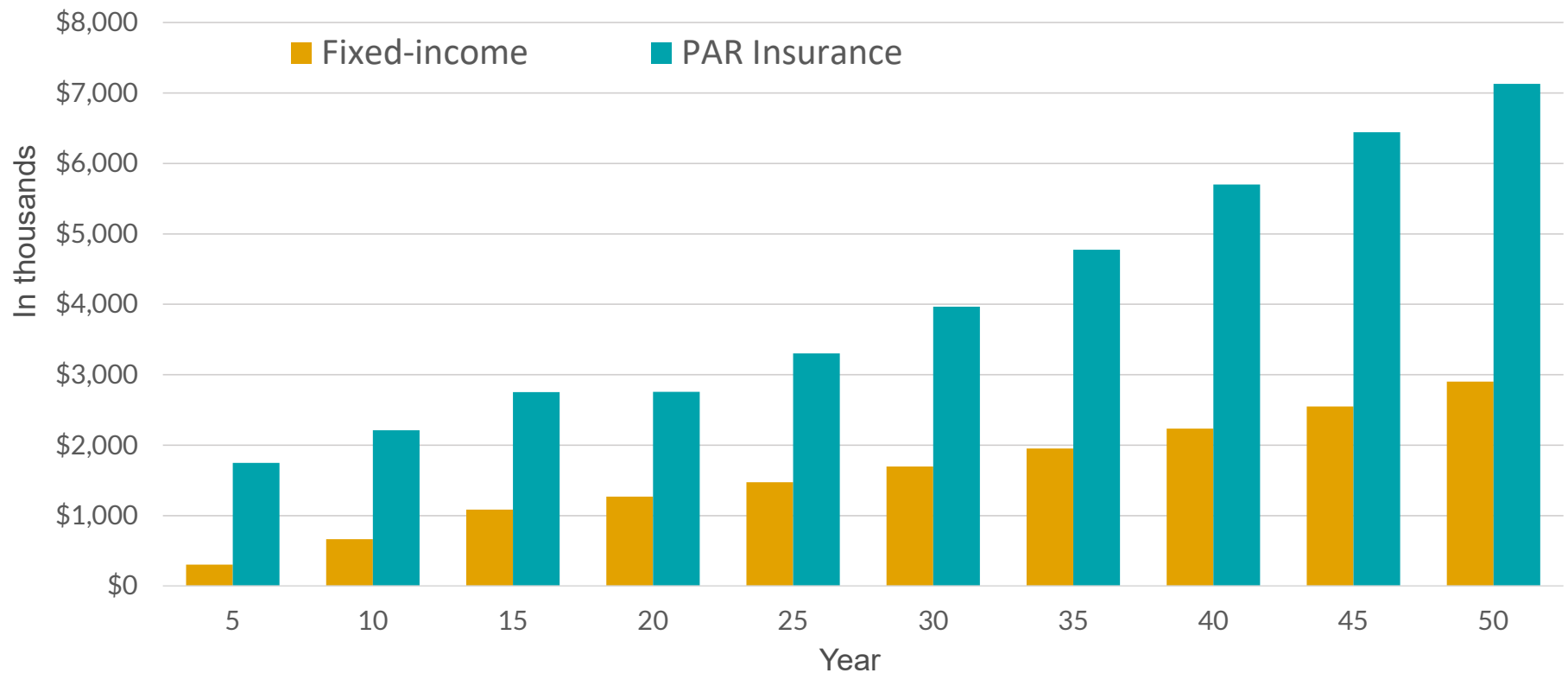
Net amount to shareholders at death



Corporate tax rate 50%, Personal marginal dividend tax rate 45%

5. Benefits of corporate-owned life insurance

Net amount to shareholders at death



Corporate tax rate 50%, Personal marginal dividend tax rate 45%

Five reasons

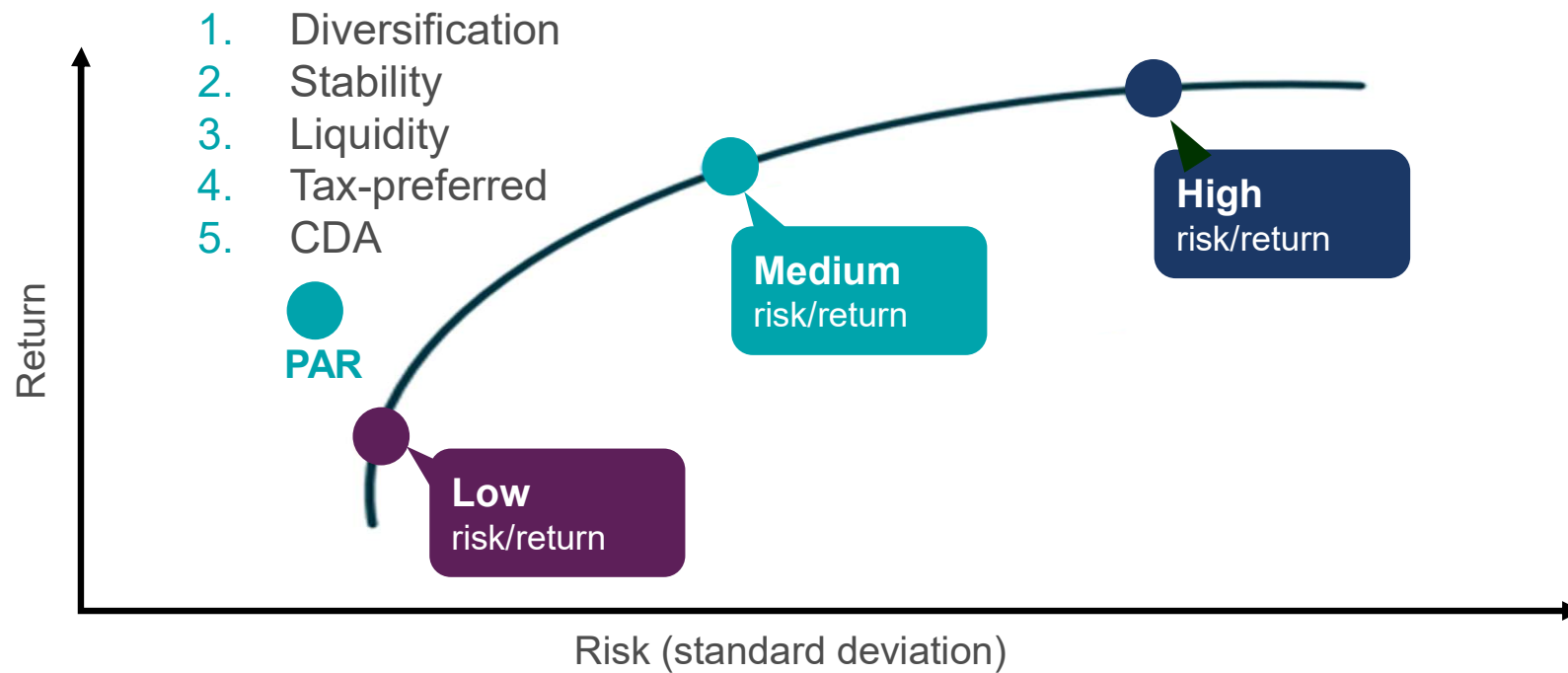
Why PAR is a unique asset class

1. The PAR account is **diversified**, allowing for greater expected returns than being invested only in safe assets.
2. The Dividend Scale Interest Rate (DSIR) has strong **stability** compared to its expected return.
3. When looking for **liquidity**, a collateral loan can access at least 90% of the cash value.
4. The cash value grows **tax-free**, and the death benefit is paid to beneficiaries **tax-free**.
5. The proceeds (less ACB) can be credited to the corporation's **CDA** and distributed tax-free to shareholders.



Referring back to MPT

The Efficient Frontier*



* Developed by Harry Markowitz in 1952



Why the Type of Company Matters

Why the type of company matters

What you might not know about a mutual company like Equitable

1. All actions are for the benefit of policyholders, not shareholders (there are no shareholders, PAR policyholders are the owners)
2. Mutuality ensures no need to worry about the near-term impacts of investment decisions on the company's quarterly earnings
3. Best ideas and opportunities are allocated to the PAR portfolio
4. No deduction from the PAR account given to shareholders
 - 100% of the profits from PAR policies in a mutual company are directed to the PAR fund and company capital for the benefit of the policyholders, who are the owners of the company





Why Equitable for large cases?

Other reasons to deal with Equitable for large cases

1. Dedicated underwriting team to support large cases
2. Equimax PAR Whole Life is very competitive
3. Excellent PAR account rate of return history
4. One PAR account open since 1936
5. Maximum ultimate NAAR – \$130 million with PAR
6. Internal retention – \$10 million, Autobind – \$20 million
7. LICAT ratio is 169% (Q4 2024)
8. Dedicated team of tax and estate planning, and advanced case consultants



Strong PAR Account Historical Rates of Return

Consider the PAR account performance history

Period	Equitable PAR Account Return*
5 Years	6.52%
10 Years	6.26%
20 Years	6.79%
30 Years	7.35%
Standard deviation over 30 years	1.79%



*Average annualized return as of December 31, 2023

Largest Face Amount Policies

2022 – 2024

Rank	Face Amount	Channel	Owner	Structure	Age of Insured	Par Policy Type
1	100.00 M *	National Accounts	Personal	Single Life	50	10 Pay – Equimax Estate
2	46.13 M	MGA	Corporate	Single Life	34	Life Pay – Equimax Wealth
3	43.08 M	MGA	Corporate	Single Life	67	20 Pay – Equimax Wealth
4	42.98 M	MGA	Corporate	Single Life	68	20 Pay – Equimax Wealth
5	35.00 M	MGA	Corporate	Single Life	53	Life Pay – Equimax Wealth
6	33.70 M	MGA	Corporate	Single Life	36	20 Pay – Equimax Wealth
7	30.00 M	MGA	Corporate	Single Life	36	20 Pay – Equimax Wealth
8	27.65 M	National Accounts	Corporate	Single Life	40	Life Pay – Equimax Wealth
9	24.23 M	MGA	Corporate	Single Life	51	Life Pay – Equimax Wealth
10	24.13 M	National Accounts	Personal	Single Life	76	10 Pay – Equimax Estate

*100M case was placed, premium received, and commissions released. Shortly after the 10-day free look, the client had an investment advisor disturb the file, and the client decided to pursue a solution that did not involve insurance.



Largest Premium Policies

2022 – 2024 YTD (Nov 2024)

Rank	Year	Premium Amount
1	2024	5.95 M*
2	2022	4.46 M
3	2022	3.96M
4	2023	2.62 M
5	2023	2.00 M
6	2022	1.72 M
7	2024	1.71 M
8	2022	1.67 M
9	2024	1.50 M
10	2023	1.50 M



*100M case was placed, premium received, and commissions released. Shortly after the 10-day free look, the client had an investment advisor disturb the file, and the client decided to pursue a solution that did not involve insurance.

Now what?

1. Distribute the paper to:
 - Your existing clients
 - Affluent prospects
 - Your centres of influence who are open to compelling information
2. Ask your investment advisor contacts to review the paper and tell you what they think
3. Leave a copy in your reception area
4. Have confidence that PAR is indeed a unique asset class that deserves attention
5. Work with your Equitable wholesaler



Read the article now



English



French



Chinese



Disclaimers

December 2024

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