



rethink.

Term insurance cost as an MER

The market can be unpredictable, so Clients appreciate opportunities to minimize risk. Redirecting a small portion of excess income to a term life insurance policy can be viewed as a low MER approach that allows for growth and security.

Clients are accustomed to investment fees, commonly referred to as the management expense ratio (MER). Clients typically see these fees as the necessary cost for better returns or reduced risk. However, these fees usually come with no guarantees - they're always applicable, even if the portfolio decreases in value.

Given this, Clients are starting to pay greater attention to their MERs. According to Morningstar, Canadians pay an average of 2.35% in mutual fund fees each year¹, so an opportunity to reduce risk with a low MER is worth considering. A term insurance policy can be an effective strategy to accomplish this.

? How can you reduce risk with a low MER?

Term insurance is an affordable way for Clients to provide a guaranteed payment to their loved ones if they die prematurely. Additionally, the impact to their investment balance by directing a small portion to term insurance premiums can be viewed as an extremely low MER. In fact, the cost of term insurance has been steadily declining, so it's now more affordable than ever. Term insurance rates have decreased up to 50% in some instances over the last 20 years.

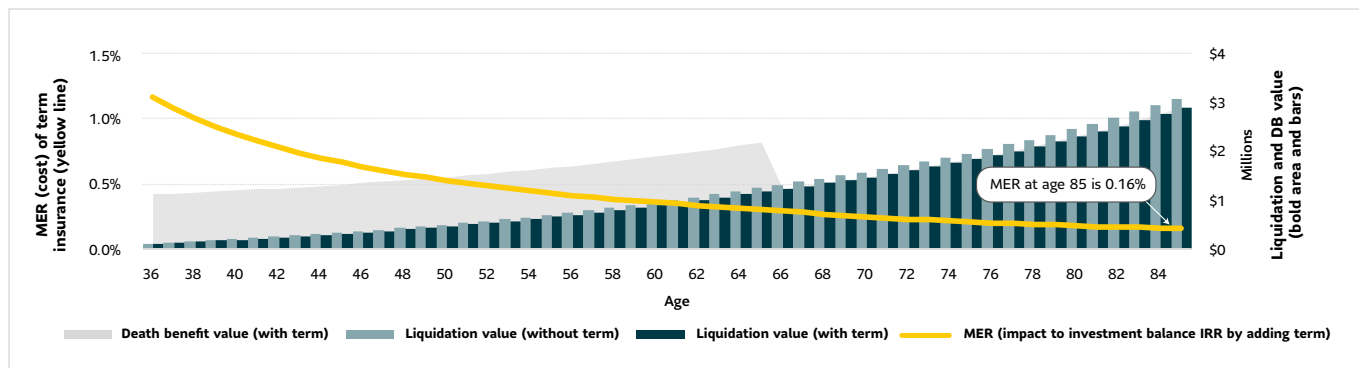


Example:

A 35-year-old male Client has a \$100,000 initial balance in his investment portfolio². He also has \$15,000 of excess annual income to contribute each year until he retires at age 65. At age 85, this amount will have grown to \$3.2M with an internal rate of return (IRR) net of taxes of 4.39%.

He purchases a \$1M 30-year term life insurance policy for \$1,285 per year, leaving \$13,715 available to invest. If he dies during this period, his heirs will receive a \$1M insurance death benefit in addition to the after-tax liquidation value of the investment portfolio. At age 65, his term coverage ends. At age 85, the liquidation value of his investment portfolio will be \$3.0M (\$188,065 less than if he hadn't purchased the term policy). The IRR at age 85 is 4.23%; a reduction of 16 bp from the 4.39% IRR he achieved in his investment portfolio without the term policy. **This can be viewed as the MER of this Client's term policy at age 85.**

In the graph below, the grey area shows the amount his heirs would receive if he purchases the term policy and dies during the coverage period, which would include the death benefit plus the reduced investment portfolio. The dark blue bars display the amount his heirs would receive if he purchased the term insurance policy but outlives the coverage period, which is equal to the reduced liquidation value of his investments. The light blue bars indicate the larger liquidation value of his investment if he doesn't purchase the term policy. This is the same amount his heirs would receive if he died under this scenario. The MER of the term policy to his investment is shown by the yellow line. As his life expectancy approaches (age 85), the term policy has expired but the MER has declined to 16 bp.



This Client benefits from a guaranteed minimum payment to his heirs if he dies prematurely. If he outlives his term insurance coverage, the impact to his investment portfolio is minimal, as demonstrated by calculating the MER of term coverage.

Rethink how you position the cost of term insurance. Speak to a Sun Life sales representative to learn about our Term as an MER Excel tool.

¹ Asset-weighted median expense ratio, <https://www.morningstar.ca/ca/news/195738/canadian-investors-get-a-%E2%80%98below-average-fee-experience.aspx>, Morningstar, 2019.

² The investment portfolio for his existing balance and future contributions is a blend between:
 - 5% TFSA (with 6% annual return),
 - 20% non-registered fixed income (with 2% pre-tax annual return), and
 - 75% non-registered capital gains with 20% annual turnover and 50% capital gain inclusion rate (with 6% pre-tax annual return).