

# EFFECTIVE EXTRAS



BY

**DAVID W.M. BROWN**, CFP, CLU, Ch.F.C., RHU, TEP, and a member of the MDRT. He is a partner at Al G. Brown and Associates in Toronto. "Insurance Insights" appears every other issue.

Let clients in on the benefits of guaranteed insurability riders.

Some insurance concepts stand the test of time. Sure they may not be complex, expensive or sexy, but they can be of tremendous value to both a client and an advisor. The Guaranteed Insurability Option (GIO) rider attached to an insurance plan fits neatly into this category.

The idea is simple, yet powerful and should be a part of most insurance plans. The option allows an insured to purchase additional insurance coverage in the future, regardless of a deterioration of health or a change in occupation. It's ensuring a client's insurability.

Everyone will at one point cross that invisible "uninsurable" line underwriters draw in the sand. And sometimes it can happen early in life, before an individual has had enough time or resources to purchase an appropriate amount of protection. The GIO rider, then, creates accessibility for people who become significantly rated or declined outright.

Guaranteed insurability riders can be added to many types of insurance contracts, the most common being life insurance and long-term disability or income replacement contracts.

They provide the opportunity for clients to add to their protection plans at a future date without having to provide evidence of insurability.

On an income replacement contract, this option will help an insured maintain the purchasing power of her income replacement indemnity. The option dates are typically put forth on each policy anniversary, up to a predetermined age, and at a set option amount. Usually there is a maximum total amount of benefit that can be purchased. However, if a unit of increase is not used, it can be carried over to the next policy anniversary. There may also be alternative option dates to coincide with life-cycle events, such as an insured's marriage or a legal adoption. The option does not set the premium but gives the insured the ability to increase the coverage so that it keeps pace with inflation or increasing needs.

The rider is a great way for an advisor to keep in touch with clients and to set agendas for updating insurance portfolios. Typically, on each option date proposed, the insurance company will send a letter to the insured advising him that there is an opportunity to exercise an option within the allowable time period. The client signs a form and submits a cheque to activate the coverage.

In the case of income replacement insurance, otherwise referred to as a Future Income Option (FIO) rider, the company will need income justification before

it will increase the coverage. The cost of the additional insurance is also based on the insured person's age and sex, his smoking status and the insurance rating applicable to the insured at the time of purchase of the base contract. A disability waiver rider may be included on the new amount without evidence of insurability, provided it was on the original contract.

For many clients, even if they are insurable at the time of the option date, the FIO rider provides an easy, painless and cost-effective method of increasing coverage. In the early 1980s, with the onset of AIDS, some insurance companies reduced the amounts of FIO options for new contracts. Presently, a non-smoker male, age 40, with a basic monthly coverage of \$5,000, can choose to add on a \$10,000 per month option (taking it to \$15,000) for a monthly premium cost of \$13.27.

Consider adding the rider on all income replacement contracts and on life insurance plans issued on children and young adults. In most cases, my clients automatically exercise the options if they need them to maintain the value of their insurance protection. Next time you're working on a client's insurance plan, investigate GIO and FIO components and consider adding these riders to the plan. You could be doing both yourself and your clients a lifelong favour. **AE**

**BROWN**