

Understanding Universal Life Insurance



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With proper financial planning, a universal life plan can play an important role in meeting your estate and investment planning objectives. Your advisor can discuss with you in greater detail the merits of using universal life insurance for estate preservation and wealth accumulation. BMO® Insurance offers universal life plans that can be adapted to a variety of personal and business insurance needs such as estate creation and preservation, retirement income funding or funding buy/sell agreements between business partners. There are many factors to consider when choosing a universal life plan, so it is important to understand how your plan works and which factors can have an impact on your policy and its values.

How it Works

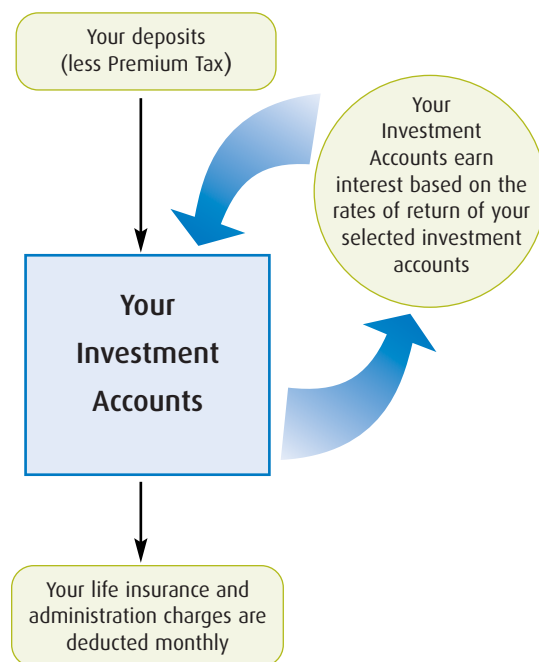
Your deposits are made into the investment accounts. Each month, insurance charges and fees are deducted, and the balance earns interest based on the performance of the investment accounts you have selected in your policy.

Premiums paid into a life insurance policy are subject to provincial premium tax that is calculated as a percentage of each premium deposit you make.

Note: This rate (shown in your policy) may change if provincial legislation changes.

The insurance component of a universal life policy allows you to select the amount of insurance, how the cost of insurance (insurance charges) is deducted and the type of death benefit you need. The cost for insurance coverage depends on the risk classification of the insured(s) as well as the amount and type of insurance coverage you purchase.

The investment component of your policy lets you create a portfolio of your choice. You decide how much or how little to deposit to the Investment Accounts. Your Investment Accounts benefit from tax-deferred investment growth within limits that are prescribed by the Income Tax of Canada. Deposits or investment growth above these limits are held in investment accounts that are subject to annual accrual taxation.



Coverage

Your coverage takes effect when your application has been approved by BMO Insurance; the premium is paid in full; and as long as there has been no change to the information on the application when the policy is delivered to you.

Features and Benefits

BMO Insurance universal life policies are designed to be flexible to meet your changing insurance needs. Please note that all the features identified may not be available on certain of our universal life products.

You can increase your insurance coverage or add other types of coverage as required (subject to availability and proof of insurability).

You can choose an investment portfolio to meet your investment objectives and change the composition of that portfolio if your objectives change. You may withdraw all or a portion of the cash value of your policy or apply for a policy loan against the values in your policy.

You can choose either Level or Yearly Renewable Term (YRT) cost of insurance (COI) charges for your policy. A Level COI, as the name suggests, charges a 'level' or fixed amount for your coverage. On the other hand, YRT COI charges vary from year-to-year. Based on your insurance and investment objectives, you should discuss with your insurance advisor which option is most appropriate for you. The advantage or availability of one or the other may depend on your objective.

You can also choose the type of Death Benefit that your policy will provide. The most common options are:

Sum Insured – where the death benefit is equal to the greater of the Sum Insured (insurance amount) and the value in the investment accounts.

Sum Insured Plus Fund Value – where the death benefit is equal to the Sum Insured plus the value in the investment accounts.

Universal life insurance combines permanent life insurance protection with tax-deferred investment accounts in one plan.

Guarantees

All BMO Insurance universal life plans have the following guarantees:

Costs of Insurance – The cost of insurance rates stated in the policy are guaranteed not to change.

Level Switch Rate Guarantee – If you have selected a YRT Cost of Insurance option, you may later change to a Level COI, subject to certain restrictions. If you decide to make this "switch" the Level COI rates are guaranteed in your policy.

Administration Fee – A monthly administration fee is stated in your policy and is guaranteed not to change.

Investment Bonus Options – Your contract may have an investment bonus that is designed to enhance the rate of return credited to the Investment Accounts of your policy. This investment bonus, if applicable, is guaranteed in the policy contract. Note: Some policies do not have investment bonuses or have bonuses that are payable for a limited period.

Investment Option Guarantees – BMO Insurance has a wide selection of investment options to choose from. These options allow you to benefit from interest earned from guaranteed interest accounts or from returns linked to the performance of various underlying stock market indices or mutual funds.

- Daily Interest Account and Guaranteed Interest Accounts credit interest that is calculated according to formulae that are stated in your policy. The guaranteed minimum rates of return for each account are also stated in your policy.
- Indexed Accounts credit interest based on the net rate of return of the underlying investment. A management fee may apply to these types of investments and your contract states the maximum daily management fee that BMO Insurance will charge you.

Surrender Charges – During the first several years that your policy is in force, you may be charged a fee in the event that you decide to terminate your policy or reduce your insurance coverage. The charge or the method to calculate the charge is stated in your policy contract and is guaranteed not to change unless you make changes to your policy after it has been issued.

Premiums

Your premiums are calculated according to your age, sex and smoking status as well as an assessment of your health and lifestyle. After your policy has been in force at least two years, you may ask to have your risk classification reviewed, subject to satisfactory evidence of insurability.

Subject to minimum requirements, you may decide on the amount and frequency of premium payments based on your financial objective.

Investment Options

One of the advantages of a universal life policy is that along with permanent life insurance protection, you benefit from the opportunity of tax-deferred investment growth. BMO Insurance offers a wide selection of investment options with a variety of investment styles. This ensures that you can choose from an appropriate mix of investment options, suited to your risk tolerance.

Your policy value is based on the value of your investment accounts. These accounts earn tax-deferred interest based on the performance of your underlying investment selection, less management fees. It is important to remember that you do not purchase units in any index or a legal interest in any security. Past performance of an investment selection is not a guarantee of future results and results will vary over time.

Your policy value can grow on a tax-deferred basis up to limits prescribed by the Income Tax Act of Canada. Growth beyond that limit will be subject to annual accrual taxation.

The Daily Interest Account credits interest based on Government of Canada Treasury bill rates, less a management fee, and is subject to a minimum interest rate that is guaranteed in your policy.

Guaranteed Interest Accounts credit interest based on Government of Canada bond rates, less a management fee, and are subject to a minimum interest rate that is guaranteed in your policy.

Indexed Investment Accounts credit an interest amount mirroring the net rate of return of a designated fund or index. Returns, either positive or negative, are calculated between consecutive valuation days and a daily management fee will be subtracted each calendar day.

Fees

Fees or other charges may become payable if:

- you decide to terminate your policy
- you request more than 3 changes to your investment choices per policy year
- you request a withdrawal of a portion of your investment accounts
- you decide to reduce the amount of insurance coverage you have during the first several years your policy is in force
- you withdraw or transfer an amount from a Guaranteed Interest Account prior to maturity of that account and a Market Value Adjustment is assessed
- you ask for a review of your insurance risk classification after your policy has been issued

Factors Affecting Your Policy Values

Policy Values at any time depend on several factors:

- the timing and amount of premiums paid
- any cash withdrawals you make and the outstanding balance of policy loans
- any changes in insurance coverage you make
- the net rate of return earned on your investment accounts
- the type of death benefit option you have selected

Consumer Rights and Obligations

Change in information prior to policy delivery – A life insurance policy is issued after careful assessment of the information given on your application and the results of any medical tests and reports. When the policy is delivered, if there has been any change in your health or information since the application was completed, you must return the policy to the company for further assessment.

Ten Day Right to Examine Policy – You have the right to return the policy to us within 10 days of its receipt, along with a written request for cancellation, for a refund of the premiums paid.

Restrictions on Benefits Received

Non-Disclosure – It is your responsibility to fully disclose every fact that is material to the contract. This would include any information you give in the application, medical examination, written statement, application for reinstatement or in any proof of claim. Failure to fully disclose all information may result in the coverage being voided by the company.

Incontestability – Any statements you make in the application or application for change or reinstatement will be considered incontestable after the coverage has been in force for two years, unless those statements are made fraudulently. If the life insured dies within two years of the effective date of the coverage or a reinstatement of coverage, the statements made may be contested.

Suicide – In the case of suicide within two years of the issue date or reinstatement date of the coverage, payment will be restricted to a refund of premiums paid for the insurance coverage less any amounts owed to the company.

For more information about BMO Insurance or our products, please consult with your insurance advisor or contact us at 1-877-742-5244.

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