Another Level Cost Rate Increase

Manulife Raising Rates Up to 12%

Manulife is increasing their level cost of insurance **("LCOI")** rates for new life insurance applications submitted after October 14th, 2011. The rate increases vary from 7% to 12%, depending on the age of the life insured and the product selected. Younger ages will experience the greatest increases.

What is LCOI?

LCOI is a method of pricing permanent life insurance. **LCOI is a fixed or "level" cost of insurance for life.** In contrast, yearly renewable term **("YRT")** is a method of pricing insurance that increases each year for life. LCOI costs more than YRT in the early years and significantly less than YRT in the later years of life. Generally, **it is wise to select LCOI pricing** rather than YRT pricing for insurance coverage that one intends to keep for life, to avoid the financial burden of premiums escalating out of control in one's retirement years.

Why is Manulife Increasing LCOI Rates ?

Manulife states, *"Historically low interest rates continue to have a significant impact on the cost of guaranteed insurance solutions. Market conditions and forecasts suggest this low interest rate environment may remain for a prolonged period. As a result, we must make further product changes to improve and ensure the long-term viability of some of our life insurance products."*

Our Take

This latest rate increase is just another step in the Canadian life insurance industry's attempt to bring LCOI product pricing back to profitable levels. Long term interest rates and policy lapse rates have significantly declined over the past decade and require an LCOI pricing increase of 20% to 65% to compensate. Yet LCOI rates have increased by only 3% over the past decade.[1]

Manulife previously increased their LCOI rates effective December 4, 2010. That rate increase was in the 10% - 20% range depending on age and product. RBC Insurance completely withdrew the LCOI pricing option for their Security Fund universal life insurance contract last November 2010. Other insurance companies have previously increased LCOI rates, and more will undoubtedly follow.

The bottom line is that LCOI policy pricing can only be expected to increase further over time as the industry continues to adjust to low interest rates and low policy lapse rates. It is conceivable that the industry will "adjust" LCOI pricing completely out of the market. After all, LCOI pricing is a Canadian invention that has no equivalent in the United States. With all this in mind, we continue to advise individuals requiring permanent life insurance coverage to proceed with applications without delay.

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[1] See *"Buyer's Market for Level Cost of Insurance Products"* by John McKay published in Insurance Planning (2009) vol. XV, number 3, page 968.

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