Corporate Preferred Retirement Solution

Checklist

Review this checklist to ensure you understand the *Corporate* Preferred Retirement Solution® and how it can impact you and your business.

advanced insurance planning

The corporation may obtain a loan from a third party lending institution using the cash surrender value (CSV) of a corporately-owned life insurance policy to secure the loan. The corporation may use the loan proceeds to pay a taxable dividend to the shareholder.

- The bank uses the cash surrender value of the corporately-owned life insurance policy as collateral for the corporate loan.
- With a collateral bank loan, the lender will be a third party lending institution.
- Availability of a loan from the third party lending institution is not guaranteed by Equitable® and is not part of the life insurance contract.
- The corporation must apply for and meet the third party lending institution's loan qualification requirements. The ability to obtain a loan and the terms of a loan are subject to the financial underwriting policies at the third party lending institution at the time of loan and are subject to change at any time.
- When the corporation uses the loan proceeds to pay a dividend to the shareholder, tax will be payable by the shareholder unless the corporation has a capital dividend account balance and elects the dividend to be a capital dividend.
- There should be no shareholder benefit to consider and no additional fees payable by the shareholder when the dividends are received.

The lending limit is specified by the financial institution.

- This limit varies by policy type and the investments in the policy.
- The corporation may be able to borrow an amount up to 100% of the policy's cash value. Loan minimums vary by financial institution. Some financial institutions require a minimum collateral loan of $250,000.
- Loans may be made as a lump sum or as a stream of payments over time depending on your needs. May vary by financial institution. The loan stream in this illustration is only one example. Your insurance advisor can show you different types of loan streams or amounts.

On death of the life insured, the life insurance proceeds are used to repay the corporation's loan.

- The corporation should receive an addition to its capital dividend account equal to the life insurance proceeds (including the proceeds used to repay the loan) less the policy's adjusted cost basis.
- The remaining life insurance proceeds and any other assets in the corporation may be distributed as tax-free capital dividends to shareholders, including the deceased shareholder's estate, to the extent of the balance in the corporation's capital dividend account.
- The amount of the loan at death will reduce the value of the corporation for tax purposes.
- Always consult your accountant, legal and tax professionals when dealing with capital dividend calculations and payments.

Terms of the loan will be similar to other secured loans available in the marketplace.

- This is a bank loan with current loan terms.
- There may be conditions, fees and costs associated with arranging the collateral bank loan.
- Be sure to read the terms specified in the bank loan agreement carefully.
- Depending on the terms of the loan agreement, the lending institution may require regular or periodic loan payments.
- Using the policy as collateral for a bank loan will restrict certain policy owner's rights. These may include but may not be limited to accessing cash surrender value through policy loans or withdrawals, surrendering the policy, changing coverage amounts, changing ownership, or converting the policy.
- If the terms of the loan are not met, the bank may have the right to demand immediate payment. If the bank seizes the cash surrender value of the corporately-owned life insurance policy to repay the corporate loan, the corporation would be subject to full taxation on the amount of the policy's cash surrender value that exceeds the adjusted cost basis.
- See the "Net cancellation value" column in the illustration.

Economic fluctuations may impact the amount and timing of loan advances when borrowing against the cash surrender value of the life insurance policy.

- This illustration assumes historically reasonable rate assumptions; however, actual bank interest rates and policy return rates fluctuate:
    - Lower loan interest rates reduce the cost of borrowing. Higher policy return rates may increase the cash surrender value in the policy. Both of these together may increase the amount available for the loan.
    - Higher loan interest rates increase the cost of borrowing. Lower policy return rates decrease the cash surrender value in the policy. Both of these together may decrease the amount available for the loan.
- Refer to the "Loan rate impact comparison" page to see the impact of higher interest rates. Ask your insurance advisor to illustrate different loan interest rates and policy return rates.

It is possible for the loan to exceed the bank lending limit.

- This illustration is based on historically reasonable assumptions for things like life expectancy, payments into the policy and loan advances. To the extent that reality differs from these assumptions, the lending limit may be exceeded. If this happens, depending on the terms of the loan, the bank may give the corporation the follow options:
    - Paying the loan interest;
    - Paying an amount to bring the loan back within the lending limit;
    - Paying amounts into the policy to increase cash surrender value;
    - Providing the bank with additional collateral.
- Your insurance advisor can illustrate using different assumptions.

Laws and regulations under the Income Tax Act (Canada) and other statutes may apply to this arrangement and may change.

- Using the cash surrender value of a corporately-owned life insurance policy as collateral for the bank loan is a well-established strategy. Currently, the Income Tax Act specifically excludes "an assignment of all or any part of an interest in the policy for the purpose of securing a debt or a loan other than a policy loan" from the definition of a taxable disposition of an interest in a life insurance policy.
- Any changes to legislation could impact the information in this checklist and the ability to use the cash surrender value of a corporately-owned life insurance policy as collateral security for the loan.

The loan cannot be part of a retirement benefit that the corporation is obligated to make.

- If a corporation purchases a life insurance policy to fund an obligation to provide benefits to an employee on a change in services or retirement, CRA may deem a Retirement Compensation Arrangement (RCA) to exist.
- This would result in significantly different tax consequences for the corporation and you.

As an officer of the corporation, I understand on behalf of the corporation that the Corporate Preferred Retirement Solution is a concept. It is not a product or a contract. This checklist is not a substitute for tax or legal advice. I need to consult with my financial, legal and tax advisors about the risks and benefits of this concept. Equitable is not providing tax, insurance or loan advice.

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