Equitable™

Insurance | Investments | Group Benefits

Corporate Preferred Retirement Solution®

Checklist

Corporate borrowing

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

☑ Your company can apply for a collateral loan from a third-party lender. Your company may be able to use the cash surrender value (CSV) of a company-owned life insurance policy to secure this loan. The company can then use the loan to pay a taxable dividend to you, the shareholder.

- With a collateral loan, the lender, such as a bank or credit union (hereafter referred to as 'bank') is the third-party.
- The bank uses the CSV of your company-owned life insurance policy as collateral for the bank loan.
- Getting a loan from a bank is not guaranteed by Equitable®. It is not part of the life insurance contract.
- Your company must apply for and meet the bank's loan rules. The ability to get the loan and the loan terms will depend on financial underwriting at that time. The rules and requirements can change at any time.
- When your company uses the loan money to pay you a dividend, you will need to pay the tax. You may not have to pay a tax if your company has money in a capital dividend account and pays the dividend as a tax-free capital dividend.
- When the dividend is paid, there should be no shareholder benefit to consider, and no additional fees to you.

☑ The lending limit for the loan is set by the bank.

- The limit can depend on the type of life insurance policy that is used and its investments.
- Your company may be able to borrow up to 100% of the policy's CSV. Loan limits vary by bank.
- The loan may be available as a lump sum or as a series of payments. The options will vary by bank.
- The loan amounts shown in your illustration are examples only. Speak with your insurance advisor to see other options.

On death of the life insured, the company loan is repaid using the life insurance money and your company receives any amount remaining after the loan is repaid.

- Your company should get an addition to its capital dividend account equal to the life insurance money (including the portion used to repay the loan), minus the policy's adjusted cost basis (ACB).
- The capital dividend account balance allows the company to pay a tax-free capital dividend to its shareholders. This can include the estate of the shareholder who passed away. Tax and legal advice is recommended before taking this step.
- The amount of the loan at death will reduce the value of the company for tax purposes.
- Always talk to your tax advisor when working with capital dividend calculations and payments.

The terms of this loan will be like other secured loans available in the marketplace.

- This is a bank loan with current terms. There may be conditions, fees, or costs to set up the loan. Always read the loan agreement carefully.
- The bank could ask you to make regular or recurring loan payments, depending on your loan terms.
- By using your life insurance policy as collateral for the loan, you may lose some rights from your life insurance policy. These include the right to:
  - request a policy loan or cash withdrawal
  - surrender the policy
  - change your coverage
  - change ownership of the policy, or
  - convert the policy.
- If the terms of the loan are not met, the bank could ask for full repayment of the loan right away.
- If the bank takes the CSV of your corporate-owned life insurance policy to pay back the loan, this could mean tax owing by your company. This may mean:
  - the company paying tax if the policy CSV is more than the policy's ACB, and
  - loss of the life insurance coverage.

See the "Net Cancellation Value" column in your policy illustration for details.

Economic changes could affect how much money you can get and the timing of loans when using a life insurance policy as collateral.

- This illustration uses historically reasonable rates. Actual loan interest rates and policy returns will be different.
- Higher loan interest rates increase the cost of borrowing. Lower policy return rates decrease the CSV in the policy. Both together may decrease the amount available as security for the loan.
- Refer to the "Loan Rate Impact Comparison" page to see the effect of higher loan interest rates.
- Your advisor can show you examples using different loan rates and policy return rates.

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

- The illustration you received uses historically reasonable policy assumptions for things like life expectancy, payments to the policy, and loan amounts. Your advisor can show you other examples using different assumptions.
- If actual results differ from the illustration, you may exceed the bank lending limit. If so, the bank may offer you some options, including:
  - Personally paying the loan interest.
  - Personally paying an amount that keeps the loan within the lending limit.
  - The company paying amounts into the policy to increase its cash surrender value.
  - You or the company providing the bank with extra collateral for the loan.

Canadian tax laws may change, which could affect this loan arrangement.

- If a company buys a life insurance policy, it can use the policy's CSV as security for a loan. In some cases, bank loans received by shareholders of a company and guaranteed by a company-owned life insurance policy may not be taxable.
- If tax laws change, it could affect the information in this checklist. Your ability to use a company-owned life insurance policy as collateral for a personal loan could also change.

The loan cannot be part of a retirement benefit that your company must make.

- If your company buys a life insurance policy as a benefit when your employment status changes or you retire, the Canada Revenue Agency (CRA) may see this as a Retirement Compensation Arrangement (RCA).
- This would result in big tax consequences for your company. Consulting a tax advisor is highly recommended.

The Corporate Preferred Retirement Solution is a concept, not a product or a contract. This checklist does not replace professional tax or legal advice. Talk to your financial, legal, and tax advisors about its risks and benefits. Equitable does not offer tax, insurance, or loan advice. Readers are advised to seek professional advice prior to adopting any insurance or investment strategy.

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