

# CORPORATE PREFERRED RETIREMENT SOLUTION<sup>®</sup> USING WHOLE LIFE

equimax



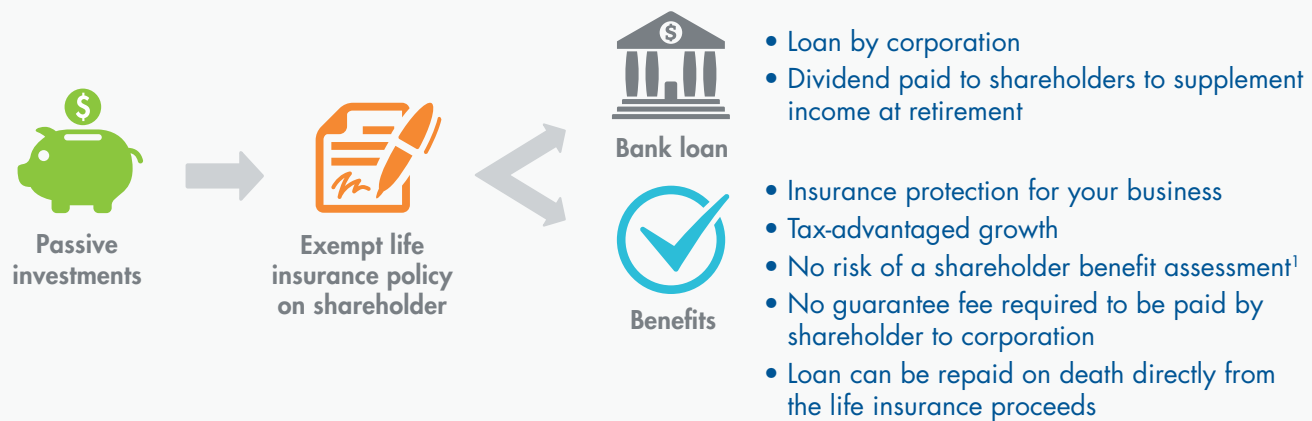
advanced insurance planning

# CORPORATE PREFERRED RETIREMENT SOLUTION<sup>®</sup>

It's the kind of preferential treatment you want. Life insurance that benefits both you and your business.

You already know that life insurance can help protect your business by making funds available to pay off debts, fund buy sell agreements and keep the business running. But did you know that it can also benefit you and your business during your lifetime?

The *Corporate Preferred Retirement Solution* can help decrease your corporate taxes and increase your cash flow in retirement. Simply redirect some of the surplus from business income into a permanent life insurance policy rather than passive investments.



## PUT THE CORPORATE PREFERRED RETIREMENT SOLUTION TO WORK FOR YOU

### Protect your business

- Determine the amount of insurance your corporation needs based on its objectives.
- The corporation purchases a permanent life insurance policy on your life. The corporation is the beneficiary.

### Grow your assets

- By redirecting a portion of surplus from business income into a life insurance policy rather than passive investments your corporation pays less tax today<sup>2</sup> and in the future.
- The funds within the insurance policy grow on a tax-advantaged basis.
- Payments above the required premium can accelerate the growth of the value within the policy.<sup>3</sup>

### Supplement shareholders' retirement cash flow

- The company may be able to access<sup>4</sup> the cash surrender value of the corporately-owned life insurance policy to supplement the retirement cash flow of its shareholders.
- One option is for the corporation to apply for a bank loan using the policy as collateral. The cash surrender value of the policy must be large enough to meet the bank's loan qualification requirements.<sup>5</sup>
- The corporation can use the loan proceeds to pay a taxable dividend to the shareholders.<sup>1</sup>
- At death, the proceeds of the life insurance policy are paid tax free to the corporation. The corporation repays the loan. Amounts of the life insurance proceeds in excess of the policy's adjusted cost basis (ACB)<sup>6</sup> are credited to the company's capital dividend account. Any funds in the capital dividend account may be paid as a tax-free capital dividend to the shareholders, including the deceased shareholder's estate.<sup>7</sup>

# THE PREFERRED SOLUTION

## AN EXAMPLE: MEET MELISSA

- Melissa is 37 years old and is the owner and majority shareholder of a profitable corporation.
- She plans to retire at age 65.
- Melissa anticipates she will need \$37,000 each year for 20 years, starting at age 65.
- The corporation can allocate \$36,000 of surplus from after-tax business income each year for the next 10 years.

Melissa wants a tax-efficient way to increase her cash flow in retirement while creating an estate. She is considering two options:

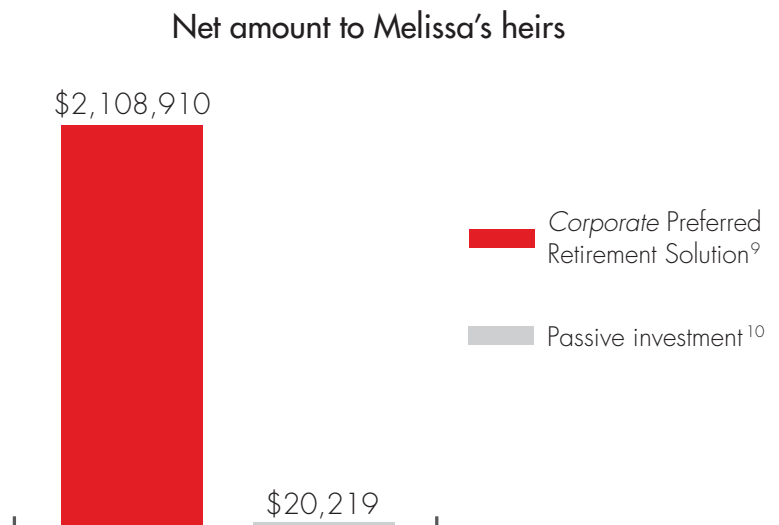
- Investing the \$36,000 each year in passive investments, or
- Using the \$36,000 to pay the annual premium of a permanent life insurance policy (*Corporate Preferred Retirement Solution* concept with corporate borrowing).

### The results

By choosing the *Corporate Preferred Retirement Solution* with corporate borrowing, when Melissa turns 65, the corporation can apply for a bank loan<sup>8</sup> using the corporately-owned life insurance policy as collateral. The corporation can then use the loan proceeds to pay Melissa a taxable dividend. Melissa will have:

- Immediate life insurance coverage of \$1,200,000 for her corporation.
- Tax-free dollars to supplement her retirement cash flow for 20 years. (While passive investments are not depleted before age 84, they are significantly reduced.)
- Net amount payable to her heirs of **\$2,108,910\*** as compared to \$20,219 from passive investments.

\* Assumes death at age 85 and after loan repayment.



Your advisor can show you how the *Corporate Preferred Retirement Solution* can work for you.

You should review the *Corporate Preferred Retirement Solution* corporate borrowing checklist for details and consult with your financial, legal, and tax advisors about the risks and benefits of this concept.

# TAX-ADVANTAGED GROWTH

Other taxable asset classes require a higher rate of return to produce the same estate value as an Equimax® participating whole life insurance policy.

| Required annual pre-tax rate of return <sup>11</sup> |          |           |                        |                        |
|------------------------------------------------------|----------|-----------|------------------------|------------------------|
| Life insurance internal rate of return               | Interest | Dividends | Deferred capital gains | Realized capital gains |
| 6.13%                                                | 11.34%   | 9.18%     | 6.38%                  | 7.49%                  |

## IT COULD BE THE RIGHT SOLUTION FOR YOU IF ...

- You are the owner or majority shareholder of a Canadian corporation.
- The corporation has passive investments.
- You need life insurance to protect your business.
- You are looking for ways to reduce corporate taxes or taxes on death.<sup>12</sup>
- You want to supplement the retirement cash flow of your shareholders without the risk of a shareholder benefit assessment.
- You want the ease of repaying the loan using life insurance proceeds directly without requiring the deceased shareholder's estate to provide additional collateral.

The *Corporate Preferred Retirement Solution* is a concept. It is not a product or contract. It is based on current tax legislation which may change. This information does not constitute legal, tax, investment, or other professional advice.

<sup>1</sup> Although the dividend payment is taxable to the shareholder (unless there is a balance in the corporation's capital dividend account and the dividend is paid as 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 corporation should speak to their tax advisors when implementing the *Corporate Preferred Retirement Solution* concept to avoid adverse tax consequences. <sup>2</sup> The amount of any tax savings will depend on the nature of your taxable investments. <sup>3</sup> The extra payment is limited to the amount required to maintain the tax-exempt status of the policy. Review the product illustration for full details. <sup>4</sup> Options include but may not be limited to partial surrenders of the policy, policy loans, collateral bank loans using shareholder or corporate borrowing. The tax implications of each option vary and need to be considered before selecting an option. <sup>5</sup> 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 Life® and is not part of the life insurance contract. The borrower must apply for and meet the third party lending institution's loan qualification requirements. The borrower may be able to borrow 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. 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. There may be conditions, fees and costs associated with arranging the collateral bank loan. Depending on the terms of the loan agreement, the lending institution may require regular or periodic loan payments. <sup>6</sup> ACB is the premiums paid less the net cost of pure insurance calculated in accordance with the Regulations under the Income Tax Act, subject to certain adjustments. Always consult your accountant or tax professional when dealing with capital dividend calculations and payments. <sup>7</sup> If shareholders who receive capital dividends are non-residents, there will be Canadian withholding tax, and possible tax in the country of residence. <sup>8</sup> Corporate borrowing. Loan amount of \$61,667 for 20 years at a rate of 6% with an assumed age at death of 100. Illustration assumes maximum loan to CSV ratio of 90% and shows interest being capitalized. Interest repayment is also available. At death, the bank loan balance is \$2,404,564. <sup>9</sup> Equimax Estate Builder® participating whole life insurance, 20 pay. Female, age 37, standard non-smoker rates (no ratings) as of July 1, 2019. Paid-up additions dividend option. Initial death benefit \$1,200,000. The sales illustration for this case study shows a premium offset point at year 10, after which time no further payments are required. This is based on the 2019/2020 dividend scale remaining unchanged for the life of the policy. A decrease in the life insurance dividend scale may delay the premium offset point and require you to pay premiums for longer than previously illustrated; or require you to resume paying premiums for a period of time if your policy has been on premium offset. Dividends are not guaranteed and may be subject to taxation. Dividends will vary based on the actual investment returns in the participating account as well as mortality, expenses, lapse, claims experience, taxes and other experience of the participating block of policies. <sup>10</sup> Passive investment portfolio (50% interest 50% dividends). Assumes an average annual interest rate of 5%. Withdrawals of \$37,000 per year for 20 years starting at age 65. <sup>11</sup> Shareholder marginal tax rate is 50%; shareholder dividend tax rate is 40%; corporate tax rate on investment income is 50%. <sup>12</sup> In some circumstances, the interest on the loan, as shown in the illustration and a portion of the insurance premiums paid or payable may be deductible against corporate income. In addition, the corporate loan may decrease the fair market value of the shares owned by the deceased shareholder for purposes of calculating the capital gain realized at death.



# We're not your typical financial services company.



Equitable Life® is proud to be one of Canada's largest mutual life insurance company. We operate only in Canada and are owned by our participating policyholders, not shareholders. This allows us to focus on management strategies that foster prudent long-term growth, continuity and stability.

## OUR STRATEGIC FOCUS

Equitable Life's strategic focus will allow us to continue to serve the needs of Canadians. Our priorities include:

- Delivering earnings consistent with a 12% return on policyholders' equity,
- Maintaining financial strength with a Life Insurance Capital Adequacy Test (LICAT) ratio in excess of 120%,
- Increasing market share in all lines of business,
- Building out our product offering,
- Investing in technology to enhance service,
- Pursuing unit cost reductions, efficiency and scale,
- Supporting our culture of employee engagement, and
- Expanding our focus and support in advanced markets.



## Works for me.®

Canadians have turned to Equitable Life since 1920 to protect what matters most. We work with your independent financial advisor to offer individual insurance and savings and retirement solutions that provide good value and meet your needs – now and in the future.

Equitable Life is not your typical financial services company. We have the knowledge, experience and ability to find solutions that work for you. We're friendly, caring and interested in helping. And we're owned by our participating policyholders, not shareholders, allowing us to focus on your needs and providing you with personalized service, financial protection and peace of mind.



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