Corporate Preferred Retirement Solution using whole life

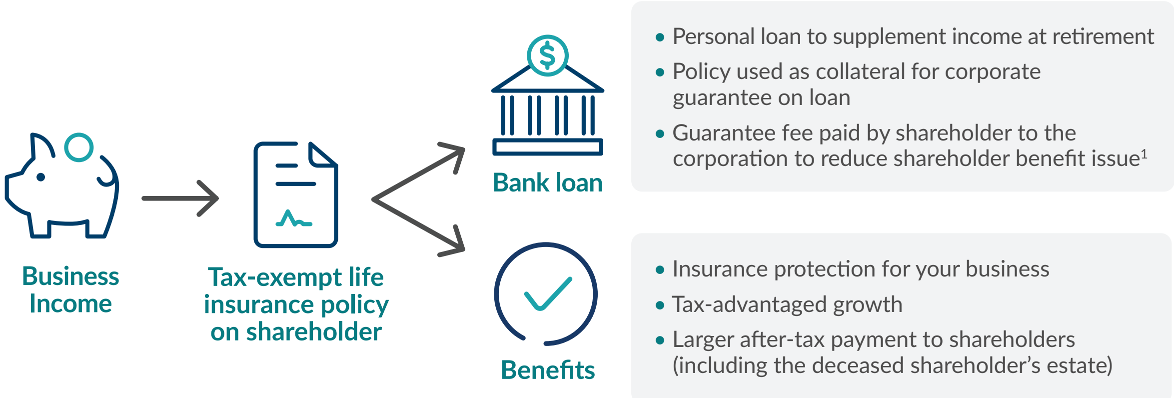
Shareholder borrowing

Corporate Preferred Retirement Solution®

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 help 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 investing it all in taxable 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 taxable investments your corporation may pay less tax over your lifetime.[2]
- 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.[3]

Supplement your retirement cash flow

- You may be able to access[4] the cash surrender value of the corporately-owned life insurance policy to supplement your retirement cash flow.
- One option is to apply for a personal bank loan using the policy as a corporate guarantee on the loan. The cash surrender value of the policy must be large enough to meet the bank's loan qualification requirements.[5]
- The bank loan can supplement your retirement cash flow with tax-free dollars.[1]
- At death, the proceeds of the life insurance policy are paid tax-free to the corporation. Amounts in excess of the policy's adjusted cost basis (ACB)[6] are credited to the capital dividend account. From there, they are paid as tax-free capital dividends to the shareholders, including the deceased shareholder's estate. The deceased shareholder's estate pays off the loan and keeps any remaining balance.[7]

An example: meet Colin

- Colin is 35 years old and is the owner and majority shareholder of a profitable corporation.
- He plans to retire at age 65.
- Colin wants funds available to supplement his retirement cash flow for 20 years, starting at age 65.
- The corporation can allocate $33,000 of surplus from after-tax business income each year for the next 10 years.
- Colin wants a tax-efficient way to increase his cash flow in retirement while creating an estate. He is considering two options:
  - Invest $33,000 each year for 10 years in a taxable investment, or
  - Transfer $33,000 each year for 10 years to a corporately-owned permanent life insurance policy to pay the premium (*Corporate* Preferred Retirement Solution concept with shareholder borrowing).

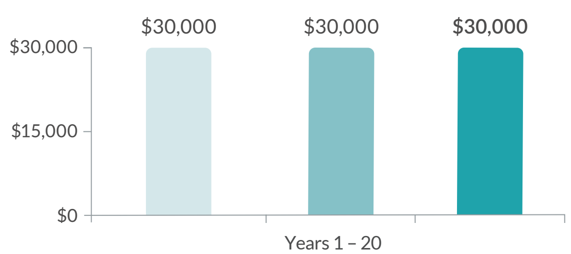
The results

While both the *Corporate* Preferred Retirement Solution and the taxable investment are sufficient to supplement Colin's retirement cash flow by $30,000 annually until age 85, the annual withdrawals from the taxable investment significantly reduce the net amount available to Colin's heirs at death.

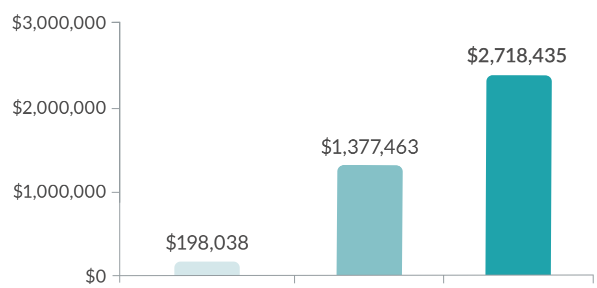
By choosing the *Corporate* Preferred Retirement Solution with shareholder borrowing, Colin will have:

- Life insurance coverage of $950,000 for his corporation.
- Supplemental retirement cash flow for 20 years.
  - When Colin turns 65, he can apply for a personal bank loan[8] using the corporately-owned life insurance policy as collateral.
- Higher net amount payable to his heirs than with the taxable investment.

Annual after-tax amount available to supplement Colin's retirement cash flow for 20 years starting at age 65



Net amount to Colin's heirs (assumes death at age 85 and after loan repayment)



- Taxable investment (5% annual rate of return)[9]
- *Corporate* Preferred Retirement Solution (life insurance)[10] Current dividend scale interest rate minus 1%
- *Corporate* Preferred Retirement Solution (life insurance)[10] Current dividend scale interest rate

Scale has been modified for display purposes.

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

You should review the *Corporate* Preferred Retirement Solution shareholder borrowing checklist (form #1815) 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 at age 85 as a life insurance policy.

	Required annual pre-tax rate of return[11]				
	Life insurance (Annual after-tax internal rate of return)	Interest	Dividends	Realized capital gains	Realized capital gains[12]
Current dividend scale	5.50%	11.32%	9.16%	7.48%	6.31%
Alternate dividend scale (current minus 1%)	4.39%	9.20%	7.44%	6.06%	5.25%

The pre-tax returns for realized capital gains and deferred capital gains assume 50% of the capital gain is taxed. Higher returns than those shown are required if 67% of the capital gain is taxed.

It could be the right solution for you if...

☑	You are the owner or majority shareholder of a Canadian corporation.	☑	You want to supplement your retirement cash flow.
☑	The corporation has taxable investments.	☑	You need life insurance to protect your business.
☑	You are looking for ways to reduce corporate taxes or taxes on death.	☑	You have an up-to-date Will.

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.

[1] Using a corporately-owned life insurance policy as security for a corporate guarantee on a personal bank loan (shareholder borrowing) could result in a taxable benefit to the borrower under the Income Tax Act (Canada). In most cases, a guarantee fee should be paid by the borrower to the corporation to minimize the taxable benefit. This guarantee fee will be considered taxable income to the corporation. Another option is to consider having the corporation obtain the collateral loan and distributing the loan proceeds as taxable dividends to the shareholder (corporate borrowing). The corporation and the borrower should obtain professional tax advice when implementing and carrying-out the *Corporate* Preferred Retirement Solution to ensure compliance with the tax legislation at that time to avoid adverse tax consequences. Equitable does not and cannot provide guidance on the amount or rate of a guarantee fee that would avoid a taxable benefit to the borrower because that amount or rate is dependent upon the value of the guarantee, which is dependent on facts specific to each corporation and borrower.
[2] The amount of any tax savings will depend on the nature of your taxable investment and assumes no taxes are triggered if investments are sold to fund premiums.
[3] 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.
[4] Options include but may not be limited to partial surrenders of the policy, policy loans and collateral bank loans. The tax implications of each option vary and need to be considered before selecting an option.
[5] 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 borrower must apply for and meet the third-party lending institution's loan qualification requirements. Loan minimums, interest rates, and loan terms vary by financial institution. 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.
[6] 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.
[7] Arrangements will be required between the lender, corporation and life insured's estate to ensure that the life insurance proceeds do not directly repay the bank loan. In some instances, the estate may be required to provide alternative collateral to secure the loan.
[8] Shareholder borrowing. Loan amount of $30,000 per year for 20 years at a rate of 7% (6% interest rate plus 1% guarantee fee paid by the shareholder to the corporation) with assumed age of death at 100. Maximum loan to CSV ratio of 90% and shows both the interest and the guarantee fee being capitalized. Interest repayment is also available. At age 85, the bank loan balance is $1,169,782. Tax paid by corporation on guarantee fee has not been incorporated into the calculations.
[9] Taxable investment portfolio (50% interest, 50% dividends). Assumes an average annual interest rate of 5%. Rate not guaranteed; results will vary. Withdrawals of $30,000 per year for 20 years starting at age 65.
[10] Equimax Estate Builder® participating whole life insurance, 20 pay. Paid-up additions dividend option. Initial death benefit $950,000 with an annual payment of $33,000 made up of the required annual premium ($25,061) and an annual Excelerator Deposit Option payment ($7,939). The sales illustration for this case study shows a premium offset point at year 10, after which time you may be able to stop paying premiums. Values illustrated are based on the rates in effect as of October 5, 2024 for a male, age 35, assuming a standard non-smoker risk class and the dividend scale in effect at that time 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 are paid at the sole discretion of the Board of Directors. Dividends 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.
[11] Shareholder marginal tax rate is 50%; shareholder dividend tax rate is 40%; corporate tax rate on investment income is 50%.
[12] Assumes capital gains are deferred until age 85.
Equitable has made every effort to ensure the accuracy of the information presented; however, accuracy is not guaranteed.
This document is provided for information purposes only and does not constitute legal, tax, or other professional advice. Advisors must determine whether this concept/product is suitable for a specific client based on the client's circumstances and needs.

1571 (2024/10/05)