shareholder borrowing

CORPORATE PREFERRED RETIREMENT SOLUTION® USING WHOLE LIFE

equimax

advanced insurance planning

Equitable Life of Canada®

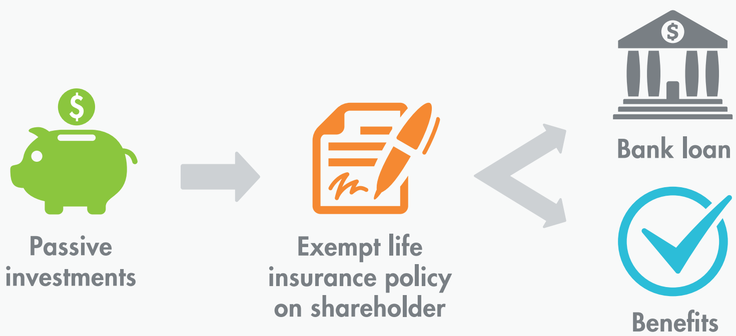
Works for me.®

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 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.



- Personal loan to supplement income at retirement
- Policy used as collateral for corporate guarantee on loan
- Guarantee fee paid by shareholder to the corporation to reduce shareholder benefit issue[1]

- Insurance protection for your business
- Tax-advantaged growth
- Larger after-tax payment to shareholders (including the deceased shareholder's estate)

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[2] 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.[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 collateral for 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 anticipates he will need to supplement his retirement cash flow by $36,000 each year for 20 years, starting at age 65.
- The corporation can allocate $29,000 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:

- Investing the $29,000 each year in passive investments, or
- Using the $29,000 to pay the annual premium of a permanent life insurance policy (*Corporate* Preferred Retirement Solution with shareholder borrowing).

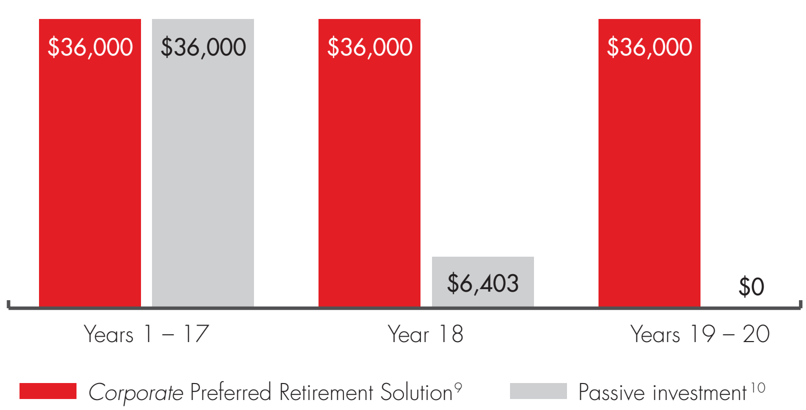
The results

By choosing the *Corporate* Preferred Retirement Solution with shareholder borrowing, at age 65 Colin can apply for a personal bank loan[8] using the corporately-owned life insurance policy as collateral for a corporate guarantee on the loan. Colin will have:

- Immediate life insurance coverage of $950,000 for his corporation.
- Tax-free dollars to supplement his retirement cash flow for 20 years. (Passive investments are depleted before age 84).
- Net amount payable to his heirs of **$1,937,054*** as compared to $0 with passive investments.

* Assumes death at age 85 and after loan repayment.

Annual withdrawal available to supplement retirement cash flow



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 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[11]				
Life insurance internal rate of return	Interest	Dividends	Deferred capital gains	Realized capital gains
5.75%	11.49%	9.30%	6.42%	7.59%

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 are looking for ways to reduce corporate taxes or taxes on death.
- ☑ You want to supplement your retirement cash flow.
- ☑ You need life insurance to protect your business.
- ☑ 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). Borrowers should speak to their tax advisors when implementing the *Corporate* Preferred Retirement Solution concept to avoid adverse tax consequences. [2] The amount of any tax savings will depend on the nature of your taxable investment. [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 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. [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 $36,000 per year for 20 years at a rate of 7% with assumed age of death at 100. Maximum loan to CSV ratio of 90% and shows interest being capitalized. Interest repayment is also available. At death, the bank loan balance is $1,579,146. [9] Equimax Estate Builder® participating whole life insurance, 20 pay. Male, age 35, standard non-smoker rates (no ratings) as of July 1, 2019. Paid-up additions dividend option. Initial death benefit $950,000. 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. [10] Passive investment portfolio (50% interest, 50% dividends). Assumes an average annual interest rate of 5%. Withdrawals of $36,000 per year for 20 years starting at age 65. [11] Shareholder marginal tax rate is 50%; shareholder dividend tax rate is 40%; corporate tax rate on investment income is 50%.

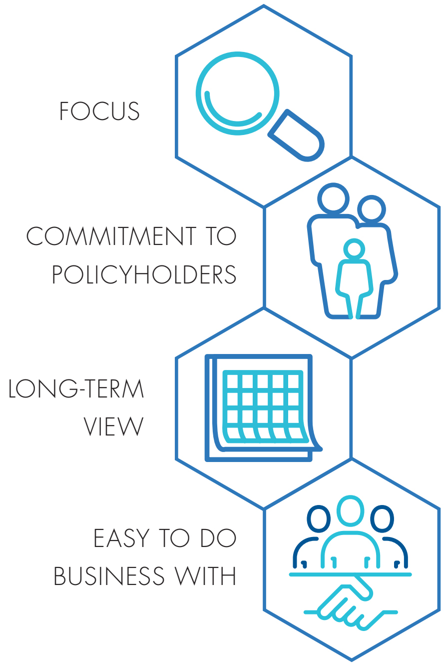
We're not your typical financial services company.

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.

Equitable Life of Canada®

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