Equitable

Corporate Preferred Retirement Solution using whole life

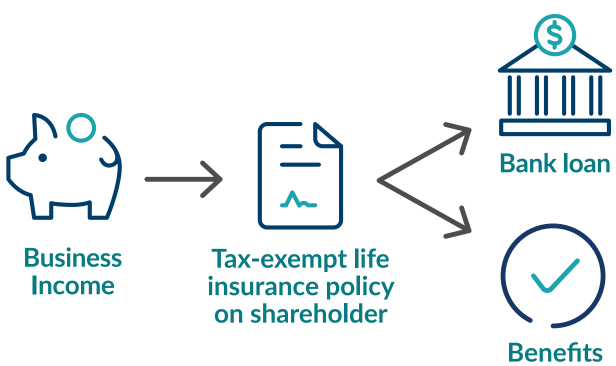
Advanced insurance planning

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 life insurance 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 taxable investments.



- Loan by corporation
- Dividend paid to shareholders to supplement income at retirement

- Insurance protection for your business
- Tax-advantaged growth
- No shareholder benefit assessment[1]
- No guarantee fee required to be paid by shareholder to corporation
- Loan can be repaid on death directly from the life insurance proceeds

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 shareholders' retirement cash flow

- The company may be able to access[4] 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.[5]
- The corporation can use the loan proceeds to pay a taxable dividend to the shareholders.[1]
- 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)[6] 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.[7]

The Preferred Solution®

An example: meet Melissa

- Melissa is 37 years old and is the owner of a profitable corporation.
- She plans to retire at age 65.
- Melissa anticipates she will need to supplement her retirement cash flow each year for 20 years, starting at age 65.
- The corporation can allocate $42,000 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:
  - Invest $42,000 each year for 10 years in a taxable investment, or
  - Transfer $42,000 each year for 10 years to a corporately-owned permanent life insurance policy to pay the premium (*Corporate* Preferred Retirement Solution concept with corporate borrowing).

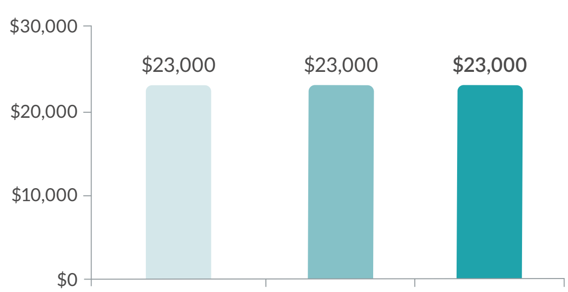
The results

While both the Corporate Preferred Retirement Solution and the taxable investment are sufficient to supplement Melissa's retirement cash flow by $23,000 annually until age 85, the annual withdrawals from the taxable investment significantly reduce the net amount available to Melissa's heirs at death.

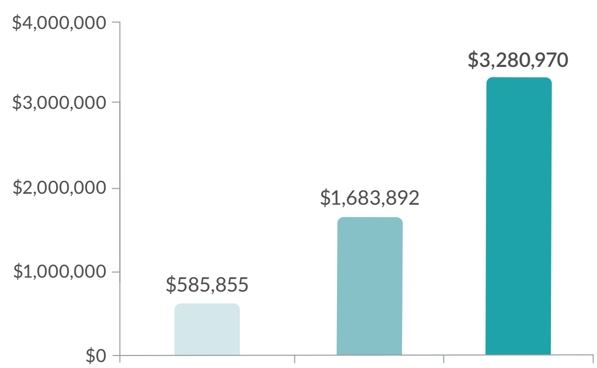
By choosing the Corporate Preferred Retirement Solution with corporate borrowing, Melissa will have:

- Life insurance coverage of $1,200,000 for her corporation.
- Supplemental retirement cash flow for 20 years.
  - When Melissa turns 65, the corporation can apply for a bank loan[8] using the cash value of a corporately-owned life insurance policy as collateral. The corporation can then use the loan proceeds to pay Melissa a taxable dividend.
- Higher net amount payable to her heirs than with the taxable investment.

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



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



Scale has been modified for display purposes.

- 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

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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 (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	5.69%	11.07%	8.96%	8.24%	6.47%
Alternate dividend scale (current minus 1%)	4.56%	8.63%	6.99%	6.42%	5.22%

The pre-tax returns for realized capital gains and deferred capital gains assume 66.67% 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 the retirement cash flow of your shareholders without the risk of a shareholder benefit assessment.
☑	The corporation has taxable investments.		
☑	You need life insurance to protect your business	☑	You want the ease of repaying the loan using life insurance proceeds directly without requiring the deceased shareholder's estate to provide additional collateral.
☑	You are looking for ways to reduce corporate taxes or taxes on death.[13]		

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] 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 obtain professional tax advice when implementing and carrying-out the *Corporate* Preferred Retirement Solution concept to ensure compliance with the tax legislation at that time to avoid adverse tax consequences.

[2] The amount of any tax savings will depend on the nature of your taxable investments 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, collateral bank loans using shareholder or corporate borrowing. 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, interest rates, and loan terms from the third-party lending institution are 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 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. Depending on the terms of the loan agreement, the lending institution may require regular or periodic loan payments.

[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] If shareholders who receive capital dividends are non-residents, there will be Canadian withholding tax, and possible tax in the country of residence.

[8] Corporate borrowing. Loan amount of $38,333 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 age 85, the bank loan balance is $1,494,708. Rates and results will vary.

[9] Taxable investment portfolio (50% interest 50% dividends). Assumes an average annual interest rate of 5%. Rates and results will vary. Before-tax withdrawals of $38,333 (after-tax withdrawals of $23,000) 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 $1,200,000. The $42,000 annual deposit is a combination of required premium ($30,468) and an additional deposit (Excelerator deposit option) ($11,532). Illustrated values are for a female, age 37, standard non-smoker rates in effect as of October 5, 2024 and the dividend scale at that time remaining unchanged for the life of the policy. 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 for your 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.

[13] In some circumstances, the interest on the loan 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.

1840 (2024/10/05)