LIFE
INSURANCE
SOLUTIONS

Corporate asset efficiency

Manage. Access. Preserve.

A smart solution for professionals – permanent life insurance, a unique asset that can offer tax-advantaged growth.

Consider this

Growth on money held in your corporation as passive investments is taxed at the highest corporate tax rate. Erosion of future growth potential due to taxes may be a threat to your financial plan.

Is your current corporate investment strategy optimizing your net worth?

When building investment portfolios in a corporation, typical plans consist of investment vehicles that return:

- Interest income
- Dividend income
- Capital gains income
- Mix of these types of income

Start by examining tax efficiency

Manage with more ways to grow your assets

- **Non-registered investments** – tax-exposed
- **Registered investments** – tax-deferred
- **Permanent cash value life insurance** – tax-advantaged

Tax-exposed – a scenario all investors try to minimize.

Tax-deferred – putting off taxes means more money stays invested for you, putting the power of compound growth on your side. However, like all good things, tax deferral typically comes to an end at some point in the future.

Tax-advantaged – learn more and add this to your planning.

From tax-exposed or tax-deferred to tax-advantaged

Permanent life insurance is a unique asset class because of its immediate estate enhancement and the opportunity for tax-advantaged growth within legislative limits. It can serve your primary need for insurance and at the same time provide long-term growth; and allow for a tax efficient transfer to your estate, all for less cost and less risk than many other asset classes.

Access a benefit for now and into retirement

If you have an insurance need and a proven track record in your business, transferring some of the investment dollars within your business from tax-exposed or tax-deferred investments to tax-advantaged permanent life insurance may mean more savings for your business that can be distributed for your personal use in the future. Your business maintains access and control, and it may be able to use the life insurance policy's cash surrender value to obtain a line of credit (subject to the lender's financial underwriting), to generate additional cash flow for business or personal use.

Preserve more of your assets for your successors and beneficiaries

Permanent life insurance provides an immediate estate benefit. The life insurance death benefit received tax-free by your private corporation is credited to its capital dividend account, allowing the corporation to pay tax-free capital dividends to remaining shareholders or your estate as a shareholder. In this strategy, the private corporation is the named beneficiary and is deemed to receive the entire death benefit tax-free. The death benefit that is paid directly to the bank to eliminate the corporation's line of credit is effectively received by the corporation for purposes of the credit to its capital dividend account. The credit amount to the corporation's capital dividend account is the death benefit, minus any remaining adjusted cost basis of the life insurance policy. The corporation can then distribute the proceeds, up to the capital dividend account balance, to shareholders tax-free. These shareholders can include successors, heirs or the estate.

Are you interested in an asset that gives you a benefit during your lifetime and later for your estate?

Let's review the efficiency, over the long-term, of a life insurance solution compared to other asset classes.

In the example, accumulating tax-advantaged cash value within the Canada Life *Estate Achiever* policy, assigning the policy as collateral and obtaining a line of credit with a bank or other lender could provide the corporation with $62,861 cash flow, or $42,387 after-tax dividend to the shareholder, each year from age 65 to 85.

The comparison investment would provide $57,986 to the corporation, or $39,100 after-tax dividend to the shareholder, and would not leave any amount remaining for the shareholder's estate. With the Canada Life *Estate Achiever* policy, at age 85, after repayment of the line of credit on death of the insured, the shareholder's estate would be left with $1,027,430 from the death benefit, which flows tax-free out of the corporation's capital dividend account. Other funds within the corporation could also be distributed as tax-free capital dividends to the estate or future shareholders, to the extent of any balance of the capital dividend account.

Tax implications create huge differences in asset efficiency

The life insurance values shown in this example, including cumulative net cash flows and net estate benefit to shareholders are based on Canada Life's current dividend scale and premium rates as at July 2012 and on the assumptions set out on the next page. Actual results will vary from those illustrated, based on the actual premium rates and dividend experience of the policy.

This example is not complete without a complete Canada Life illustration, including the cover page, reduced example and product features pages all having the same date. Read each page carefully as they contain important information.

Comparison at policy year 45 (age 85)

	Comparison investments	Life insurance
Cumulative deposits/premiums	$500,000 (20 x $25,000)	$500,000 (20 x $25,000)
Cumulative net cash flow to shareholder from age 65 to 85	$782,000 (20 x $39,100)	$847,740 (20 x $42,387)
Net death benefit to corporation after loan repayment	N/A	$1,027,430
Capital dividend account credit	N/A	$3,209,902
Net death benefit to shareholder's estate	NIL	$1,027,430
Internal rate of return based on after tax cash flows to shareholder and after tax benefit to shareholder's estate	1.88%	4.52%

Values shown for the comparison investments are based on the assumptions set out below.

Assumptions

Male, non-smoker, age 40, standard risk, initial death benefit $600,000, Canada Life *Estate Achiever*, max 20 participating life insurance, basic premium $16,157, additional deposit option premium $8,843, total annual premium of $25,000 per year for 20 years, dividend option is a paid-up addition. The policy is used as collateral to obtain a line of credit from a bank or other lender at an assumed interest rate of five per cent, with the interest capitalized, and a line of credit reaching a maximum loan-to-cash value ratio of 90 per cent at age 90. Death is assumed at age 85.

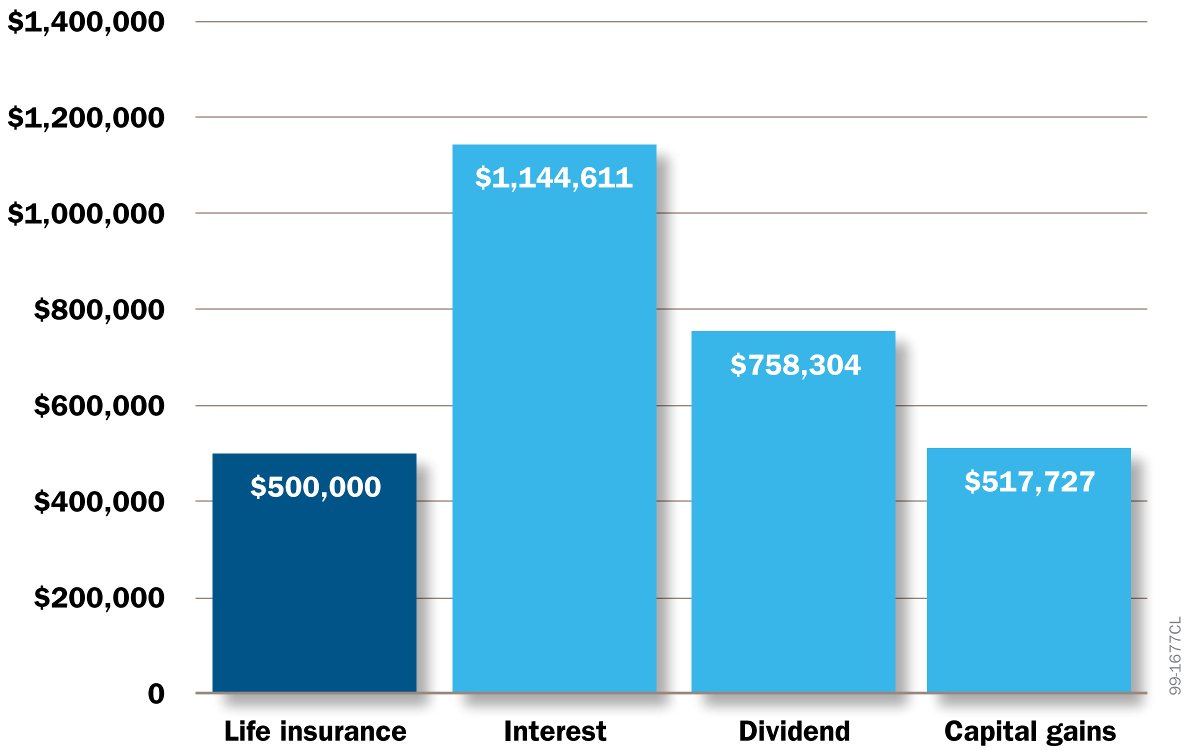
Asset mix on investment: 50 per cent interest growing at four per cent; 20 per cent taxable dividends growing at five per cent; 30 per cent realized capital gains growing at six per cent. Corporate tax rates: interest 46.17 per cent, dividends 33.33 per cent, realized capital gains 23.09 per cent. Tax rate on dividend to shareholder's estate: 32.57 per cent.

These figures are not adjusted for the time value of money.

Higher asset efficiency means less capital is required

Using the assumptions outlined in the example, how much capital would you need to allocate to each asset class to produce the same cash flow and net estate benefit as the life insurance policy?

Other asset classes require more capital

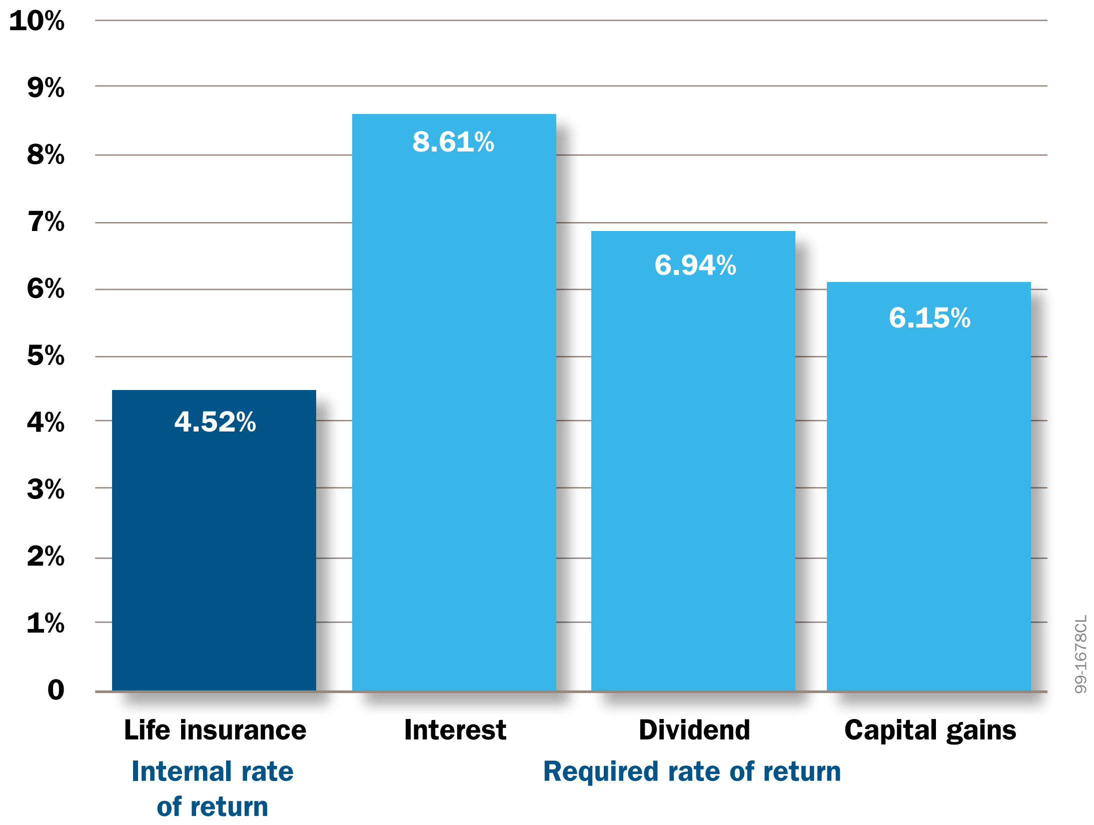


With life insurance, a smaller capital requirement can potentially create a larger cash flow and estate benefit.

Higher asset efficiency means less risk is required

Using the assumptions outlined in the example, if the same capital were allocated to each asset class, what rate of return would you need to produce the same cash flow and net estate benefit (internal rate of return) as the life insurance policy?

Other asset classes require higher rates of return



The required rate of return on investments illustrates the pre-tax rate of return required to achieve the same internal rate of return after tax as life insurance.

Manage risk. Maintain access and control. Preserve your estate.

Consider life insurance as part of your corporate investment strategy and optimize your corporate wealth.

Important considerations

You should not purchase life insurance just because of the future possibility of obtaining a collateral loan.

Collateral loans involve risk. They should only be considered by sophisticated investors with high risk tolerance and access to professional advice from a lawyer and accountant. The terms or future availability of collateral loans cannot be guaranteed. The loan or line of credit must be negotiated between the policyowner and the lender. It is subject to the lender's financial underwriting and other requirements. The corporation should have enough income and capital to cover the interest and loan repayment.

Depending on the terms of the loan, the lender can demand repayment if the loan threatens to exceed the maximum loan-to-cash value ratio. This can occur if interest is capitalized or the insured person lives beyond the age used to determine the maximum advance.

If a loan is made on a demand basis, the lender can demand repayment at any time, for any reason. If the policy is surrendered to repay the loan, a significant tax liability could occur on any policy gains, that is, on any cash value over the adjusted cost basis. The taxable portion of the surrender would be subject to income tax at the high corporate rate for passive investments. There could be little or no additional cash available from the policy to pay the tax. The insured person also might not be able to obtain replacement life insurance, or they might have to pay much higher premiums, due to their older age and possible change in insurability.

If a corporation purchases life insurance policies to fund formal retirement arrangements, they may be deemed to be retirement compensation arrangements. Tax implications would apply.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