



Be well-advised.

> The Role of Insurance
in Wealth Planning

Tax-sheltered investing using life insurance

Tax-sheltered investing using life insurance

So much of financial planning focuses on gaining tax advantages wherever possible. A significant tax-sheltered vehicle exists in the insurance world. It's a vehicle that not only protects pure insurance from tax, but savings and investment dollars as well.

How life insurance presents investment opportunities

There is a common perception that the sole purpose for life insurance is providing for dependents should the policyholder pass away prematurely. Though important, that particular use is only one part of the story.

Certain life insurance products are commonly utilized as investment vehicles that accumulate assets in a tax-sheltered environment. Quite often, the only reason such a product is missing from an investor's wealth management program is that the investor is unaware of "tax-exempt life insurance."

These investment vehicles are permanent life insurance products, which provide life-long insurance coverage and include a savings component. The investment opportunity stems from tax rules found in section 148(3) of the federal Income Tax Act. That's where it specifies that assets in a life insurance product accumulate free of annual taxation.

This tax-free growth is much the same as tax-deferred investment growth within a Registered Retirement Savings Plan (RRSP). In fact, tax-exempt life insurance is often used by individuals who are maximizing their RRSPs and looking for an additional way to continue tax-deferred investing.

In addition to tax-sheltered investing, rules in the Income Tax Act provide for a second tax advantage: Proceeds from the policy, including any accumulated assets, are ultimately distributed to the estate or directly to beneficiaries tax-free. Consequently, this feature makes tax-exempt life insurance ideal for estate planning – though that's only one of several ways this vehicle is used.

Tax-exempt life insurance helps you achieve your financial goals

Over the years, the financial services industry has developed specific uses for tax-exempt life insurance, for both personal and business needs. When you choose any of the following strategies, you are taking advantage of tried-and-true solutions currently benefiting many thousands of investors across Canada.

Please note that these strategies are only a few examples of how tax-exempt life insurance can meet your personal and business needs.

Meeting your needs

Meeting your personal needs

- > **Maximize your estate:** When you have specific assets that you intend to pass on to the next generation, you benefit from the two key tax advantages of tax-exempt life insurance. Savings are sheltered from tax, and the entire value of the policy – including the insurance and investment components – is received by beneficiaries tax-free.
- > **Supplement your retirement income:** The savings you accumulate in a tax-exempt life insurance policy can be used to supplement retirement income, either through withdrawals or a loan program.
- > **Preserve your estate:** The assets your children will inherit also come with a significant tax bill. Capital gains tax is payable on such assets as non-registered investments and the family cottage, and almost half of the value of your RRSP or Registered Retirement Income Fund (RRIF) will be paid in income taxes. Tax-exempt life insurance can provide beneficiaries with an insurance benefit that offsets these taxes, leaving the estate intact.
- > **Leave a legacy to a charity:** You can leave a larger charitable gift with tax-exempt life insurance than through other means, thanks to tax-sheltered growth and a tax-free payout to the charity. In addition, you receive tax advantages – either by reducing your tax annually, or providing tax relief to your estate.

Meeting your business needs

- > **Insure and retain your key people:** Since tax-exempt life insurance includes both an insurance and savings component, a variety of opportunities arise for a policy to be shared. For example, a policy may be shared by the company and a key person. The company pays for insurance coverage on the life of the key person, providing funds for the business to carry on if that person passes away prematurely. And the key person contributes to the savings component, building tax-sheltered savings that can be used for retirement or estate planning.
- > **Shelter a portion of corporate profits from taxation:** Normally, excess corporate funds stay trapped within the company, attracting high taxation no matter how you manage the funds. But with tax-exempt life insurance, there's a way to tax-shelter your surplus as a corporate investment, and ultimately have the funds go to your heirs, tax-free.
- > **Enhance the funding of a buy-sell agreement:** When you choose tax-exempt life insurance to fund a buy-sell agreement, the built-in savings component opens up additional opportunities. For example, co-owners can turn the tax-sheltered savings into supplementary retirement income.
- > **Assist your family if you are the sole owner:** If your business interest will go to the family, tax-exempt life insurance can serve a variety of needs. The insurance amount can help your family cover the tax liability on your estate. If the family plans on selling the business, the insurance amount can be used to keep the company operating until the sale. Or proceeds can fund the requirements involved in terminating the business.

The main types of tax-exempt life insurance

The distinguishing feature of tax-exempt life insurance, compared to other types of life insurance such as term insurance, is that policies include a cash value. And cash value is quite simply a savings component.

When it comes to tax-exempt policies, your Assante advisor may recommend either whole life insurance, universal life insurance or universal life insurance with guaranteed investments. All products are permanent insurance, providing lifelong coverage. In general, all products can be used for any of the personal or business solutions based on tax-exempt life insurance.

The essential differences between these three products involve flexibility and the nature of the investments:

- > **Whole life insurance:** The insurance company sets the asset mix in which the savings portion of your premium is invested. Commonly, the mix is a conservatively managed pool of bonds, equities, mortgages and real estate.

Though whole life insurance has a certain degree of flexibility, it's mainly designed to be customized when established, and relatively maintenance-free thereafter.

Whole life insurance is also available as a participating policy, where policyholders may receive annual dividends based on the financial experience of the insurance company. Dividends can be accepted in cash, applied to premiums, used to purchase additional coverage or left on deposit to earn interest.

- > **Universal life insurance:** With universal life insurance, the savings component is completely separated from the insurance component, and the policyholder chooses the investments. The choice is usually extensive, including a variety of domestic and foreign equity funds, fixed income funds, GICs and balanced funds. Policyholders accept the same market risks as if they were investing in RRSPs or non-registered accounts.

This product is designed for flexibility throughout the life of the policy – policyholders can increase or decrease the amount of the premiums and death benefit.

- > **Universal life insurance with guaranteed investments:** When only guaranteed investments are held in a universal life insurance policy, the policy occupies the middle ground between whole life and traditional universal life insurance. As with whole life insurance, preservation of capital is guaranteed. And as with traditional universal life insurance, policyholders have some flexibility with premium amounts and deposits, and can choose their own investments – though in this case the choice is limited to guaranteed investments.

Choosing between the three types of products

In many instances, the appropriate type of tax-exempt insurance will be determined by your particular investment personality. For example, if you want to assume total control over your asset mix, universal life insurance may be your solution. If you prefer discretionary management of your insurance investments and want guaranteed performance, then whole life insurance may suit you best.

Another determining factor is how you wish to manage the policy over the years. Whole life insurance especially suits investors who prefer a vehicle requiring little maintenance. On the other hand, universal life insurance offers more hands-on opportunities for investors who wish to periodically change the amount of their premiums or death benefit.

In addition, your Assante advisor may illustrate how the different products compare performance-wise in meeting your particular financial objective.

Ultimately, it's not a decision you make alone. Your Assante advisor is at your side to either make a recommendation or provide you with all the information and assistance you require to choose the product that's right for you.



Comparing the features of the main types of tax-exempt life insurance

	Whole Life Insurance	Universal Life Insurance	Universal Life Insurance with Guaranteed Investments
Period of Coverage	Lifelong.	Lifelong.	Lifelong.
Premiums	Level premiums guaranteed.	Flexible: may be increased or decreased, within limits.	Flexible: may be increased or decreased, within limits.
Unscheduled Deposits	Available with some policies.	Yes.	Yes.
Death Benefit	Guaranteed. May be increased using dividends with participating policies.	Flexible. Value determined by type of death benefit you select, and by investment performance.	Guaranteed. Amount determined in part by investments selected.
Cash Value	Guaranteed in the contract.	Flexible. May increase or decrease depending on amount of deposits and investment performance.	Guaranteed. Determined by amount of deposits and investments selected.
Dividends	Payable on participating policies.	No dividends.	No dividends.
Tax-Deferred Savings	Yes.	Yes.	Yes.
Investment Choice	No.	Yes: wide choice.	Yes: limited choice of guaranteed investments.
Safety of Capital	Security guaranteed.	Same risk as equity and bond markets.	Security guaranteed.
Policy Loans	Available.	Available.	Available.
Withdrawals	Available with some policies.*	Available.*	Available.*
Complexity	Fairly straightforward.	Somewhat more complex.	Fairly straightforward.
Topics to Discuss with Your Assante advisor	<ul style="list-style-type: none"> > Increase plan values on a tax-deferred basis through additional deposits. > Use tax-deferred cash growth for retirement or education funding needs. > Meeting business needs. 	<ul style="list-style-type: none"> > How the Management Expense Ratio (MER) and bonuses relate to performance. > The differences between minimum funding and maximum funding. > Determining the maximum amount you can invest. 	<ul style="list-style-type: none"> > Comparison with similar non-registered alternative investment. > Specific products built exclusively around guaranteed investments. > Converting to non-guaranteed bond and equity investments.

* Ask your Assante advisor about tax implications and how withdrawals may affect your policy value.

Investing using life insurance: Part of an integrated approach

Tax-exempt life insurance exemplifies the value of an integrated approach to wealth management, an approach that's essential to Assante.

The product not only includes the two distinct components of insurance and investments, but the financial needs it meets involve the entire spectrum of wealth planning. Solutions involving tax-exempt life insurance may apply to risk management, tax and financial strategies, and wealth transfer.

Consequently, your Assante advisor consults with specialists from Assante Estate and Insurance Services Inc. and any of your own professional advisors to develop insurance solutions for your investment goals.



For more information

For additional information, or to learn more about Assante Estate and Insurance Services Inc., please contact your Assante advisor or visit www.assante.com.

Using borrowed money to finance the purchase of securities involves greater risk than using cash resources only. If you borrow money to purchase securities, your responsibility to repay the loan and pay interest as required by its terms remains the same even if the value of the securities purchased declines.

This material is provided for general information and is subject to change without notice. Every effort has been made to compile this material from reliable sources however no warranty can be made as to its accuracy or completeness. This material is not intended to provide, and should not be construed as providing individual financial, investment, tax, legal or accounting advice. You should consult your professional advisor(s) prior to acting on the basis of the information herein.

The Assante symbol and Assante Wealth Management are trademarks of CI Investments Inc., used under licence.

03254 (03/10)

