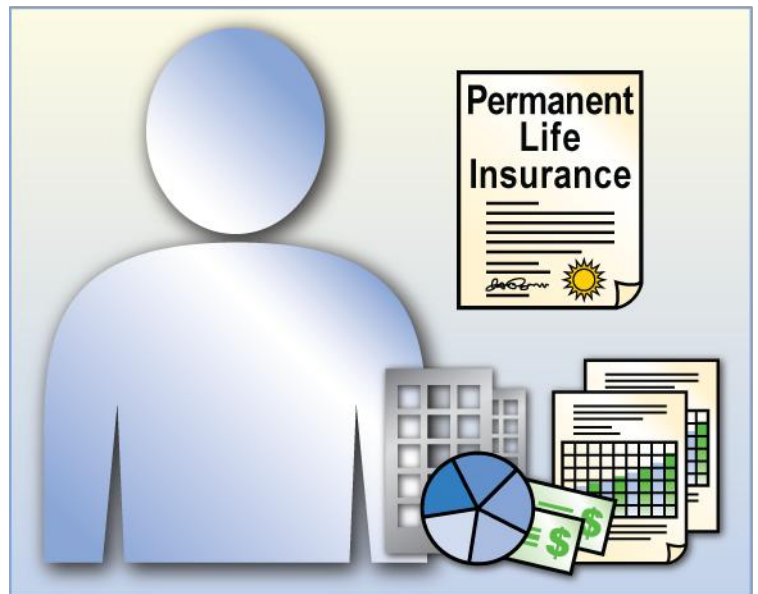


# Benefits of Permanent Insurance



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Designed for: **Prospective Client**

Designed by: **Donnelly Advisors Group Inc.**

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## The Ultimate Planning Tool

Universal Life insurance provides every Canadian with beneficial tax and estate planning opportunities. Unlike Term Life insurance, Universal Life insurance is much more than a single payment upon death of the insured.

The purchase of an asset like a Universal Life policy can set the stage for many opportunities that have only been afforded to the ultra wealthy in the past.

The earlier in life that an individual purchases a Universal Life policy, the greater the impact it can have as a financial instrument.

Universal Life insurance can play an integral part in these strategies:

- Tax-Deferred Savings Plan
- Estate Enhancement
- Insured Annuity
- Funding for Capital Gains Liabilities
- Estate Equalization
- Insured Retirement Program
- Charitable Gifting



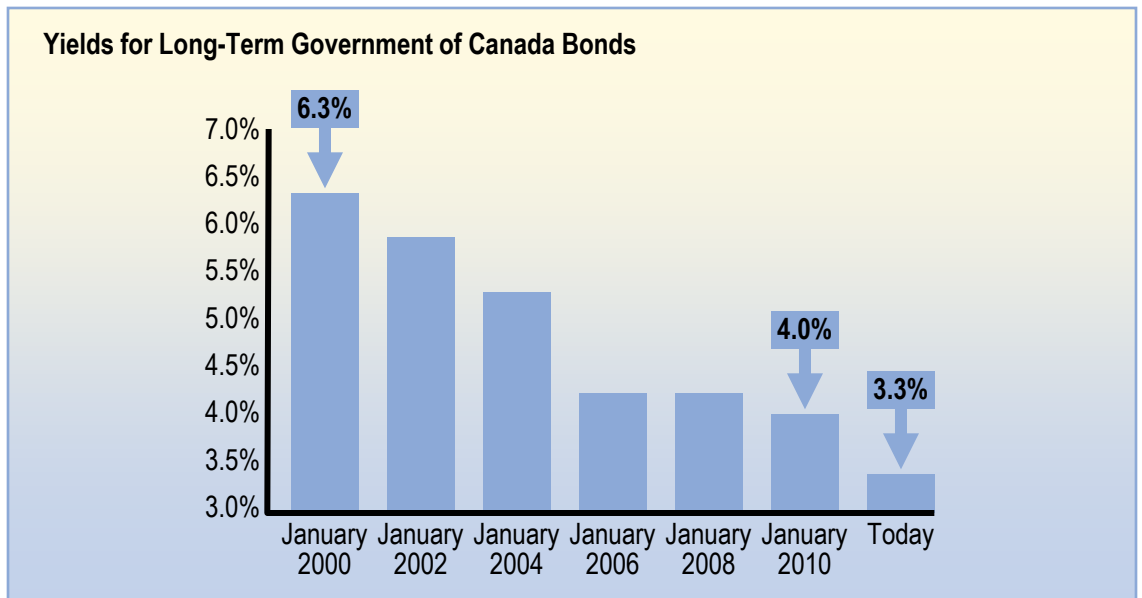
## Market Forces Affecting the Insurance Industry

### Low Interest Rate Environment

Significant changes in today's economy are affecting the insurance industry. Over the last ten years, sharp declines in the long term Government of Canada bond rates are forcing companies to re-price permanent products.

If you prefer full guarantees in the financial products you purchase, including life insurance, it is an important time in the Canadian marketplace to take advantage of the guarantees offered to Canadians regarding life insurance. Canada is one of a few countries in the world, and perhaps the only one, where consumers can purchase permanent life insurance and enjoy full

price and benefit guarantees. There are many insurance policies available in Canada but Canadians in general prefer long term guaranteed premiums for their permanent insurance solutions. These products are coming under severe pricing scrutiny and will need to face increases in premium charges in order to continue to be offered to Canadian consumers. If permanent Insurance is suitable for your situation you should consider the purchase of permanent insurance today. Prices have to increase in the future to support the sustainability of current benefits provided.



## Investment Considerations

There are a number of basic considerations that should be taken into account when making investment decisions. The importance of each consideration will differ depending on one's objectives. Some of these considerations could be:

- Risk
- Returns
- Flexibility
- Liquidity
- Simplicity
- Creditor Protection

In addition, the tax treatment of an investment plays a large role on the client's decision.

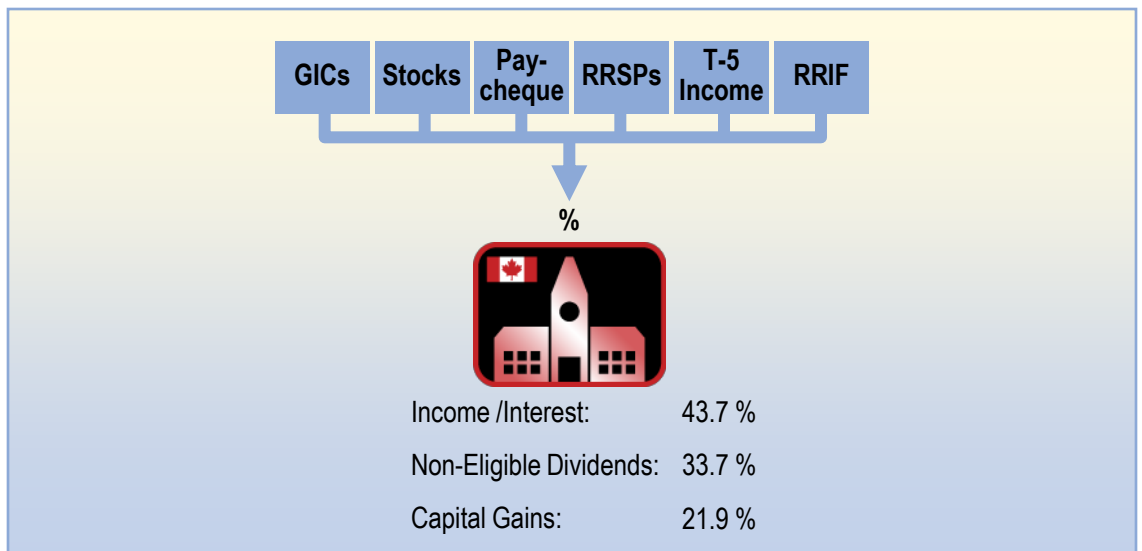
## Never Ending Tax Cycle

Tax considerations are a significant part of an investment strategy on both an annual basis and in relation to the long-term overall results.

During the wealth accumulation period of investing, the growth that is achieved will go through a tax cycle. At retirement, many investors do not spend all of their investment income and choose to reinvest the balance. Once again, the reinvested income goes through a tax cycle.

Finally, at the end of life, all taxable assets will go through another tax cycle.

The cumulative result of terminal tax and regular income tax usually results in everything being taxed at the top marginal rate. For example, in British Columbia at 43.7 %.

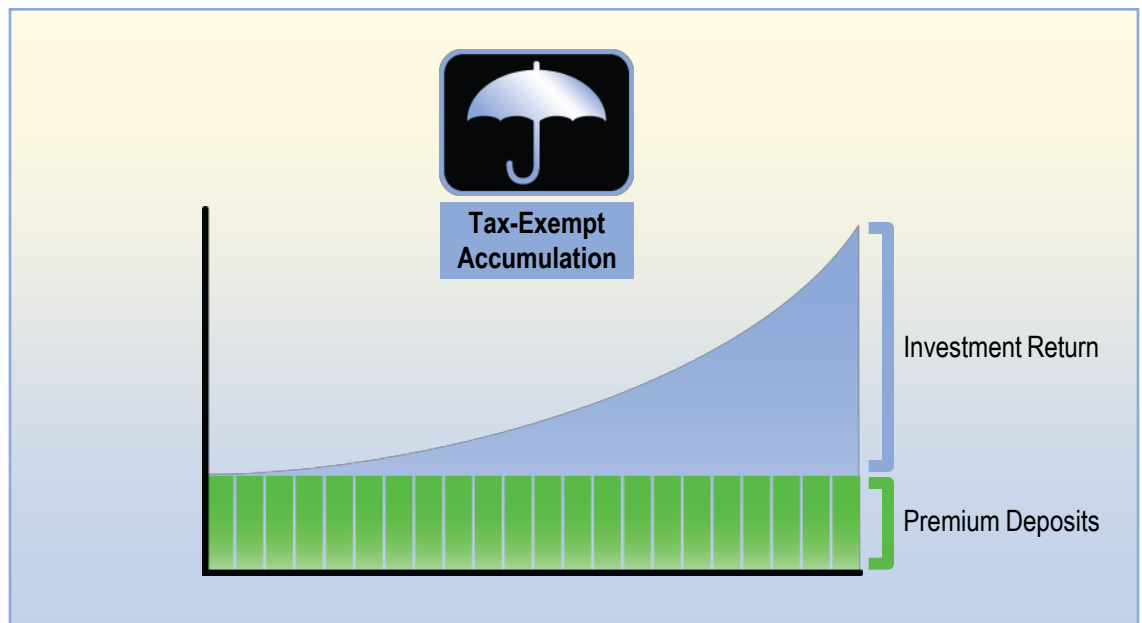


## Universal Life Insurance – The Tax Advantaged Vehicle

Universal Life insurance policies offer the policy owner tax-exempt accumulation on the growth of the cash value inside the policy. This effectively enhances the investment yield by allowing maximum compounding investment returns during the accumulation period.

This tax-exempt accumulation can be deferred, even until the death of the policy owner, at which time the death benefit passes totally tax-free to the estate.

Withdrawal of the cash accumulation may result in the policy owner paying some tax.



## Accessing Income for Retirement

When funds are required for retirement, the owner of a Universal Life insurance policy has these potential options:

- Taxable Withdrawals
- Tax-free Loan Advances, or
- Combination of both

Withdrawals from the policy are available at any time and are not taxable as long as the cash value is higher than the policy's adjusted cost basis.

The owner also has the option to pledge the policy as collateral to a third party financial institution and receive tax-free loan advances.

This approach to funding retirement income has been developed to take full advantage of the tax attributes of the life insurance policy.

When structured properly, the benefits of tax advantaged growth and tax-free receipt of proceeds are realized when the policy matures on the death of the life insured.

## Estate Enhancement

This strategy is designed to enhance the amount of capital that can be kept in the estate.

Depending on the length of time, the return to the estate can be significant over other investment vehicles.

**Process:**

1. Purchase a tax advantaged Universal Life insurance contract on your life.
2. Contribute investment assets into the investment fund in the policy, in excess of the minimum premiums required for the life insurance costs.
3. Any income accumulating within the investment fund is not taxed unless it is withdrawn from the policy.
4. On the death of the insured, the death benefit, including the amount in the investment fund, is paid to the estate tax-free.

### Rate of Return on a Life Insurance Policy

Male, Age 40, Non-smoker

\$3,000 / year Deposit for 10 years

\$500,000 Face Amount

Top Marginal Tax Rate 45%

Year	Age	Total Deposits	Insurance Death Benefit	Annual After-tax Internal Rate of Return	Annual Before Tax Internal Rate of Return
5	45	\$15,000	\$500,000	152%	276%
10	50	\$30,000	\$500,000	50%	90%
15	55	\$30,000	\$500,000	27%	49%
20	60	\$30,000	\$500,000	18%	32%
30	70	\$30,000	\$500,000	10%	17%
LE*	80	\$30,000	\$500,000	6%	10%

The calculations assume the policy matures at each duration.

\* Life Expectancy.

## Insured Annuity

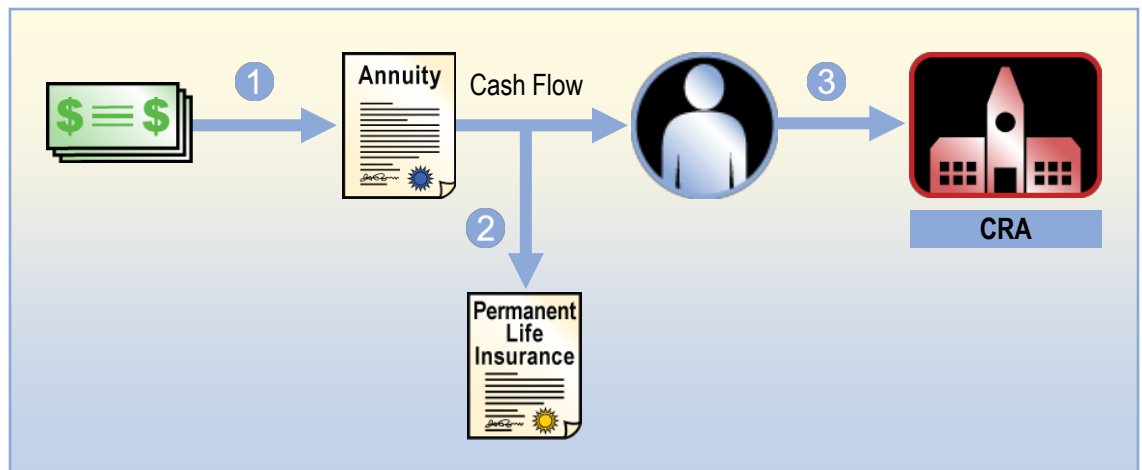
The use of an Insured Annuity Strategy will provide a superior result over the use of the GIC Income strategy.

### Process:

1. Use cash to purchase a prescribed life annuity on your life.
2. Pay tax on the annual taxable amount of the annuity income.
3. Purchase a life insurance policy for the same amount as the purchase price of the annuity and pay the monthly premium using a portion of after-tax annuity income.

4. At death, your beneficiary will receive the life insurance face amount tax-free.

This strategy enhances the monthly income and the original invested capital is returned tax-free to the beneficiary.

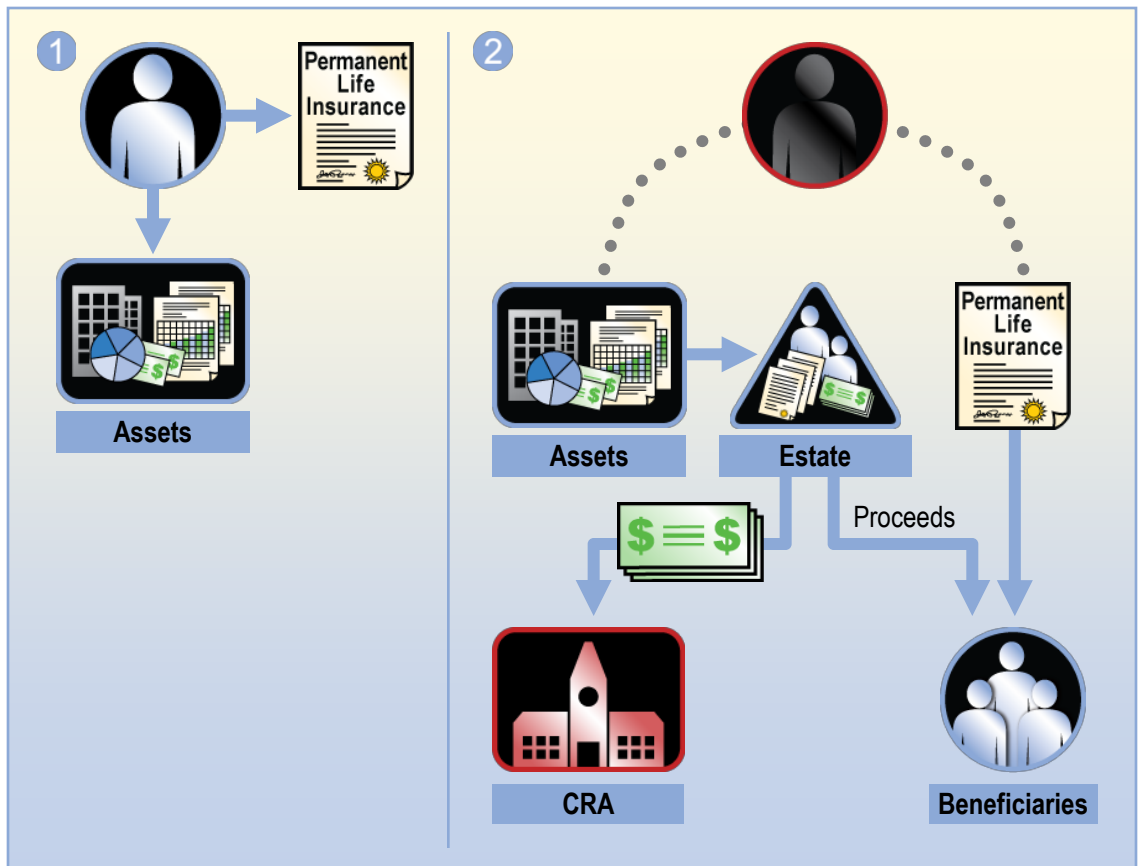


## Funding Capital Gains Liabilities

Capital property such as real estate, shares in a private corporation, or investments in stock market shares all attract tax when sold or at the premature death of the property owner. This is notwithstanding spousal rollovers, which may only defer the capital gains tax.

Traditionally, people prepare for these events using one or more of these alternatives:

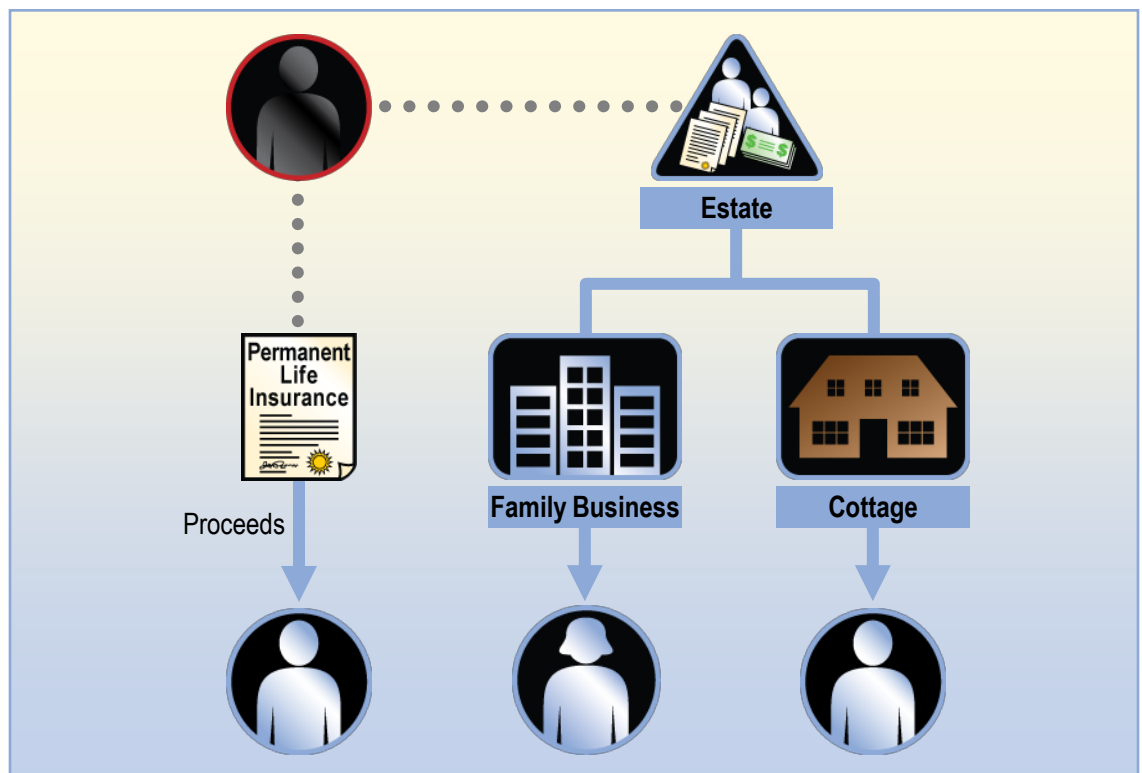
- Liquidating existing assets, which could attract more capital gains tax and recaptured depreciation,
- Borrowing funds using other assets as collateral,
- Creating a cash reserve by systematically saving, or
- Transferring the risk to a life insurer.



## Estate Equalization

You can use the proceeds from life insurance to plan for the equalization of value amongst the heirs of an estate. In particular, this works well in cases where specific bequests, such as a business or real estate are being passed to a specified heir. Life insurance can be used to pass on equivalent value to heirs that are left out of specific bequests.

An Estate Equalization strategy can help to foster family unity after one's passing and also to reduce the possibility for a challenge under the Wills Variation Act from a disgruntled heir.



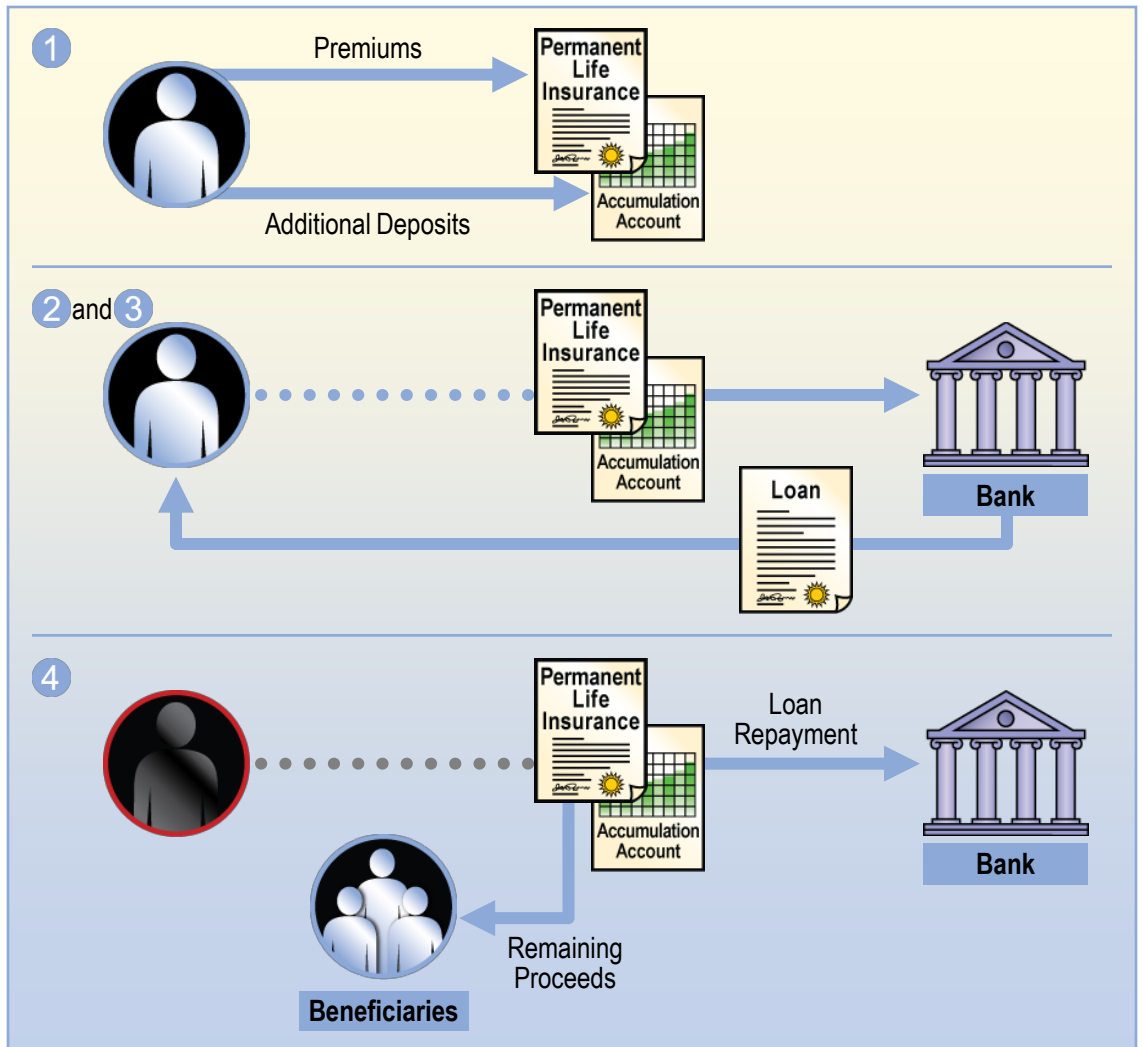
## Insured Retirement Program

The Insured Retirement Program (IRP) is a financial planning concept that allows for the tax advantaged accumulation of funds.

Retirement income is accessed through a series of bank loans secured by the cash value in the insurance policy.

### Process:

1. Purchase a permanent life insurance policy and make additional deposits over your working life into the Accumulation Account.
2. Upon retirement, establish a loan with a financial institution using the accumulated policy value as collateral.
3. A series of bank loans generate cash flow to the policy owner which can be applied in a number of different ways.
4. Upon the death of the insured, the insurance proceeds are used to pay off the bank loan with any additional proceeds paid tax-free to the policy beneficiaries.

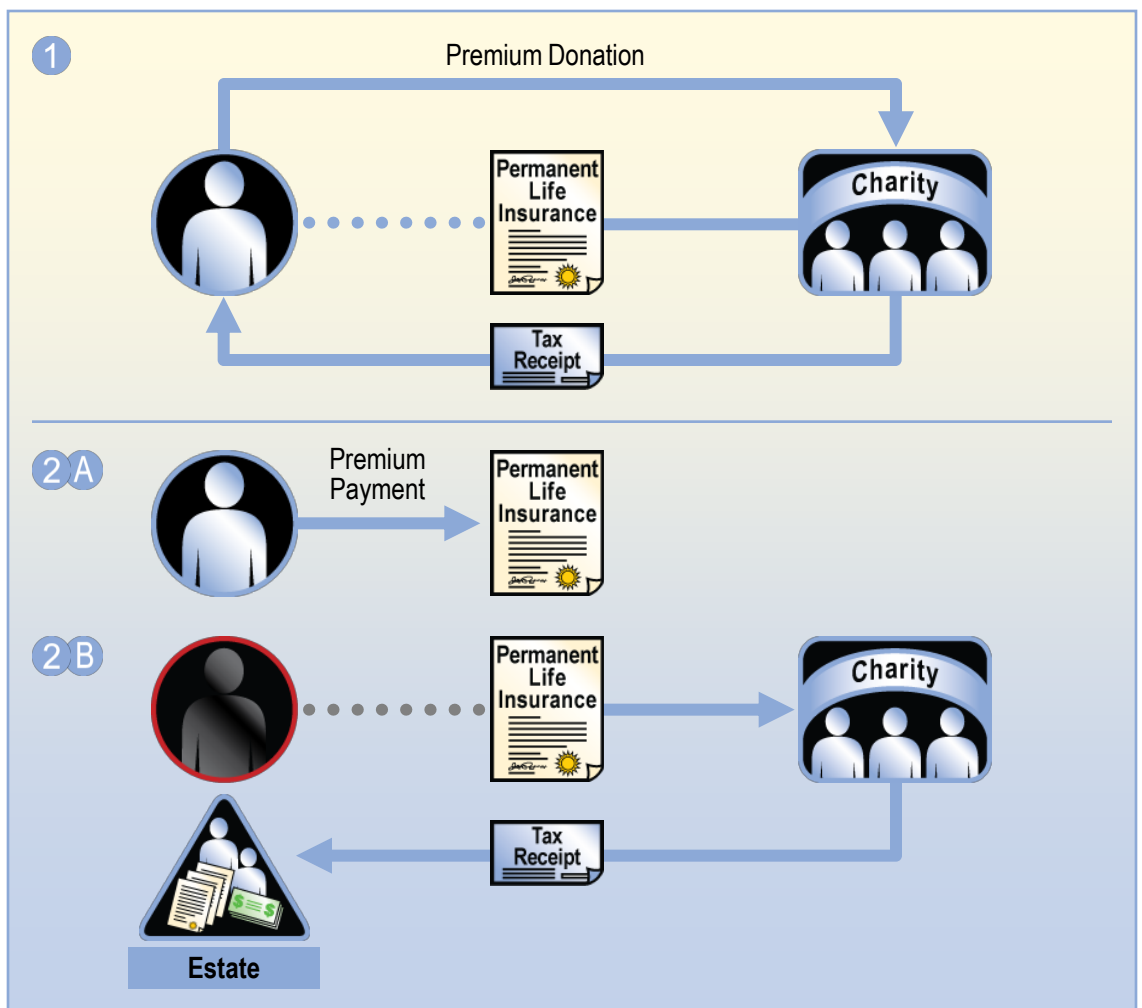


## Charitable Gifting

A permanent life insurance policy can be used to provide a legacy gift to a charitable organization. There are two ways to accomplish gifting a sizeable legacy while also receiving a charitable tax receipt for your generosity.

### Options:

1. You can receive a tax receipt every year for the amount of the insurance premium and the charity will receive the insurance amount at the time of death.
2. Pay the premiums with after-tax dollars and your estate will receive a tax receipt for the gift of the entire insurance amount at the time of death.



## **Some Important Notes**

The scenarios described in the preceding presentation outline some general financial strategies. Readers should seek independent legal, tax and accounting advice with regard to the views expressed in this document. Any numbers illustrated are provided as examples and are to be used as estimates only.