INSURED RETIREMENT

Look forward to retirement

Maximize your RRSP and pension plan contributions, while insuring your estate and creating a supplemental source of tax-free cash during retirement.

Empire Life™

Insured Retirement is a strategy that can provide a supplemental source of tax-free cash during retirement. The cash can be structured as a lump-sum or series of income-style payments.

A custom-designed, permanent life insurance policy is used, first to accumulate cash on a tax-deferred basis and second, as collateral for a bank loan or line of credit to provide the cash desired, tax-free.

Challenges for high-income earners

Conventional retirement plans limit RRSP/pension contributions. This may reduce the amount of cash needed to provide the income level desired at retirement. Tax liabilities at death and a desire to leave a legacy for heirs and charities also cut into the base needed to support lifestyle needs in retirement.

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Conversely, lifestyle needs may reduce or eliminate the capital needed to provide a legacy desired for heirs and charities.

Options to enhance lifestyle

Permanent life insurance can provide the necessary cash to pay off taxes on investments and assets while creating endowments for charities and legacies for heirs. This leaves most of the accumulated assets at retirement.

> A custom-designed, permanent life insurance policy accumulates money on a tax-deferred basis and then is used as collateral for a bank loan or line of credit to provide tax-free cash.

Life insurance offers a unique and effective retirement planning vehicle too, providing tax-exempt growth of cash today and tax-free access to cash during retirement.

How does it work?

Current tax laws permits the investment and accumulation of cash in a permanent life insurance policy, tax-free up to certain limits. Later, the policy with its cash value is used as collateral for a bank loan or line of credit. The proceeds can be used to buy a vacation property, go on trips or supplement retirement income.

Generally, the loan or line of credit does not have to be repaid until death. Then, the tax-free death benefit pays off the amount outstanding. Any extra money is paid to the named beneficiary.

Starting the income

The strategy works most efficiently when used as part of an overall retirement income strategy employing the use of other sources of income. This includes setting up the loan later in life after some of the other investments have been used to provide retirement cash flow. Optimal performance relies on a combination of low interest charges on the loan relative to the growth in the policy and relatively short loan duration.

The right type of candidate

The Insured Retirement strategy is best suited to individuals between the ages of 30 and 55 who have maximized their RRSP/pension contributions, minimized their non-deductible debt and are in a high marginal tax bracket. They recognize and value the benefits of permanent insurance protection and want to reduce the amount of tax they are paying on investments. They are interested in supplementing retirement income with tax-free dollars and have a solid credit history.

What is the most tax-effective way to access the accumulated values in a life insurance policy?

How does it work?

A unique way to access accumulated values in an insurance policy without having to pay tax on the withdrawals is to assign the policy values as collateral and obtain a secured line of credit or loan with a financial institution. A bank loan is not determined to be a policy loan because the loan is not being made by the insurer and the loan undergoes normal bank underwriting. Loans can be tailored according to your clients own needs. The repayment options provide flexibility such as:

- Client determines their own repayment schedule
- Interest can be capitalized
- Loan paid off at death

The cash is easily accessible through their Line of Credit by Cheques, ABM, telephone or internet banking. This gives your clients flexibility in accessing and using the money as they wish.

The Advantages

- Tax effective access to the clients money

Potential Disadvantages

- Significant increases in the interest rates means higher cost of borrowing and this could affect the program
- Living too long: Assumptions are made based on average mortality and outliving these projections could cause a higher than expected loan balance
- If the insurance policy is surrendered prior to death of the insured, the bank has to recall the loan, there could be significant tax implications to the policyowner.
- Like any leveraging strategy, the risks can be minimized or eliminated by using conservative assumptions.

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