



# ANNUITY FUNDED LIFE INSURANCE

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## Proposal For Annuity Funded Life Insurance

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## Annuity Funded Life Insurance Strategy

Introducing a strategy for clients looking to pre-fund life insurance premiums with one payment. By using an Empire Life term certain annuity to pre-pay life insurance premiums, clients can save money and time, and enjoy peace-of-mind in the process.

“...Pay Once and  
Pay Less...”

### How this works

For clients applying for a life insurance policy from Empire Life who want to pre-fund future premiums using an Empire Life term certain annuity, follow these easy steps:

**1) Purchase an Empire Life insurance policy.** Apply for a life insurance policy and indicate that payments will be made via a term certain annuity (no bank account information is necessary).

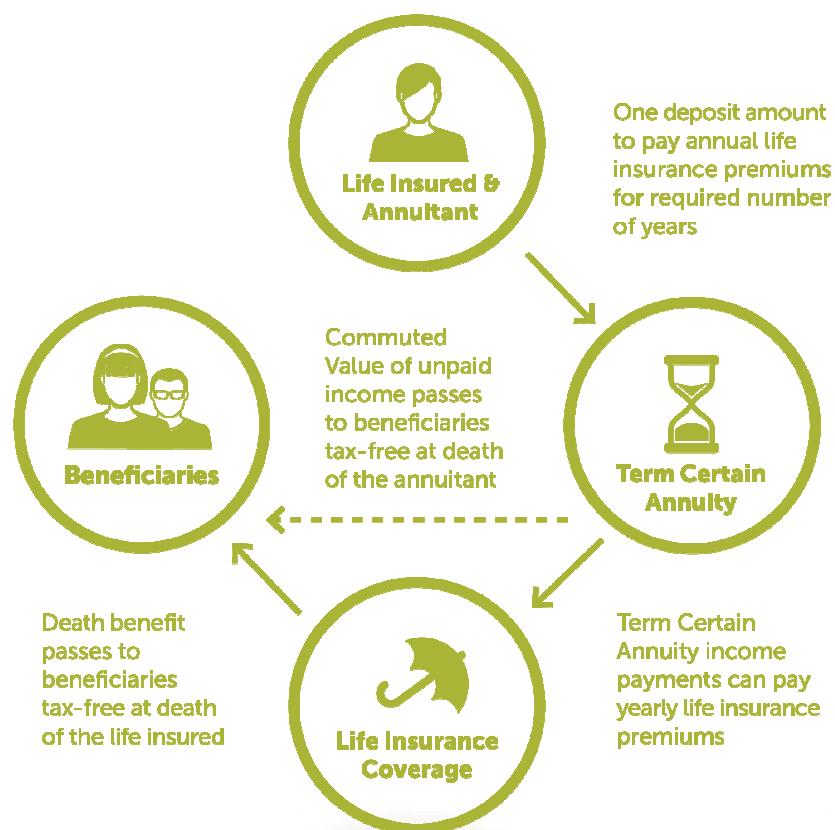
**2) Purchase an Empire Life term certain annuity.** Once the life insurance policy is issued, apply for a term certain annuity after confirming the deposit amount required to pay the insurance premiums for the desired length of time.

**3) Confirm payment details.** The client needs to indicate “Empire Life” as the payee of the annuity income and reference the insurance policy number(s) on their annuity application

### Pay Once and Pay Less!

Simple and easy way to pre-fund future life insurance premiums for a set period of time.

Perfect for clients who are starting their estate plan, want to provide a gift for loved ones, or fund future payments on their existing life insurance.



## When this strategy works well

While other scenarios are possible, using a term certain annuity to pre-fund the premiums for a life insurance policy should work well if:

**The life insured is also the annuitant.** This helps ensure the annuity income is available to pay the life insurance premiums until the life insured/annuitant dies.

**Both plans have the same pay period.** Choose a limited pay life insurance policy (eg. 20 years) where the period to pay premiums on the life insurance policy matches the guaranteed payment period on the term certain annuity.

**Annuity income matches the life insurance premium exactly.** This can help avoid the need to use additional funds to pay life insurance premiums.

**Contingent Owner of the life insurance policy and the Beneficiary of the annuity is the same person.** Recommended if the Life Insured is someone other than the Annuitant. This can help ensure future funding for life insurance premiums if the annuitant dies during the annuity guaranteed period.

**Both plans are set up on an annual pay basis.** This makes determining the amount of the annuity deposit easier and results in savings on the insurance premiums.

**There is only one annuity per life insurance policy.** This provides better control where funds are directed from the annuity to the life insurance contract should the annuitant die. *Funding multiple life insurance policies may be permitted under certain circumstances.*

## Other important information

**Submitting applications:** Apply for the Term Certain annuity only **after** the life insurance policy is issued.

**Annuity contract can't be changed or cancelled:** Once the Term Certain Annuity is purchased, it cannot be changed or cancelled. If annuity income is no longer required to pay the life insurance premiums (eg. client elects early coverage termination or reduced paid-up coverage), the owner decides who receives future annuity income.

**Annuitant age and deposit limits:** The annuitant can be any age between 18 and 70. The current annuity deposit limits are between \$7,500 and \$1,000,000.

**First payment:** Make sure the first annuity payment occurs within 30 days from date of issue of the life insurance policy to ensure life insurance premiums are paid on time. If there are multiple life policies involved, all must be issued within 30 days of each other as only one payment per annuity will be made.

**Taxes on income:** A portion of the income from the term certain annuity is taxable. Using a prescribed annuity can lessen how much income is taxable up front. Empire Life will provide a tax slip to the policy owner each year.

**Continuation of funding:** If the life insured is someone other than the annuitant, it is important to remember that if the annuitant dies before all life insurance premiums are paid, alternative funding arrangements are needed to pay the remaining insurance premiums.

**Children's policies:** If pre-funding multiple children's life insurance policies, a separate annuity should be set up for each child when possible and a contingent owner should be named for the insurance policy. However, one annuity used to fund multiple life insurance policies is possible as long as the annuitant/owner understands the risks should they die before all insurance premiums are paid.

**Changes to life insurance policy:** If changes occur within the life insurance policy that result in an increase to the overall policy premiums, the policy owner will have to pay the difference in premium amount if the annuity income is not sufficient.

**Other payment options:** While this concept works best when used to pay all premiums on a limited pay product, the client could elect alternative payment options.

**Net Present Value (NPV):** In order to give a reasonable approximation of the savings prior to the end of the premium payment period, the savings are calculated as the total premiums paid plus the net present value (NPV) of the remaining annuity payouts less the amount invested in the annuity. While the annual premiums would cease in the event of the death of the insured, the annuity payouts would continue on schedule. The NPV is used to factor in inflation erosion of the future payouts of the annuity in order to give a more realistic picture of the value of those payouts in the year of the death of the insured.





## CONCEPT ASSUMPTIONS

### Insureds

Insured..... **Annuity Funded Life Insurance,**  
Male, Age 0, Smoker

### Product

Name..... \$50,000 Optimax Wealth,  
Single Life  
Planned Deposits (20 years)  
Annuity Investment..... \$10,659  
Marginal Tax Rate..... 46.00 %  
NPV Discount Rate..... 1.50 %  
**Savings..... \$2,701**

## Special Notes

Withdrawals from the policy may be subject to income tax, depending on the adjusted cost basis (ACB) of the policy, at the time of withdrawal. However, the proceeds of a life insurance policy upon death of the insured are received tax-free in the hands of the beneficiaries.

### Important Information ☐

This illustration is not a contract and the values are not guaranteed.

The tax treatment of this illustration is based on the current Canadian Federal Income Tax laws and regulations. Any changes will affect the amounts shown on the illustration.

It is advisable to contact a competent professional advisor in determining whether this Strategy is suitable to your situation.

If this strategy shows a corporately owned scenario with an Alternate Investment, this illustration shows the net estate value assuming that the alternative investment and the insurance are paid out as a dividend at death. It does not reflect any capital gain on the deemed disposition of the shares at death. This strategy uses an Empire Life insurance policy.

The amounts shown in the illustration may or may not be achieved depending on assumptions used.

**Corporate Owned Life Insurance only:** The General anti-avoidance Rule (GAAR) in the Income Tax Act may deny a tax benefit that is the result of an avoidance transaction, unless it is undertaken primarily for purposes other than to obtain the tax benefit. Since the main purpose of this strategy is to provide a business with a higher tax-free value of the business for the estate or surviving shareholders, the GAAR rule is unlikely to apply.

This document consists of two parts: the presentation and the Empire Life illustration. The presentation and the illustration are designed to read together, to fully understand how some of the values shown in the illustrations may vary. If either part is missing, this document is non-compliant and incomplete.

This document is for illustrative purposes only and is not a contract or offer of insurance. Illustrated values are not guaranteed.

Empire Life and its employees, distribution partners, and independent advisors do not provide specific legal, accounting, or tax advice. The provision of information provided on this presentation and corresponding illustration and any oral or written communication regarding the same should not be construed as such.

This illustration is incomplete without all pages.

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## ANNUITY FUNDED LIFE INSURANCE

Policy year	Annuity				Life Insurance		
	Annuity Income	Taxable Portion	Tax Payable	Net Annuity Income	Total Annual Premium	Total Cash Surrender Value	Total Death Benefit
1	\$668	135	62	606	668	224	50,000
2	\$668	135	62	606	668	582	51,798
3	\$668	135	62	606	668	988	54,901
4	\$668	135	62	606	668	1,447	57,954
5	\$668	135	62	606	668	1,964	60,974
6	\$668	135	62	606	668	2,472	63,987
7	\$668	135	62	606	668	3,016	67,011
8	\$668	135	62	606	668	3,599	70,044
9	\$668	135	62	606	668	4,223	73,091
10	\$668	135	62	606	668	4,891	76,157
11	\$668	135	62	606	668	5,605	79,247
12	\$668	135	62	606	668	6,368	82,366
13	\$668	135	62	606	668	7,180	85,527
14	\$668	135	62	606	668	8,046	88,743
15	\$668	135	62	606	668	8,966	92,025
16	\$668	135	62	606	668	9,943	95,392
17*	\$668	135	62	606	668	10,979	98,852
18	\$668	135	62	606	668	12,077	102,416
19	\$668	135	62	606	668	13,242	106,084
20	\$668	135	62	606	668	14,480	109,852
21	\$0	0	0	0	0	15,288	113,709
22	\$0	0	0	0	0	16,143	116,208
23	\$0	0	0	0	0	17,046	118,744
24	\$0	0	0	0	0	18,003	121,306
25	\$0	0	0	0	0	19,013	123,900
26	\$0	0	0	0	0	20,084	126,528
27	\$0	0	0	0	0	21,213	129,191
28	\$0	0	0	0	0	22,405	131,894
29	\$0	0	0	0	0	23,665	134,644
30	\$0	0	0	0	0	24,994	137,433
31	\$0	0	0	0	0	26,399	140,265
32	\$0	0	0	0	0	27,881	143,152
33	\$0	0	0	0	0	29,443	146,086
34	\$0	0	0	0	0	31,094	149,080
35	\$0	0	0	0	0	32,838	152,131
36	\$0	0	0	0	0	34,681	155,224
37	\$0	0	0	0	0	36,630	158,360
38	\$0	0	0	0	0	38,692	161,530
39	\$0	0	0	0	0	40,870	164,739
40	\$0	0	0	0	0	43,172	167,996
41	\$0	0	0	0	0	45,600	171,309
42	\$0	0	0	0	0	48,161	174,679
43	\$0	0	0	0	0	50,860	178,125
44	\$0	0	0	0	0	53,704	181,649
45	\$0	0	0	0	0	56,700	185,257

\*\* Values shown beginning/ end of policy year. Tax payable is not withheld from the policy and may be higher or lower and is not guaranteed.\* Break even point CSV = Annuity purchase amount

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Policy year	Annuity				Life Insurance		
	Annuity Income	Taxable Portion	Tax Payable	Net Annuity Income	Total Annual Premium	Total Cash Surrender Value	Total Death Benefit
46	\$0	0	0	0	0	59,853	188,948
47	\$0	0	0	0	0	63,171	192,731
48	\$0	0	0	0	0	66,663	196,610
49	\$0	0	0	0	0	70,334	200,593
50	\$0	0	0	0	0	74,196	204,686
51	\$0	0	0	0	0	78,253	208,892
52	\$0	0	0	0	0	82,514	213,216
53	\$0	0	0	0	0	86,990	217,663
54	\$0	0	0	0	0	91,687	222,243
55	\$0	0	0	0	0	96,615	226,960
56	\$0	0	0	0	0	101,783	231,825
57	\$0	0	0	0	0	107,202	236,842
58	\$0	0	0	0	0	112,878	242,017
59	\$0	0	0	0	0	118,828	247,361
60	\$0	0	0	0	0	125,051	252,884
61	\$0	0	0	0	0	131,567	258,589
62	\$0	0	0	0	0	138,381	264,487
63	\$0	0	0	0	0	145,505	270,587
64	\$0	0	0	0	0	152,950	276,900
65	\$0	0	0	0	0	160,730	283,435
66	\$0	0	0	0	0	168,850	290,205
67	\$0	0	0	0	0	177,324	297,220
68	\$0	0	0	0	0	186,164	304,487
69	\$0	0	0	0	0	195,380	312,021
70	\$0	0	0	0	0	204,984	319,834
71	\$0	0	0	0	0	214,986	327,938
72	\$0	0	0	0	0	225,400	336,347
73	\$0	0	0	0	0	236,236	345,076
74	\$0	0	0	0	0	247,512	354,135
75	\$0	0	0	0	0	259,230	363,545
76	\$0	0	0	0	0	271,407	373,315
77	\$0	0	0	0	0	284,053	383,457
78	\$0	0	0	0	0	297,183	393,993
79	\$0	0	0	0	0	310,807	404,937
80	\$0	0	0	0	0	324,935	416,302
81	\$0	0	0	0	0	339,583	428,110
82	\$0	0	0	0	0	354,761	440,370
83	\$0	0	0	0	0	370,485	453,103
84	\$0	0	0	0	0	386,758	466,324
85	\$0	0	0	0	0	403,598	480,045
86	\$0	0	0	0	0	421,012	494,284
87	\$0	0	0	0	0	439,024	509,053
88	\$0	0	0	0	0	457,647	524,371
89	\$0	0	0	0	0	476,893	540,245
90	\$0	0	0	0	0	496,786	556,682

\*\* Values shown beginning/ end of policy year. Tax payable is not withheld from the policy and may be higher or lower and is not guaranteed.\* Break even point CSV = Annuity purchase amount



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Policy year	Annuity				Life Insurance		
	Annuity Income	Taxable Portion	Tax Payable	Net Annuity Income	Total Annual Premium	Total Cash Surrender Value	Total Death Benefit
91	\$0	0	0	0	0	517,345	573,690
92	\$0	0	0	0	0	538,622	591,265
93	\$0	0	0	0	0	560,660	609,404
94	\$0	0	0	0	0	583,542	628,085
95	\$0	0	0	0	0	607,426	647,266
96	\$0	0	0	0	0	632,525	666,878
97	\$0	0	0	0	0	659,298	686,789
98	\$0	0	0	0	0	688,500	706,787
99	\$0	0	0	0	0	721,653	726,480
100	\$0	0	0	0	0	761,723	745,194

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Annuity Funded Life Insurance

Total Savings

