

INSURED RETIREMENT STRATEGY

Insure your estate and create a supplemental source of tax-free cash during retirement

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Insured Retirement Strategy

The Insured Retirement Plan is a strategy that first, enables tax-efficient growth of policy cash values and second, provides the client with a tax-free stream of income in retirement. The alternative to non-registered, taxable investments the strategy will utilize a tax-exempt life insurance policy to give the client the permanent life insurance coverage they need while providing a tax-free stream of income when required.





Enhance the value of your estate and your retirement 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. Policies can then be utilized to create a tax-free lump sum or income stream required to enhance retirement lifestyle goals.



How it works

1. Having a permanent life insurance need, the client purchases a permanent, participating life insurance policy that is guaranteed to be paid up in 8, 10 or 20 years.
2. Once the cash values have built up and the client requires the funds (after the guaranteed payment period and typically around retirement age 65) the client collaterally assigns the policy to a lending institution and, in the form of a loan, receives up to 100% of the CSV as a tax-free lump sum or stream of income during the retirement years.
3. The loan (and the interest) is typically not required to be repaid until death and will be subtracted from the death benefit upon the death of the insured.
4. The remaining death benefit is paid to the beneficiaries tax-free.



The benefits

For the right clients, the Insured Retirement Strategy offers:

- Permanent life insurance coverage that can help with capital gains tax liabilities at death, leaving a legacy for heirs, leaving money to a charity, estate equalization, etc.
- Tax-deferred cash value accumulation
- Tax-free access to cash values via collateral loan



Who it's for

The Insured Retirement strategy is ideally suited for individuals between the ages of 30 and 60 who have maximized their registered investment accounts and are overall in good health and financial standing. They have permanent life insurance needs and would like to reduce the tax they pay on existing non-registered investments. They are interested in supplementing their retirement income with a tax-free lump sum or stream of income.





Meet Jim

Jim is a high-income earning individual who over the years has built up significant non-registered investments. Having already maximized his registered investment accounts, Jim is concerned with the amount of tax he is paying on his investments and is looking for an alternative asset that can help him enhance his retirement lifestyle.



Jim

40 year old male
non-smoker
healthy, active lifestyle



Objectives

- Pay less tax on existing non-registered investments
- Enhance retirement lifestyle
- Leave a legacy for his children

The Potential Problem

The fixed income portion of Jim's existing non-registered investments are being heavily taxed. Considering the tax and low interest rates, Jim is concerned he will quickly deplete his non-registered investments in retirement and not have anything left for his heirs.

Finding a Solution

After meeting with Jim, his advisor considers possible solutions to ensure tax on existing non-registered investments is reduced and sufficient income will be there for him during retirement, while leaving a significant legacy for his heirs. The advisor recommends the Insured Retirement Strategy from Empire Life for the following reasons:

The Strategy

- Enables Jim to grow non-registered investments on a tax-deferred basis
- Creates sufficient life insurance coverage for legacy needs upon death
- Provides a tax-free stream of income for Jim during his retirement

The Opportunity

Using non-registered fixed income assets to fund a participating life insurance policy provides a viable opportunity to:

- Provide tax-sheltering on surplus retained earnings
- Convert assets to tax-free corporate estate benefits
- Enable tax-efficient stream of income for retirement needs



How it works

- Re-allocates a portion of non-registered investments from taxable assets into a life insurance contract
- Taxes advantage of tax-sheltered growth inside a customized life insurance policy
- Provides tax-free stream of income during retirement years
- Provides a tax-free pay out to beneficiaries upon death
- Enhances the value of Jim's estate

The Recommendation

Jim' advisor recommends a customized EstateMax® 20 pay permanent participating life insurance policy from Empire Life with the paid-up additions dividend option and Additional Deposit Option (ADO) feature

Policy structure: **Single Life, Male, Age 40, Non Smoker**

Initial coverage amount: **\$500,000**

Annual premium: **\$24,288 (Guaranteed 10 pay premium \$12,740+ ADO \$11,548)**

In addition to the guaranteed premiums payable for 20 years, the ADO is used to boost the cash values and ensure funding is there when needed for retirement. The ADO does also offer the premium flexibility to continue depositing funds beyond the guaranteed payment period. Jim, 40, has purchased a 20 pay and is looking to retire at 65. Jim appreciates the flexibility of the ADO as it allows for further payments after the guaranteed payment period. In this case, Jim will make 5 additional payments until age 65 at which point he will start the tax-free stream of income to supplement his retirement.



Strategy assumptions

Insureds

Life insured 1: Jim,
Male, age 40, non-smoker

Product

Name \$500,000 EstateMax,
Single Life
Annual Premiums (25 years)

Alternative Investment

Growth breakdown..... 100% Interest
Effective tax rate on interest 48.00%
Projected annual growth rate 3.000%

Other Details

From year 26
To 45
Annualized bank loan rate..... 5.000% (0.407% monthly)

Using life insurance as collateral in personal or business lending may be appropriate only for clients with higher risk tolerance. Clients should review the appropriateness of this strategy with their own legal and tax advisors before proceeding. The cash value of a client's insurance policy will vary and is not guaranteed, however they must meet their loan obligations and repay their loan in full in accordance with the arrangements made with their lender. The Empire Life Insurance Company acts solely in the capacity of issuing and administering life insurance policies.

CASE STUDY

Policy year	Annual Deposit	Net Income From Loan	Accumulating Loan			Life Insurance Policy		
			Annual Loan Draw	Loan Balance	% of Fund Value	Fund Value	Fund Value After Loan	Net Estate Benefit
1	24,288	0	0	0	0%	11,549	11,549	545,312
2	24,288	0	0	0	0%	23,744	23,744	592,112
3	24,288	0	0	0	0%	36,612	36,612	638,045
4	24,288	0	0	0	0%	50,186	50,186	683,156
5	24,288	0	0	0	0%	67,283	67,283	727,500
6	24,288	0	0	0	0%	86,461	86,461	771,156
7	24,288	0	0	0	0%	107,863	107,863	814,481
8	24,288	0	0	0	0%	131,639	131,639	857,625
9	24,288	0	0	0	0%	157,931	157,931	900,762
10	24,288	0	0	0	0%	186,905	186,905	944,052
11	24,288	0	0	0	0%	218,728	218,728	987,668
12	24,288	0	0	0	0%	253,584	253,584	1,031,747
13	24,288	0	0	0	0%	291,639	291,639	1,076,458
14	24,288	0	0	0	0%	333,085	333,085	1,121,950
15	24,288	0	0	0	0%	378,119	378,119	1,168,379
16	24,288	0	0	0	0%	426,922	426,922	1,215,895
17	24,288	0	0	0	0%	479,777	479,777	1,264,643
18	24,288	0	0	0	0%	536,914	536,914	1,314,624
19	24,288	0	0	0	0%	598,585	598,585	1,365,958
20	24,288	0	0	0	0%	665,038	665,038	1,418,761
21	11,548	0	0	0	0%	712,621	712,621	1,473,165
22	11,548	0	0	0	0%	762,467	762,467	1,529,283
23	11,548	0	0	0	0%	814,664	814,664	1,586,005
24	11,548	0	0	0	0%	869,258	869,258	1,643,410
25	11,548	0	0	0	0%	926,337	926,337	1,701,585
26	0	62,034	62,034	63,702	7%	975,086	911,384	1,677,402
27	0	62,034	62,034	130,588	13%	1,025,931	895,343	1,651,171
28	0	62,034	62,034	200,819	19%	1,078,917	878,098	1,627,831
29	0	62,034	62,034	274,562	24%	1,134,102	859,540	1,592,270
30	0	62,034	62,034	351,992	30%	1,191,496	839,504	1,559,395
31	0	62,034	62,034	433,293	35%	1,251,160	817,867	1,524,086
32	0	62,034	62,034	518,659	39%	1,313,118	794,459	1,486,244
33	0	62,034	62,034	608,294	44%	1,377,416	769,122	1,445,732
34	0	62,034	62,034	702,410	49%	1,444,053	741,643	1,402,443
35	0	62,034	62,034	801,233	53%	1,513,079	711,847	1,356,228

Policy year	Annual Deposit	Net Income From Loan	Accumulating Loan			Life Insurance Policy		
			Annual Loan Draw	Loan Balance	% of Fund Value	Fund Value	Fund Value After Loan	Net Estate Benefit
36	0	62,034	62,034	904,996	57%	1,584,520	679,524	1,306,914
37	0	62,034	62,034	1,013,947	61%	1,658,415	644,468	1,254,351
38	0	62,034	62,034	1,128,346	65%	1,734,762	606,416	1,198,372
39	0	62,034	62,034	1,248,465	69%	1,813,587	565,122	1,138,778
40	0	62,034	62,034	1,374,590	73%	1,894,953	520,363	1,075,342
41	0	62,034	62,034	1,507,021	76%	1,978,831	471,810	1,007,847
42	0	62,034	62,034	1,646,074	80%	2,065,303	419,229	936,043
43	0	62,034	62,034	1,792,079	83%	2,154,358	362,279	859,688
44	0	62,034	62,034	1,945,385	87%	3,246,036	300,651	778,478
45	0	62,034	62,034	2,106,356	90%	2,340,396	234,040	692,094

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The Empire Life Insurance Company

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The Empire Life Insurance Company (Empire Life) is a proud Canadian company that has been in business since 1923. We offer individual and group life and health insurance, investment and retirement products, including mutual funds through our wholly-owned subsidiary Empire Life Investments Inc.

Empire Life is among the top 10 life insurance companies in Canada¹ and is rated A (Excellent) by A.M. Best Company². Our mission is to make it simple, fast and easy for Canadians to get the investment, insurance and group benefits coverage they need to build wealth, generate income, and achieve financial security.

Follow Empire Life on Twitter @EmpireLife or visit our website, www.empire.ca for more information.

¹ Based on total assets as reported in December 31, 2018 OSFI filings

² As at June 14, 2019. For the latest rating, access www.ambest.com.

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