

# **EMPIRE LIFE CI PROTECT PLUS<sup>®</sup>**

## **CRITICAL ILLNESS INSURANCE**

## **SHARED OWNERSHIP STRATEGY**

## **WORKSHEET**

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# Empire Life CI Protect Plus® (CIPP) Critical Illness Insurance Shared Ownership Strategy Worksheet

## Who is this for?

For many small businesses, having their main shareholder or their key employee diagnosed with a critical illness poses a risk that revenues will decrease and that expenses will have to be incurred to find a replacement. If your client is a small business owner who finds that having critical illness insurance (CI) is necessary to alleviate this problem, the Shared Ownership Strategy with Empire Life CI Protect Plus may be a great solution for your client.

## How does it work?

A corporation and a shareholder/employee jointly purchase an Empire Life CI Protect Plus (CIPP) coverage with Return of Premium on Death (ROPD) and/or Return of Premium on Surrender/Maturity (ROPS/M) options.

The strategy involves the corporation and the shareholder/employee entering into a formal "splitting" of rights agreement for the CI Protect Plus and the return of premium benefits. The agreement specifies the ownership of each interest, their rights, payment of benefits, obligations, and the allocation of the cost of the coverage to each party.

## A Few Potential Structures

Parties to a Shared Ownership Strategy have flexibility regarding the product that can be used and the way in which the benefits provided by the product are funded and allocated. However, for all Shared Ownership Strategy structures, each party should pay a portion of the premium that corresponds to the premium that would be paid if a benefit of a similar nature as the benefit received by the party was obtained in the open market.

For reference purposes only, here are some possible ways to structure a Shared Ownership Strategy:

	Structure #1	Structure #2	Structure #3	Structure #4
<b>Life insured</b>	Shareholder	Shareholder	Employee	Employee
<b>Policy Owner</b>	Corporation	Corporation	Corporation	Corporation
<b>Premium Payment (after tax dollars) &amp; Beneficiary</b>				
CI Benefit	Corporation	Corporation (can pay out as dividends to shareholder)	Employee	Corporation
ROPD	Shareholder		Corporation	Employee
ROPS/M	Shareholder	Shareholder	Corporation	Employee

## How to determine the premium to be paid by the parties?

The following methods could be used to determine the amount the shareholder would have to pay to obtain a certain advantage on an open market:

- Compare the cost of the different benefits between several insurers
- Compare the cost of the different benefits with a product that is more aligned with one of the parties' needs, typically the one paying for the base coverage. That party may then pay for the premium for comparable coverage and the party paying for the Return of Premium benefit adds the difference to their portion of the cost sharing.
- Calculate the average cost of the coverage between several insurers
- Obtain an actuarial calculation of the benefit or advantage provided to the shareholder

However, the results obtained using these methods are not a guarantee that the shared ownership would not result in a shareholder or employee benefit assessment by the Canada Revenue Agency (CRA).

## CIPP Shared Ownership Strategy Worksheet

### Shared ownership of base plan and return of premium

Plan:    Empire Life CI Protect Plus 10       Empire Life CI Protect Plus 75  
           Empire Life CI Protect Plus 20       Empire Life CI Protect Plus 100 15-Pay

Coverage amount: \$ \_\_\_\_\_

	Corporation	Shareholder/employee
Life Insured: _____		
Policy Ownership Amount:	\$ _____	\$ _____
Policy Ownership Percentage:	_____	_____
<b>CIPP Premium Payment:</b>		
Critical Illness base benefit: \$ _____	_____ x \$ _____ = \$ _____	_____ x \$ _____ = \$ _____
Return of Premium on Death: \$ _____	_____ x \$ _____ = \$ _____	_____ x \$ _____ = \$ _____
Return of Premium on Surrender/Maturity: \$ _____	_____ x \$ _____ = \$ _____	_____ x \$ _____ = \$ _____
<b>TOTAL</b>	\$ _____	\$ _____

### CIPP Split Benefit Shared Ownership Worksheet (each party owns one aspect of the plan)

	Corporation	Shareholder/employee
Premium for recommended base coverage		
Premium for base coverage bests aligned with term of coverage	\$ _____	\$ _____
	\$ _____	\$ _____
Difference (*)	\$ _____	\$ _____
Premium for Return of Premium on Death		\$ _____
Premium for Return of Premium on Maturity		\$ _____
Add difference (*) to party paying for Return of Premium benefits		\$ _____
Subtract difference (*) from party paying for base coverage	\$ _____ revised share of premium	
<b>TOTAL</b>	\$ _____	\$ _____

# Important Considerations

## Taxation of the CIPP benefit and ROP benefits

The Income Tax Act (Canada) does not presently contain specific rules on the taxation of CI benefits. The industry's current position is that CI benefits as well as ROP benefits are not taxable for the purposes of the Income Tax Act (Canada). However, CRA has yet to confirm their position and thus the tax treatment of CI and ROP benefits could change at any time. The underlying scenario is where the owner of the base CI coverage is also the owner of the ROP benefits.

Specifically, on shared ownership, the CRA's position is that each party should pay a portion of the premium that corresponds to the premium that would be paid if coverage of a similar nature was obtained in the open market. The CRA may consider that a shareholder/employer taxable benefit is realized in situations where the company is impoverished as a result of the shared ownership structure and the life insured is deemed to receive an advantage. For more technical information and examples on the Shared Ownership Strategy, we encourage you to consult a [STEPUP](#) article available on the website.

## Ensure all sides have a thorough understanding of potential benefits and risks

While the shared ownership strategy can offer benefits to both the corporation and shareholder/employee, there are also potential issues this strategy may raise including a negative tax ruling from the CRA. It is vital to:

- Choose coverage that is appropriate for the expected protection period for the parties
- Have a formal agreement which specifies the ownership interest of each party, their rights, payment of benefits, obligations, the allocation of the cost of the policy to each party, surrender and transfer of ownership options.
- Ensure that all parties understand the importance of getting independent professional tax and legal advice to make sure that this strategy meets their needs. This advice would extend to confirming how this strategy should be structured and understanding the tax consequences and tax reporting of the shared ownership arrangement.
- Make sure that all transactions between the parties relating to the Shared Ownership Strategy are properly documented.

**To find out more, contact your Account Executive or the Sales Centre at 1 866 894-6182.**

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