ESTATE PLANNING FOR BUSINESS OWNERS

Case Study: Term to 100

Meet Dinesh

Dinesh is 50 years old, healthy and doesn't smoke. He lives in Ontario and the business he started years ago has grown and is generating more cash than Dinesh needs to sustain his family's expenses. Instead of distributing the excess cash to himself personally, he has retained it in his holding company for investment purposes.

Through a combination of personal and corporate investments, Dinesh has planned for his retirement. However, he has not given much thought to estate planning.

Not knowing what to do, Dinesh reaches out to his advisor for help.

Meeting with his advisor, they determine the following information:

Need to provide liquidity at death to pay for the tax liability

$1,000,000 life insurance coverage needed at age 85 (corporately owned)

Access to cash value is **not** important

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- Dinesh is on track to sell his operating company between the ages of 60 and 65 and will have more assets than what he will need to fund his retirement
- One key estate planning issue identified is the tax liability at death. Dinesh and his advisor have determined that corporately owned life insurance could be a way to pay for this tax liability
- They have determined that Dinesh's holding company could obtain a life insurance policy on his life with $1,000,000 of coverage at time of death, approximately age 85
- His advisor explains that life insurance products with cash surrender values (CSV) may not be as interesting of an option for the following two reasons:
  - He is not expected to need access to the CSV to generate liquidity
  - The CSV of a corporately owned life insurance policy would increase the tax liability at his death

Determining the right solution

Exploring the options available to provide the highest payment possible to Dinesh's estate

Option 1

Term to 100
Non-Participating Permanent Life Insurance policy
$1,000,000
at issue

Option 2

EstateMax[1]
Participating Permanent Life Insurance policy
$567,271
at issue
(Paid-up Additions dividend option)

Parameters for both options

- **Annual premium of $13,500**
- **Premiums payable until age 100**
- **Owner: Dinesh's holding company**
- **Beneficiary: Dinesh's holding company**

Proceeds to Dinesh's estate at age 85

	Option 1 **Term to 100**	Option 2 **EstateMax**	
		(Current Dividend Scale)	(Alternate Dividend Scale)[2]
Total Death Benefit received by company	$1,000,000	$1,114,707	$964,970
Credit to Dinesh's holding company Capital Dividend Account (CDA)	$934,948	$945,680	$778,245
Taxes payable on capital dividend distributed	$0	$0	$0
Tax payable on taxable dividend distributed[3]:	$31,056	$80,693	$89,143
Tax liability increase due to life insurance policy's CSV[4]:	$0	$236,775	$201,404
Amount available to estate[5]:	**$968,944**	$797,239	$674,423

Why Option 1 meets Dinesh's objectives

Option 1 meets Dinesh's objectives because he has no need for cash value and is looking for the highest value to his estate. **Option 1 generates a net value of $968,944, which is $171,705 more than Option 2** (current dividend scale).

No need to access CSV for retirement or business purposes

Estate value is **22% higher** than option 2 (using the current dividend scale)

No tax liability increase since the policy has no CSV

[1] EstateMax is a participating life insurance plan, which means dividends may be declared on each policy anniversary. Dividends are not guaranteed.
[2] All values shown assume an annual dividend is paid every year until death based on the dividend scale indicated – current dividend scale and alternate dividend scale (current dividend -1%). [3] Assuming all taxable dividends are non-eligible dividends with a 47.74% tax rate. [4] Assuming the whole amount of the policy's CSV increases the capital gain realized at time of death on the deemed disposition of the holding company's shares held by Dinesh and assuming 26.76% tax rate on capital gains. [5] After taxes from distribution of dividends and after-tax liability at death from CSV

When might Option 2 be the better option?

Option 2

EstateMax[1]

Participating Permanent Life Insurance policy

$567,271

at issue

(Paid-up Additions dividend option)

- **If Dinesh thought he may need access to CSV for retirement or business purposes**
- **Wanted additional premium flexibility with the ability to go on premium offset in the future**

Total Cash Surrender Value	Term to 100	EstateMax (Current Dividend Scale)	EstateMax (Alternate Dividend Scale)
Age 65	$0	$92,085	$87,743
Age 75	$0	$481,594	$439,754
Age 85	$0	$884,808	$752,633

Had Dinesh's situation been less certain regarding future liquidity needs, Option 2 may have been a better option as it would provide access to the EstateMax cash value

Term to 100 provides Dinesh with a solution that meets his objectives by providing the highest amount available to his estate with the least amount of tax payable

To learn more about our Non-Participating Permanent Life Insurance plans, contact your regional sales representative or our sales centre at 1 866 894-6182

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