

Protecting your assets and accessing cash



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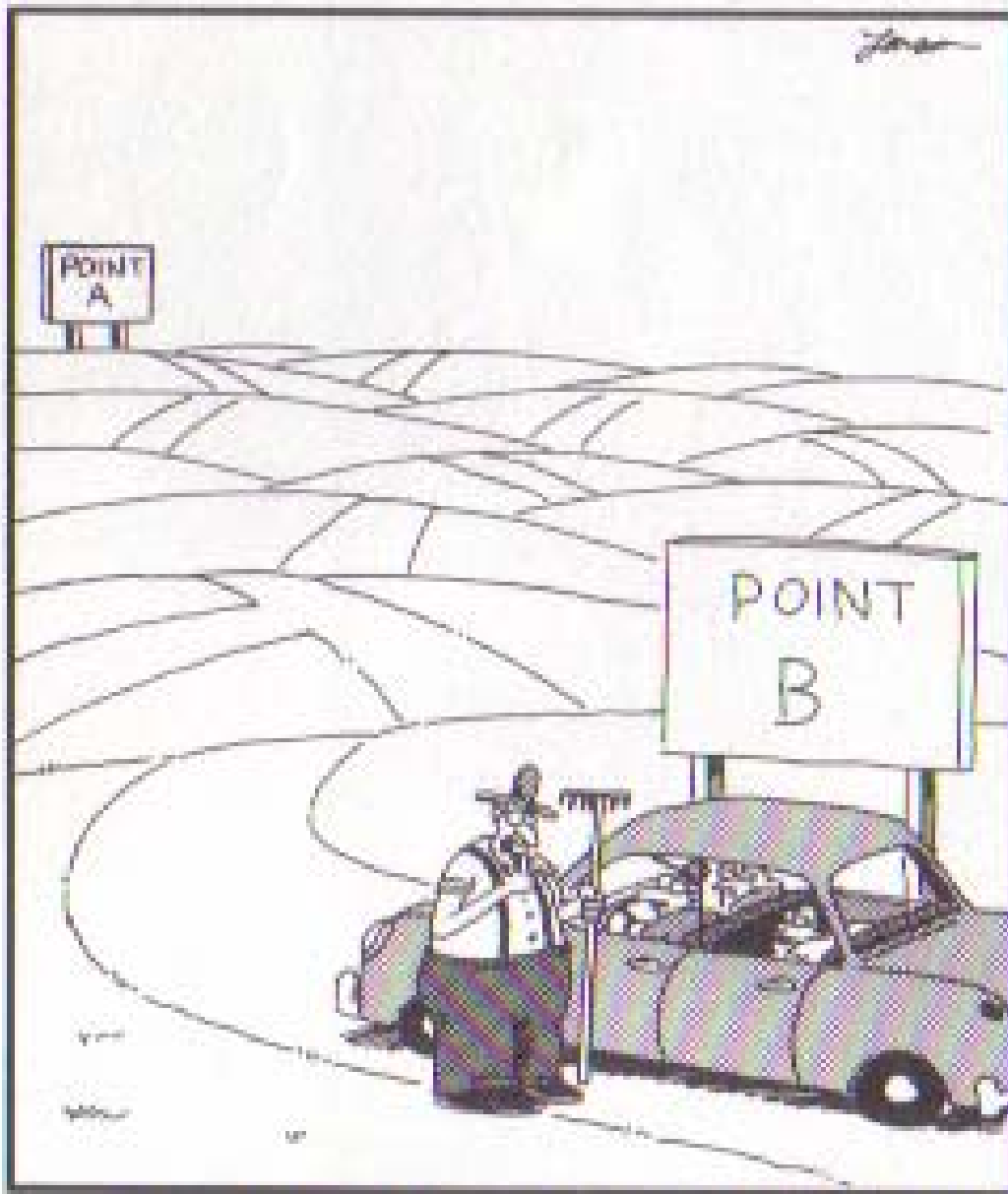
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Agenda

- “The Three Needs”
- Collateral Insurance
- Key-person Coverage
- Buy-sell Funding Solutions





"Well, lemme think. ... You've stumped me, son.
Most folks only wanna know how to go
the other way."

ulife Securities

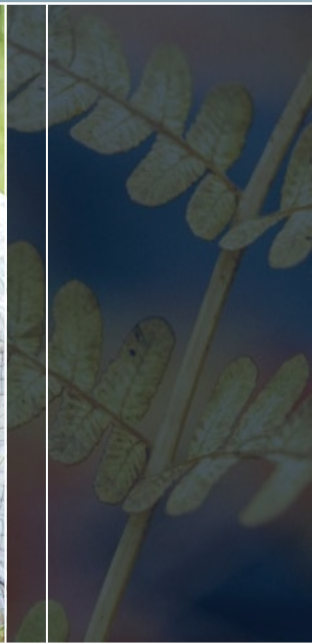


Agenda

- “The Three Needs”
- Collateral Insurance
- Key-person Coverage
- Buy-sell Funding Solutions
- Unique planning opportunities



The Three Needs

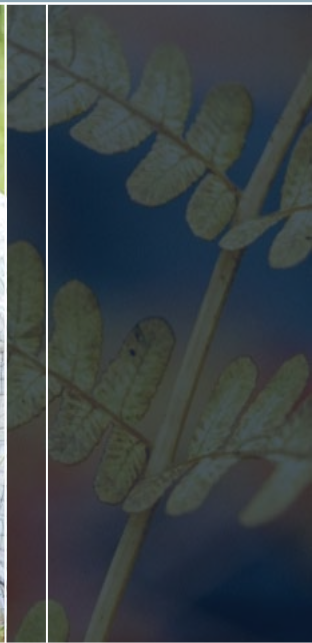


Business Insurance Needs...straight forward

- Simply ... it's a continuation of RISK MANAGEMENT
- Business insurance needs are ... straight forward
 - Buy-sell
 - Key person
 - Collateral



Collateral Insurance



 **Manulife Securities**

Collateral Insurance

- Most business have financing
 - Operating line of credit
 - Business loan (equipment, building, inventory, materials)
 - Partner buy-out
- Often need life insurance
- Purchased through lender?
- Consider independent insurance ... here's why



Are you insuring your business loan for your lending institution... or for your business?

	Business Owned	Lending Institution
Death benefit	Constant	Usually decreasing
Who controls/owns the death benefit?	Your business	Lending Institution
What if you move or change lenders?	Insurance stays the same	Insurance is cancelled
Can it be cancelled?	Only by you	Yes. The bank or insurer can cancel at any time
What happens when your loan is paid off?	Coverage continues for other financial obligations	Insurance is cancelled
Can it be converted to other plans?	Yes. If you want to change there is a wide variety of options available to you	No



Collateral insurance

- There's another big reason to buy collateral insurance direct from an insurance company rather than through the lender...

TAX!



Deductibility of insurance premiums

- Generally not deductible ... except for collateral insurance
- Conditions:
 - Collaterally assigned
 - Lender is a 'restricted financial institution' (RFI)
 - Interest on loan deductible (income producing purposes, etc.)
 - Insurance condition of loan ... required
- Borrower and policy owner same
- Premium/NCPI, whichever less (Proportional – death benefit to loan outstanding)



Capital Dividend Account (CDA)

- Notional account for private corporations in Canada (CCPCs)
- Allows for tax integration
 - Tax free amounts received by corporation flow tax-free to shareholder
- Credit to CDA equals proceeds of life insurance minus policy's adjusted cost basis



Capital Dividend Account

■ CRA's Practice:

- Credit to the Capital Dividend Account is dependent upon the corporation being the beneficiary under the insurance policy.
- This is not the case for creditor life insurance offered through financial institutions.

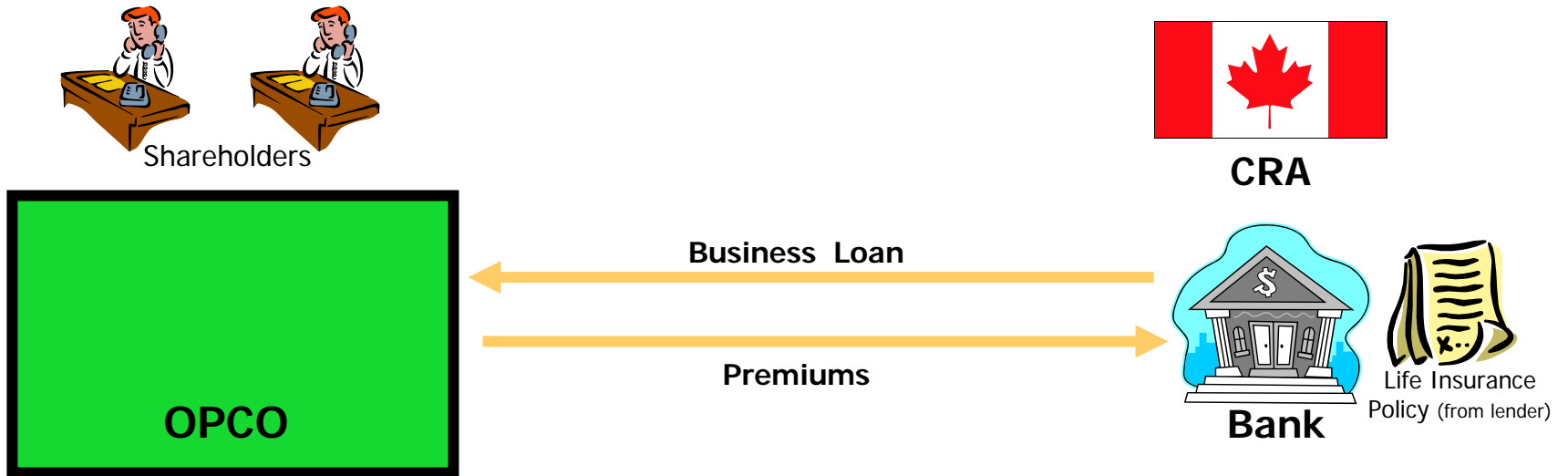
Note that in a 2008 out of court settlement (Motivel), the CRA allowed creditor insurance to result in a credit to the CDA. At the APFF Conference (October 2008), CRA indicated that the settlement in Motivel was case specific and would not change its practice.

A recent Tax Court decision (Innovative Installation) allowed a capital dividend account credit to a debtor corporation for creditor insurance under which the debtor paid premiums to a lender and the lender was the owner and beneficiary of a policy issued by Sun Life. CRA is attempting an appeal.

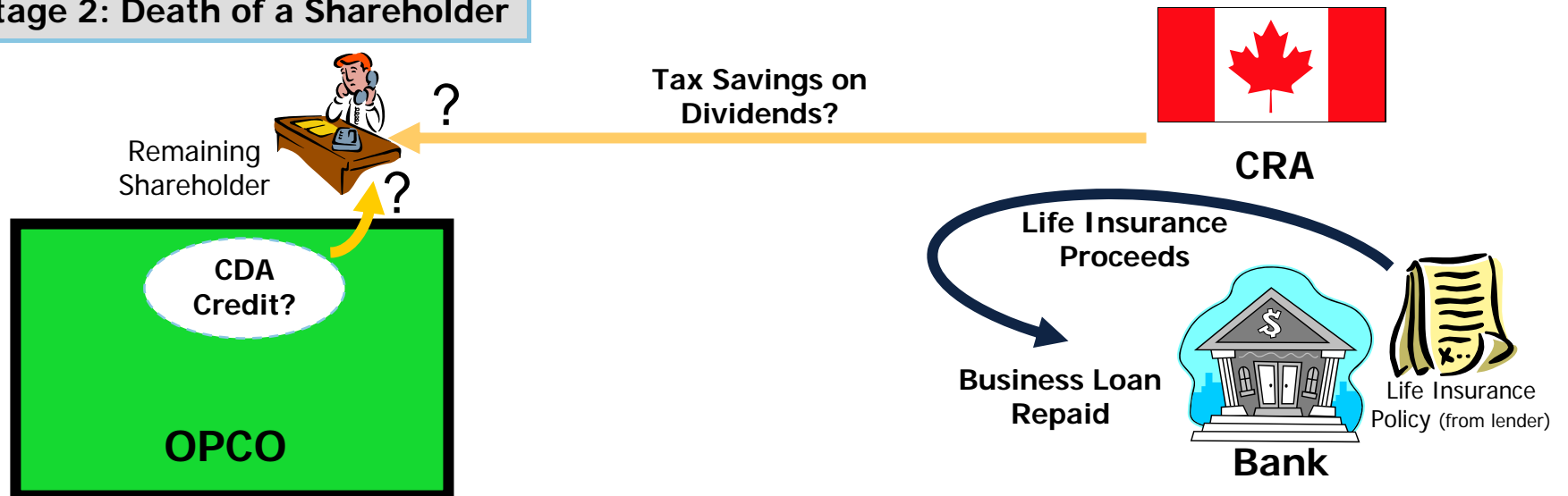


Creditor Insurance

Stage 1: During Life

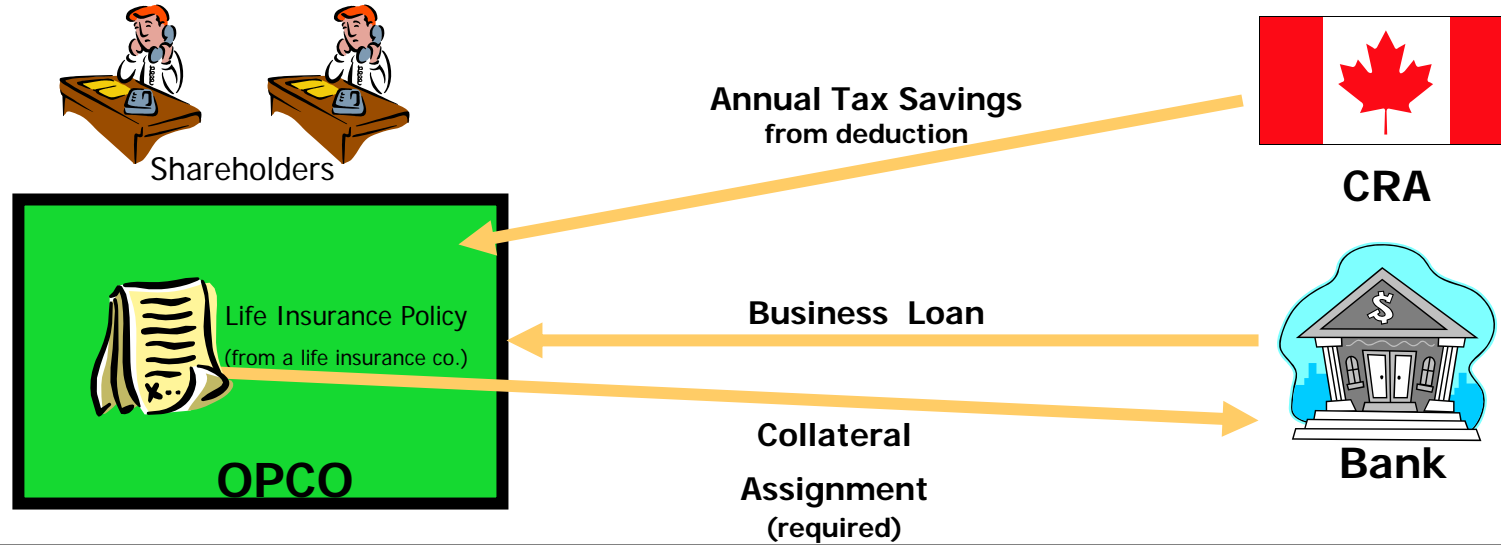


Stage 2: Death of a Shareholder

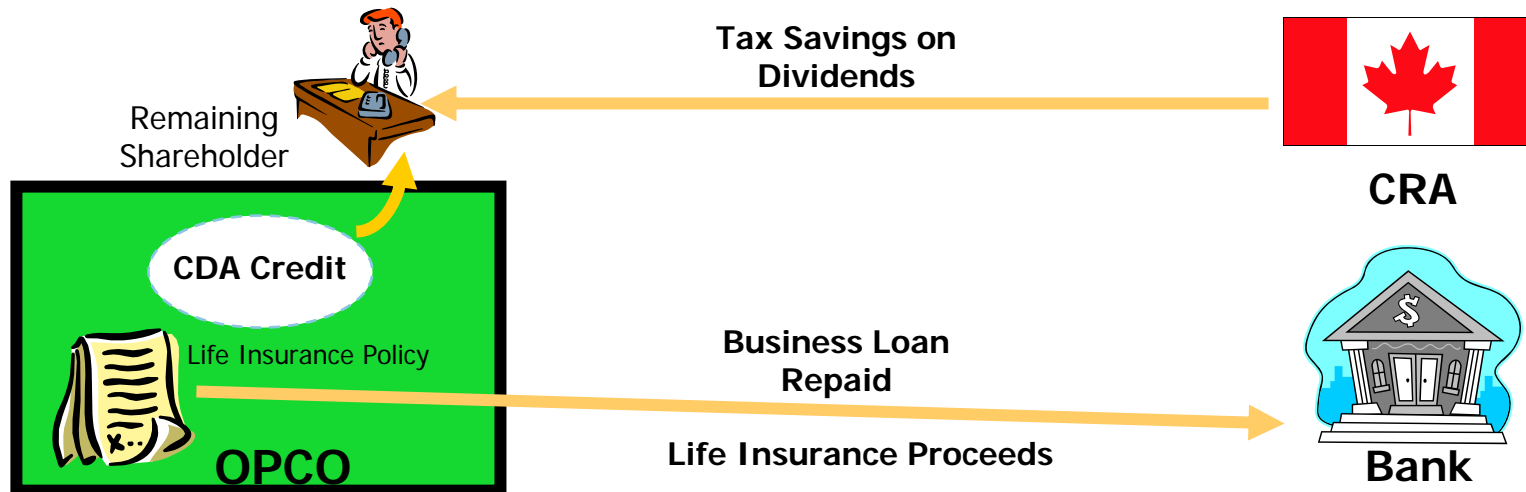


Business Owned Insurance

Stage 1: During Life



Stage 2: Death of a Shareholder



Case study

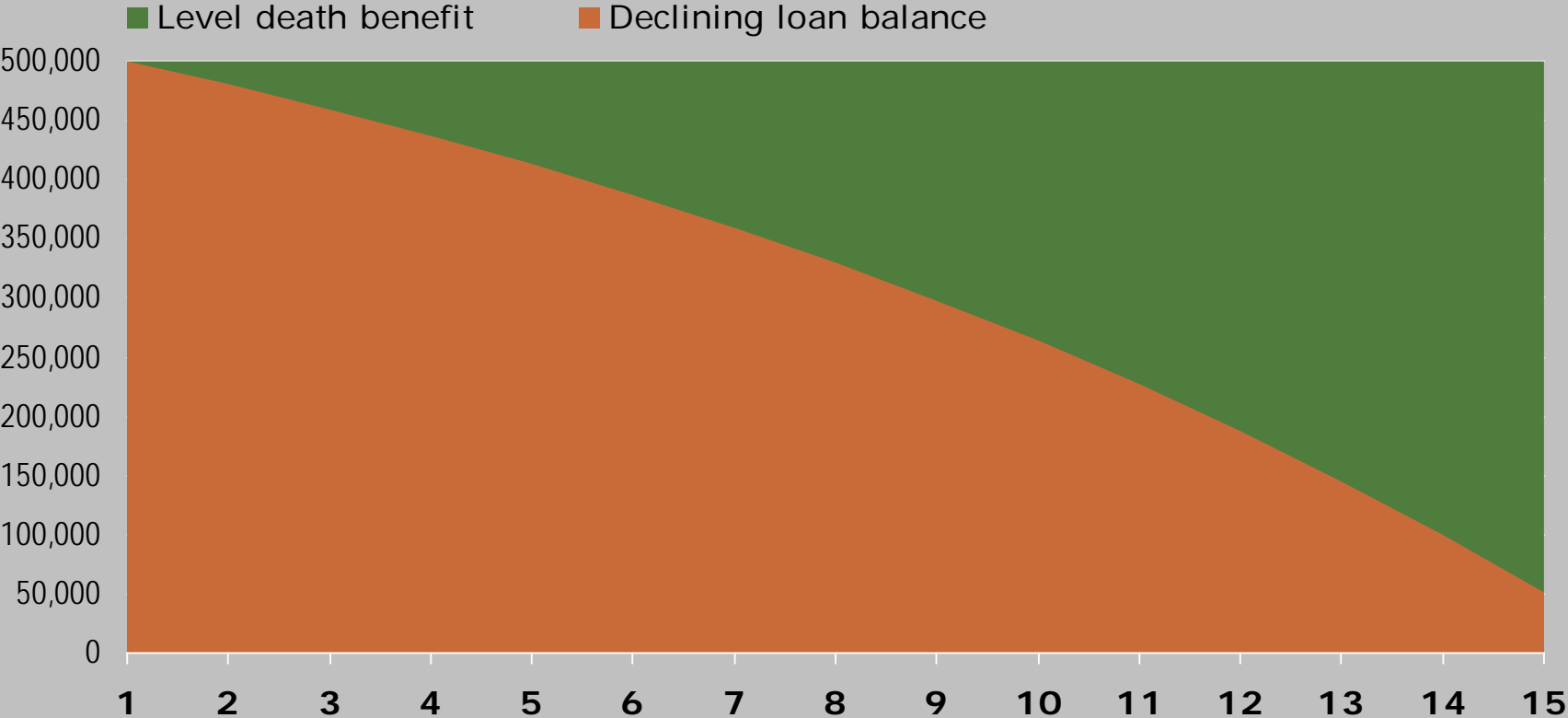


- John owns a manufacturing business
- He borrows \$500,000 to fund a building purchase
- Loan is to be repaid over 15 years
- He has two options for insuring his loan:
 - Purchase creditor insurance through the bank, or
 - Purchase corporate owned Term

Male, age 45, non-smoker (HS3)



Most creditor life policies decline with the loan balance



Based on a loan at 7% with monthly payments and a 15 year amortization



Collateral insurance and the CDA

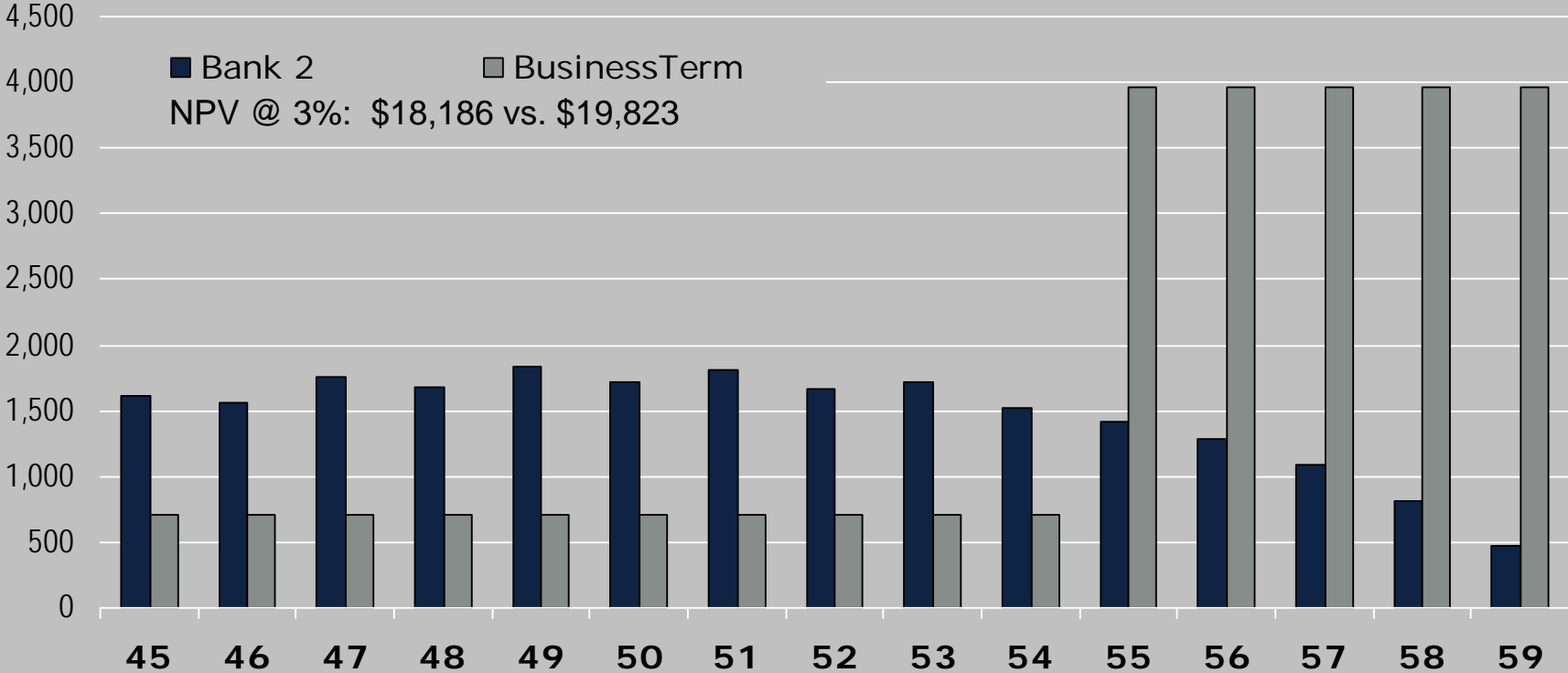
	Insurance through an insurance company	Insurance through a bank
Initial Loan amount	\$500,000	\$500,000
<i>Approximate outstanding loan balance at year 9</i>	<i>\$300,000</i>	<i>\$300,000</i>
<i>Death benefit</i>	<i>\$500,000</i>	<i>\$300,000</i>
Loan outstanding after death	\$0	\$0
<i>Cash available for other uses</i>	<i>\$200,000</i>	<i>\$0</i>
Credit to CDA*	\$500,000	\$300,000?
TAX SAVINGS (@31%)	\$155,000	\$93,000?

Assumes that insurance policy's ACB is zero. Based on CRA's current practice.



And... BusinessTerm is often less expensive initially... and about the same over time...

BusinessTerm level coverage compared to decreasing creditor coverage

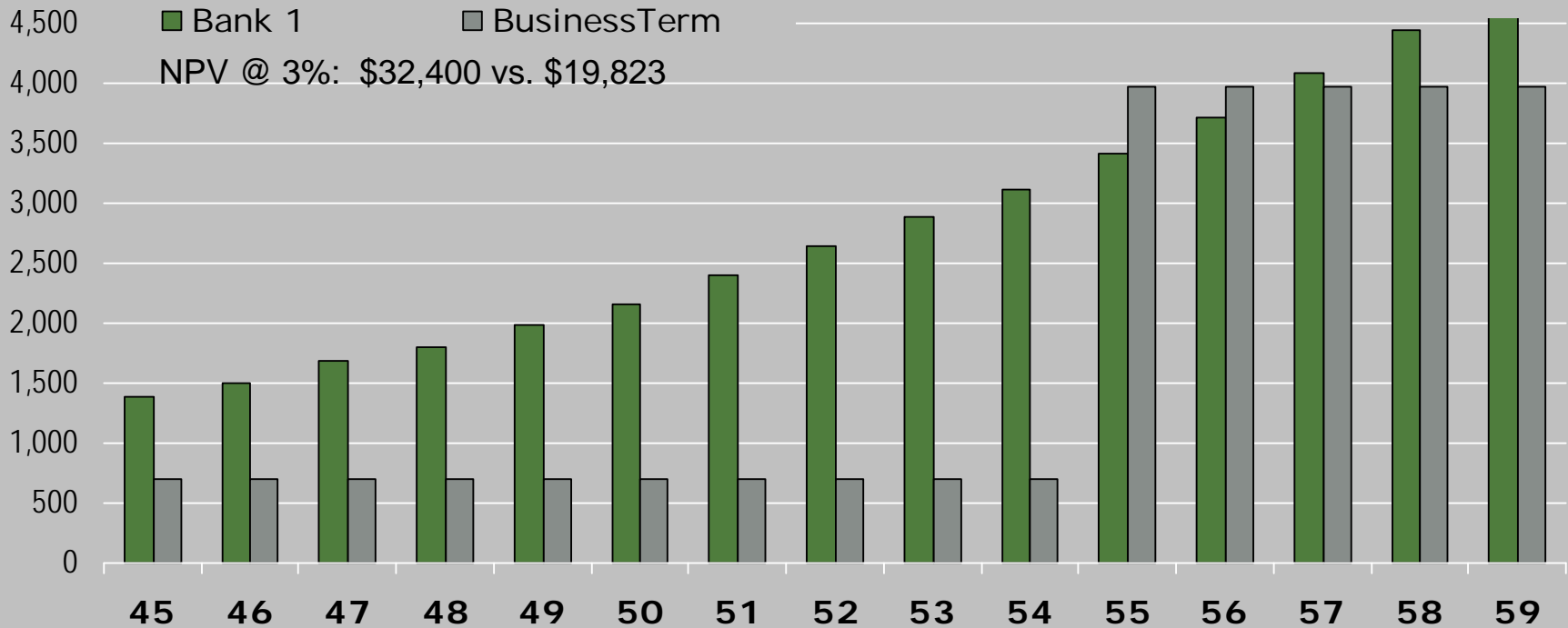


Bank insurance rates for demonstration purposes only. Refer to contract for details, limitations, etc. As at October, 2008.



If the creditor coverage is level death benefit, BusinessTerm is much less...

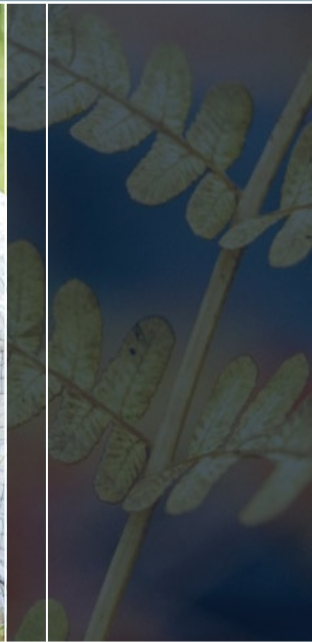
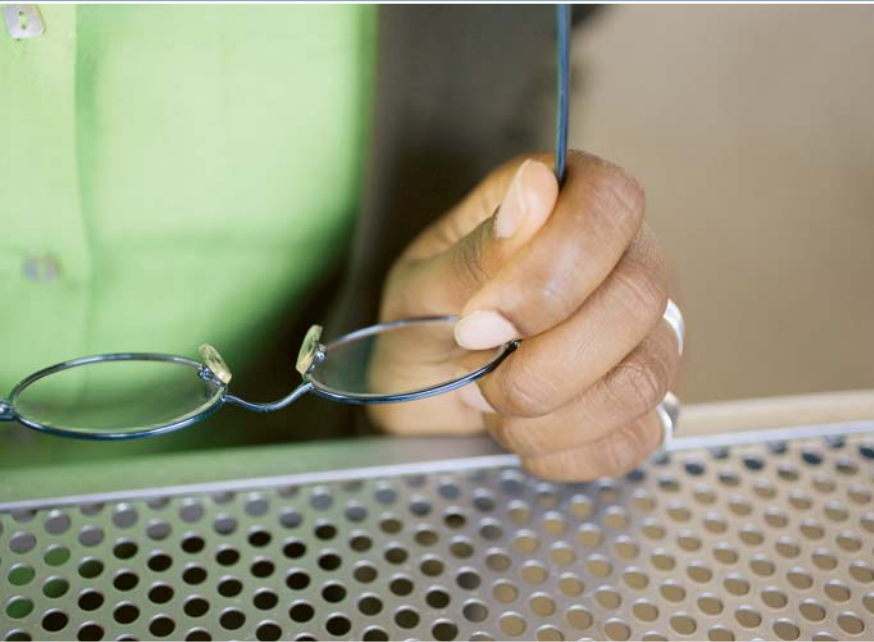
BusinessTerm level coverage compared to level creditor coverage



Bank insurance rates for demonstration purposes only. Refer to contract for details, limitations, etc. As at October, 2008.



Key Person Insurance Needs



Key-person coverage

- Who?
 - Special skill/knowledge/contacts (could be an owner)
 - Absentee owner - key person operates business
- Why?
 - Search and Hire a replacement
 - Meet payroll
 - Continue expenses
 - Cover temporary gap in sales
 - Float



Key-person coverage

- Immediate consequences:
 - Business disruption/competitor
 - Client reaction
 - Staff reaction
 - Creditor reaction



Key-person coverage

- If people are one of a your greatest assets ... protect your asset!!



Key-person coverage

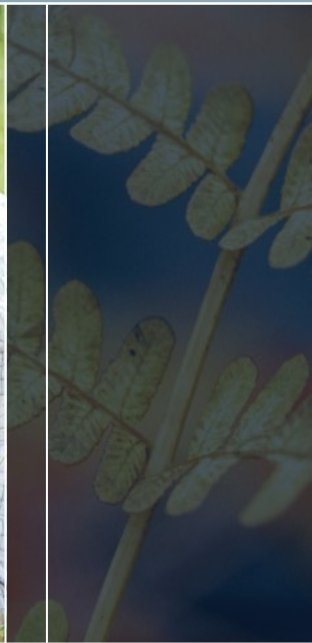
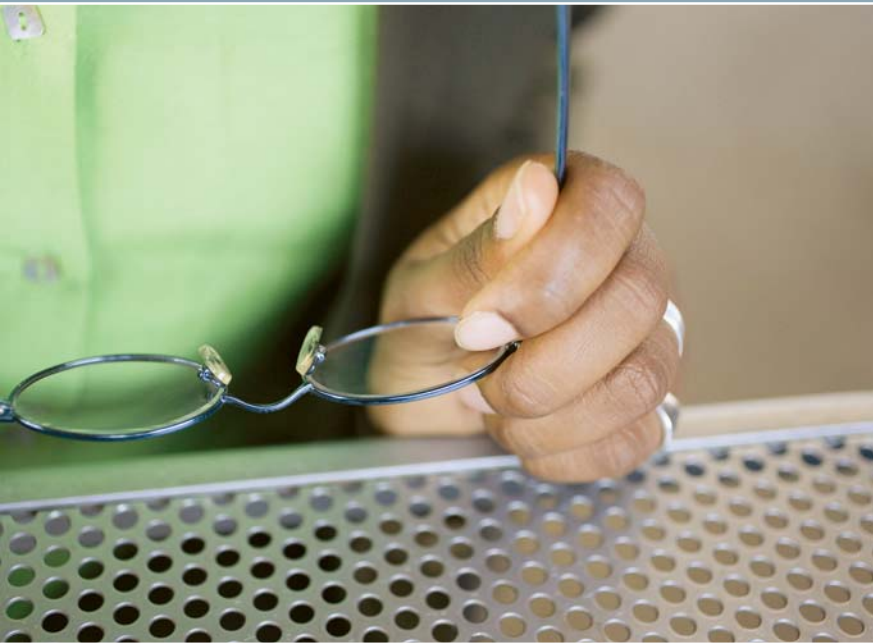
- How much is enough?

RULE OF THUMB

Key person coverage amount:
5 – 10 times income



Buy-sell Funding or Business Succession



Who should think about it

- Everyone in a business will eventually be taken out of that business
- 34% of independent business owners intend to exit ownership or transfer control of their business within 5 years*
- 66% within the next 10 years*
- Buy-sell provisions in shareholders' agreements deal with the universal problem of extracting business owners from their businesses

* Source: Canadian Federation of Independent Business, October 2006



Who should think about it

- Incorporated businesses or partnerships
- Family business or one with unrelated shareholders/
partners



The Market

- Many businesses do not have a plan or an agreement to implement it
- Some have agreements that are never signed
- Some have signed agreements that are unfunded or under-funded
- Even fewer have a funded, signed agreement



The Market

- Only 10% of small to medium sized enterprises have a formal plan to sell, transfer or wind down*
- 38% is informal (not in writing)*
- 52% have nothing*

* Source: Canadian Federation of Independent Business, October 2006



The Market

- Males age 45
 - 23% will die before age 70
 - 14% will die before age 65
- If we have 10 business owner's ...
 - 2 will die before age 70
 - Which ones?
 - Are you willing to take that chance with your business, and your family?

Statistics Canada 1995-1997 Mortality Rates



When the Business Loses an Owner

The remaining owners can:

- Close down the business
- Continue the business with the new owner of the shares
- Sell their shares to a third party
- Purchase shares from the estate of the deceased owner



The Buy-Sell Agreement

Provides a plan for dealing with the loss of an owner



The Buy-Sell Agreement

Agreement covers issues such as:

- Who will buy the shares?
- What will the price be?
- When will the shares be bought?
- Where will the money to buy the shares come from?
- How will the buyout be structured?



The Buy-Sell Agreement

Benefits of having a plan in place:

- Business can continue
- No unknown owners
- Ownership transition can be handled quickly
- Contractual buyer with cash for shares
- Valuation of shares is contractual



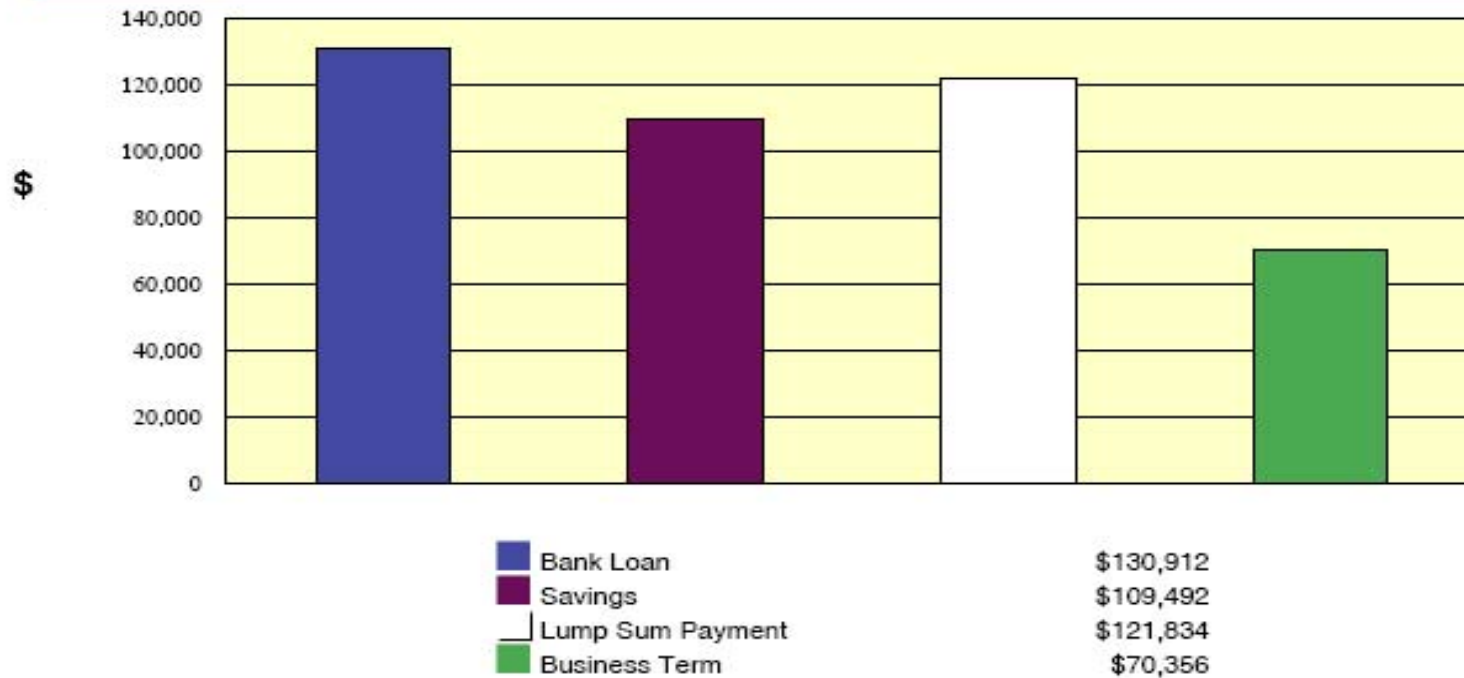
Funding the Buy-Sell Plan

Funding Options include:

- Cash from current earnings
- Sell an asset
- Start saving today
- Borrow the funds when needed
- Purchase life insurance



In Your Situation



Cost of each alternative using discount cash flows at 4.00%.



The Needs, The Solutions

- The needs:
 - Collateral
 - Key-person
 - Buy-sell
- The solutions:
 - Term insurance
 - Term-to-100
 - Universal Life
 - Whole Life



Which solution is best? Term or Permanent?

Term

- Great for short term needs
- Less expensive initially
- Will expire at age 75 or age 80

Permanent (universal life or whole life)

- Costs a bit more initially
- Less expensive over the long term
- Offers some unique tax sheltering opportunities



Corporate Taxation 101 – Good News and Bad News

- Two types of income in a corporation
 - Active – income from what your corporation does or makes
 - Passive – income from investments

- Corporation pays it's own taxes
 - Preferred rate on active net income
 - 16.5% up to \$500,000 of net income
 - Good News!
 - Passive income is automatically taxed at the highest rate 48.7%
 - Bad News!



Is there a better way ?

- What about a strategy that:
 - offers tax deferred growth AND
 - tax preferred access (maybe even tax free) AND
 - tax free proceeds to Estate
- Corporate Insured Retirement Program

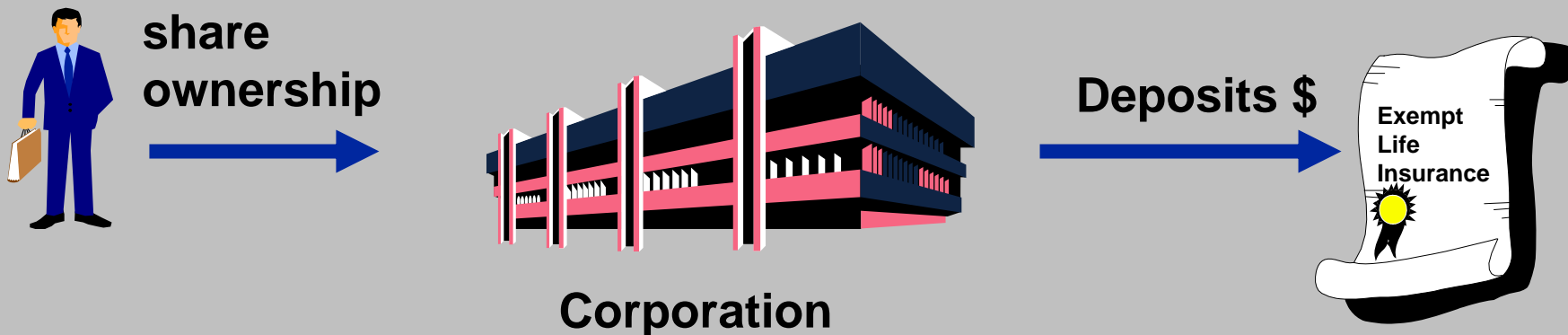




CORPORATE INSURED RETIREMENT PROGRAM

Structure - Corporate Borrowing

I. Accumulation Phase





CORPORATE INSURED RETIREMENT PROGRAM

Structure - Corporate Borrowing

II. Access Phase



2. Loan \$

3. Pay \$

1. Collateral
assignment

Exempt
Life
Insurance

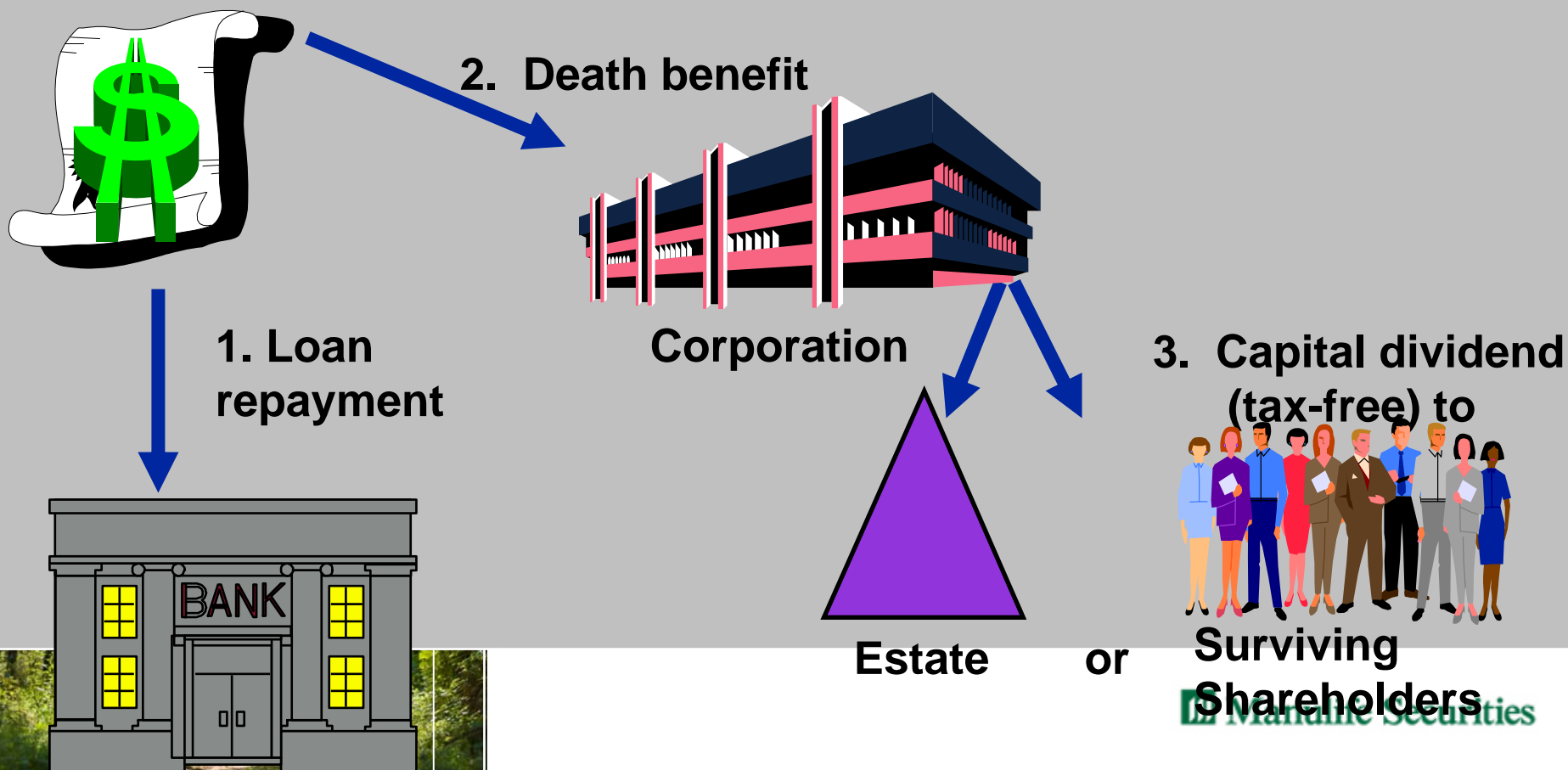




CORPORATE INSURED RETIREMENT PROGRAM

Structure - Corporate Borrowing

III. Settlement Phase



Meet Joe Builder

- Joe Builder was 49 years old
- He and wife established a Holding company that owned the shares of Buildco
- Wanted 1 million of insurance coverage for key person / income replacement / collateral insurance coverage
 - Joe was the business
 - Needed capital on his death to pay off creditors, make sure his family's standard of living did not suffer
- Ran a very successful business
 - Had accumulated about \$650,000 in his Holdco
 - Money was conservatively invested
 - Paying 48.7% on all the growth on those investments
- Looking to reduce tax today, and for tax efficient way of getting money out of the company down the road.



How much is a dollar worth ?

“I have a successful business that has lots of cash inside it. How do I get that money into my pocket ?”

- If you have \$1 in your corporation, what is it actually worth to you?

\$0.69

- You have to pay dividend tax (31%) to get it into your hands.



Joe Builder's plan

- Decided to transfer 650K into a tax exempt insurance policy owned by Holdco
- 65K per year for 10 years
- Wanted income at age 65 to supplement retirement



Performax Gold Performance credit rate: Current less 2.0%
 First Year Deposit: \$65,000
 Initial Death Benefit: \$1,000,000
 Annual Loan Advance: \$54,321
 Loan Advances Begin (Age): 64
 Duration of Loan Advances (Years): 21

Shareholder Marginal Tax Rate: 46.00%
 Shareholder Dividend Tax Rate: 31.00%
 Corporate Tax Rate on Investment Income: 48.70%
 Bank Loan Rate: 7.00%
 Bank Loan Rate if Deductible: 3.59%

LOAN INTEREST DEDUCTIBILITY ASSUMED

CORPORATE LIFE INSURANCE PLAN

CORPORATE BANK LOAN

Year	Age	Annual Deposit	Cash Surrender Value	Death Benefit	CDA Credit	'Tax-Free' Loan Advances	Outstanding Loan Balance	Before Tax Dividend to Shareholder	After Tax Dividend to Shareholder	Net Estate Value
1	50	65,000	31,862	1,114,660	1,051,284	0	0	0	0	1,095,013
2	51	65,000	65,693	1,226,856	1,100,500	0	0	0	0	1,187,686
3	52	65,000	102,724	1,340,586	1,151,744	0	0	0	0	1,282,045
4	53	65,000	143,313	1,456,426	1,205,721	0	0	0	0	1,378,707
5	54	65,000	187,342	1,573,421	1,261,653	0	0	0	0	1,476,773
6	55	65,000	244,104	1,691,392	1,319,487	0	0	0	0	1,576,102
7	56	65,000	318,683	1,810,814	1,379,803	0	0	0	0	1,677,201
8	57	65,000	384,603	1,931,692	1,442,782	0	0	0	0	1,780,130
9	58	65,000	456,814	2,053,018	1,507,568	0	0	0	0	1,883,929
10	59	65,000	542,132	2,175,370	1,574,834	0	0	0	0	1,989,204
11	60	0	569,891	2,140,146	1,550,476	0	0	0	0	1,957,348
12	61	0	606,798	2,120,791	1,543,097	0	0	0	0	1,941,706
13	62	0	652,334	2,114,777	1,550,376	0	0	0	0	1,939,813
14	63	0	704,928	2,117,525	1,567,985	0	0	0	0	1,947,168
15	64	0	766,490	2,132,608	1,599,748	0	0	0	0	1,967,421
16	65	0	834,472	2,153,896	1,641,593	54,321	56,272	54,321	37,481	1,956,255
17	66	0	908,937	2,180,436	1,690,384	54,321	114,564	54,321	37,481	1,949,471
18	67	0	989,038	2,210,760	1,744,070	54,321	174,950	54,321	37,481	1,945,076

7	56	65,000	318,683	1,810,814	1,379,803	0	0	0	0	1,677,201
8	57	65,000	384,603	1,931,692	1,442,782	0	0	0	0	1,780,130
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17	66	0	908,937	2,180,436	1,690,384	54,321	114,564	54,321	37,481	1,949,471
18	67	0	989,038	2,210,260	1,744,070	54,321	174,950	54,321	37,481	1,945,026
19	68	0	1,074,859	2,243,441	1,802,586	54,321	237,504	54,321	37,481	1,942,898
20	69	0	1,166,474	2,280,028	1,865,888	54,321	302,304	54,321	37,481	1,943,054
21	70	0	1,229,682	2,316,997	1,931,757	54,321	369,432	54,321	37,481	1,942,664
22	71	0	1,293,745	2,354,044	2,000,136	54,321	438,970	54,321	37,481	1,915,074
23	72	0	1,358,600	2,391,181	2,071,225	54,321	511,005	54,321	37,481	1,880,176
24	73	0	1,424,930	2,429,723	2,146,441	54,321	585,627	54,321	37,481	1,844,096
25	74	0	1,492,513	2,469,428	2,225,565	54,321	662,928	54,321	37,481	1,806,500
26	75	0	1,561,267	2,510,185	2,308,426	54,321	743,005	54,321	37,481	1,767,180
27	76	0	1,631,072	2,551,964	2,394,785	54,321	825,958	54,321	37,481	1,726,005
28	77	0	1,701,845	2,594,725	2,484,619	54,321	911,890	54,321	37,481	1,682,835
29	78	0	1,773,524	2,638,441	2,578,145	54,321	1,000,908	54,321	37,481	1,637,533
30	79	0	1,845,976	2,683,085	2,675,661	54,321	1,093,122	54,321	37,481	1,589,963
31	80	0	1,919,175	2,728,632	2,728,632	54,321	1,188,648	54,321	37,481	1,539,984
32	81	0	1,992,993	2,775,057	2,775,057	54,321	1,287,604	54,321	37,481	1,487,454
33	82	0	2,067,428	2,822,340	2,822,340	54,321	1,390,113	54,321	37,481	1,432,226
34	83	0	2,142,364	2,870,463	2,870,463	54,321	1,496,304	54,321	37,481	1,374,159
35	84	0	2,217,803	2,919,409	2,919,409	54,321	1,606,308	54,321	37,481	1,313,101
36 LE	85	0	2,293,694	2,969,162	2,969,162	54,321	1,720,262	54,321	37,481	1,248,900

An Asterisk (*) appears if the bank loan exceeds 75% of the net cash value of the policy.

Summary – Corporate IRP

- Deposit \$650,000
- Net After Tax Income \$787,101 (from ages 65 – 85)
- Net Estate \$1,248,900 Tax Free
- Additional CDA credit available
 - Total death benefit \$2,969,162
 - Total CDA credit \$2,969,162
 - Outstanding Loan \$1,720,262
 - CDA used for insurance proceeds \$1,248,900
 - Remaining CDA \$1,720,262



How does this compare ?

	Taxable Investment	Corporate Insured Retirement Program
After tax Income	\$787,101	\$787,101
Net Estate	\$212,712	\$1,248,900



Corporate Insured Retirement Program

This financial planning strategy is designed to meet your need for life insurance protection today and allow access to tax-advantaged cash in the future.

- Do you need insurance protection?
- Do you have corporate funds to invest?
- Are you looking for additional tax shelter strategies?
- Are you looking for ways to extract cash out of your company?
- Are you receptive to long term strategies?
- Are you not averse to debt?

This strategy might work for you!



Questions ?

