<u>Advantages of Using Whole Life Insurance as an Investment for Wealthy Clients</u>

(I have used the terms "Exempt Contract" and"Exempt Policy" interchangeably throughout this article. It should be noted that the term "Exempt Contract (or) Policy" where used, can apply to either a Universal Life policy or a Whole Life policy, where I have used the term "Whole Life" that feature or benefit described applies exclusively to Whole Life.)

While there are numerous benefits provided through the use of a Whole Life policy, for wealthy clients the advantages fall into to three specific areas, none of which relate to a need of insurance in the conventional or traditional sense of protection. Some of these advantages also apply to Universal Life. For Whole Life the three areas of advantage for wealthy clients are:

1) Tax advantages 2) Investment advantages 3) Income advantages.

> ***<u>Note:</u>*** *These three main areas are magnified if the exempt policy is within a holding company, investment company or professional corporation.*

Tax Advantages:

1) All assets growing within an exempt contract can grow tax-free. As long as they stay within CRA guidelines they are classified as exempt, from tax, under section 148 and regulation 306 of the ITA (Income Tax Act).

> ***<u>Note:</u>*** *In a corporate situation conventional fixed income investments are taxed at a rate of 48% on their annual earnings, (Ontario), if not invested in an exempt contract.*

2) All assets within an exempt contract can be paid out tax-free on death.

> ***<u>Note:</u>*** *In a corporate situation this is very significant because without an exempt policy the investment assets would not only be subject to the "retained earnings tax" (noted above under point 1), but also capital gains tax on death. Then they would be taxed further on any withdrawal made from the corporation either as dividend or income tax. Exempt policies are sheltered from the retained earnings tax. While they cannot avoid assessment for Capital Gains Tax, only a portion of an exempt contract's true value is included for that calculation, which may minimize the tax payable. Further an exempt contract can avoid most and eventually all of the dividend tax when withdrawn from the corporation tax free, through the CDA, (Capital Dividend Account).*

Investment Advantages:

1) Investments' inside an exempt contract grow tax-free.
2) Investments' inside a whole life policy are pooled and institutionally invested and managed providing access to assets classes not normally available for the average investor. Also resulting in very low MER's, (Management Expense Ratios).
3) Investments' inside a whole life policy provide a guaranteed base of investment growth.
4) Investments' inside a whole life policy demonstrate a history of superior returns.
5) Investments' inside a whole life policy are characterized by extremely low volatility, (due to the averaging in of returns over several years, a structure allowed only within a whole life policy), in conjunction with an annually declared yield based both on short, (3-5 years), and long, (20 year), projections.
6) Investments' inside an exempt policy are instantly enhanced in the event of premature death by the original sum insured resulting in a superior rate of return to that of any conventional investment. In such a circumstance tax free liquidity is instantly provided to offset taxes and enhance corporate or estate values.
7) Investments' and the insurance component inside an exempt policy are protected by various contractual guarantees, by the safety and security of the companies' size and reserves which are monitored by independent regulators and further insured by Assuris.

Note: *Historically whole life has outperformed fixed income investments consistently and delivers a return similar to equity markets, yet retains a risk profile that is less volatile than fixed income investments.*

Income Advantages:

1) Income is obtainable at any stage from an appropriately funded exempt policy. Options to obtain income directly from a policy include redirection of dividends to cash in a whole life policy, via policy loans, via direct withdrawal of cash, via cancellation of the policy or by leveraging the policy. A choice of the most appropriate method is usually made at the time income is required. Some of these methods of withdrawal are taxable others are tax-free.
2) In the event of terminal illness or disability access to a policies death benefit or cash values can be made in a tax free manner.

Note: *Wealthy clients will often use a whole life policy primarily to* ***accumulate money tax free, obtain a superior rate of return on what would represent part of their fixed income assets****. Knowing that these enhanced assets will be available for income purposes should they be needed* ***for additional retirement income or to fund long term care needs.*** *Ultimately knowing that these assets will eventually be able to be withdrawn, tax free, from their corporations, (if incorporated) and that these assets will not be subject to capital gains tax or income tax and need not be subject to probate.*

The ultimate usage for assets values that have been improved as a result of being invested in an exempt policy is numerous. The most common of which are to 1) ***Provide for loved ones*** *2)* ***Pay estate taxes*** *3)* ***Enhance estates*** *4)* ***Endow charities or establish charitable foundations****.*