

Corporate Insured Retirement Plan

INSURANCE STRATEGY FOR BUSINESS OWNERS



Have your corporate-owned life insurance work for your retirement

The Corporate Insured Retirement Plan has been designed with the savvy business owner in mind. It provides a combination of risk management for your corporation with tax-efficient investment diversification, supplemental retirement income and estate value optimization.

Could this work for you?

As the owner or principal shareholder of a Canadian-controlled private corporation who is saving inside your company, this strategy could be for you. If your corporation is well-established and generates higher revenues than expenses, this strategy can assist you in converting the fruits of your labour in a tax-efficient manner to supplement your retirement income.

A corporate risk analysis has likely shown that you have significant life insurance needs to protect your corporation in the event of your death. Provided you are in good health, then corporate-owned life insurance with cash values could efficiently address this risk while also providing tax-deferred growth as long as the values remain inside the policy. If your plans for retirement include the use of savings held within your corporation, or the potential future savings that your corporation could hold, then this strategy could be a good fit.

Corporate benefits of this concept:

- The life insurance death benefit can provide your corporation with liquidity to pay creditors and support ongoing operating expenses in the event of your untimely death.
- Your corporation has the opportunity to save within a permanent life insurance policy to diversify its investment portfolio and provide tax-efficient investment growth.
- Accumulated cash values inside the policy can be accessed for business or investment purposes during your lifetime, including to supplement your retirement income.¹

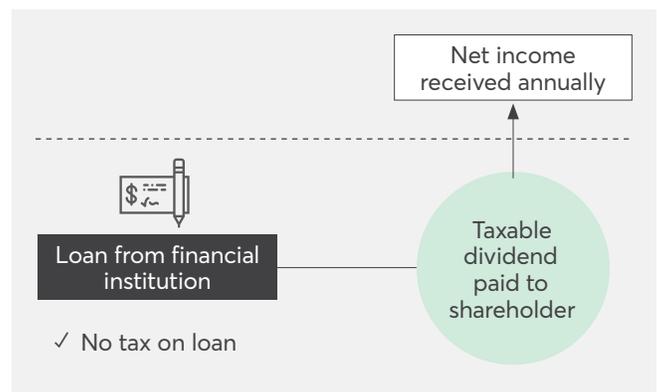
Accessing corporate savings

The first step in the Corporate Insured Retirement Plan is for your corporation to address its life insurance needs through the purchase of a life insurance policy with cash values that can accumulate on a tax-efficient basis. You, as the primary shareholder, are the insured and the corporation is the policyowner and beneficiary.

When you retire, the corporation can pledge the cash values of the policy to obtain a loan from a financial institution. There may be an option to allow the interest charges to accrue so that no payments are required prior to your death.

Upon your death, the non-taxable death benefit is paid to your corporation as the beneficiary and the financial institution will receive payment for the loan. The remaining death benefit will be available for distribution through your estate as per the wishes you had left while alive.

Loan by corporation at retirement



¹ Consult your taxation advisor as the tax consequences of different lifetime uses of corporate-owned life insurance can vary.

Upon Retirement

When the shareholder is ready to retire, the corporation pledges the policy cash values as collateral for the loan. When this occurs, the corporation is limiting its ownership rights and will require prior permission from the lending institution to obtain policy loans or withdrawals, surrender or make other material changes to the contract.

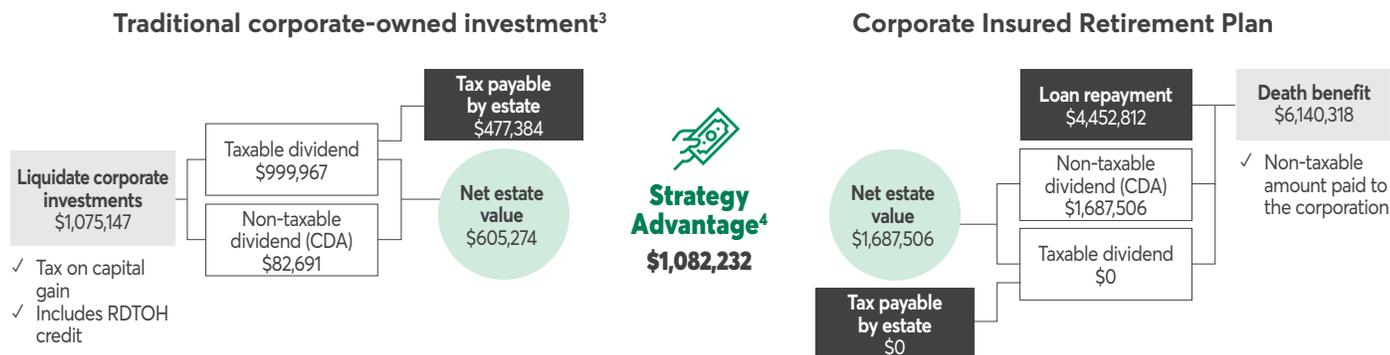
Proceeds from the collateral loan are not considered a taxable disposition of the policy, therefore, the loan recipient will not be subject to tax on these funds. When the corporation receives the loan proceeds, it will have to pay a taxable dividend to the shareholder to provide the requested retirement income.

Upon death, the death benefit will be paid to the corporate beneficiary, allowing the corporation to pay off the collateral loan.

Moreover, when the death benefit is received by the corporation, a credit is made to the capital dividend account. This credit is calculated as the total death benefit minus the adjusted cost basis of the policy. The corporation can then utilize the capital dividend account to provide a non-taxable capital dividend to a Canadian shareholder.

The image below demonstrates the cash flow relating to a Corporate Insured Retirement Plan using a loan by corporation.²

Comparison of the estate value differences between this strategy and a traditional approach:



² Sample case of a 50 year old female non-smoker, living in Ontario. Annual Premium of \$100,000, participating whole life to 100 - Estate Enhancer product, paid-up additions with an initial insurance of \$1,513,857. Premium offset in Year 11. Basic Life Insurance Premium: \$38,340.58 and Annualized ADO Deposit: \$61,659.40.

³ Asset allocation: 60% Equity, 35% Fixed-income investments and 5% Short-term investments. Assumed rate of return: Equity - 6.20%, Fixed-income investment - 3.20%, short-term investment - 2.30%.

⁴ Assumptions: Loan Interest Rate: 5%; Loan Start Age: 71; Loan End Age: 90; Loan Index Rate: 0%; Annual Loan Amount: \$128,252; Age of Analysis: 90; Non-eligible Dividend Tax Rate: 47.74%; Maximum Loan to Cash Surrender Value: 90%.

Protect your corporation while planning for your retirement

The Corporate Insured Retirement Plan lets you have your corporate-owned life insurance work for your retirement. This strategy can be of significant benefit to business owners and majority shareholders who are looking for tax-efficient investment opportunities that protect their corporations while they are working and supplement their retirement when the time comes.

Here is a summary of the main features of the loan by the corporation:

	Loan by Corporation
Retirement income	Taxable dividend to the shareholder
Payment of death benefit	Non-taxable to the corporation
Guarantee fee	Not applicable
Availability of an excess balance in the Capital Dividend Account after the strategy	Excess available if (death benefit - loan) < CDA
Repayment of loan at death	Repaid by death benefit proceeds received by the corporation

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