

A person wearing a red dress is holding a small, square, white gift box with a light blue ribbon tied around it. The gift box is held in both hands, which are cupped together. The background is a soft, out-of-focus light color.

HOW TO BUILD A TAX-EXEMPT  
**LEGACY**

## INSURANCE AND INVESTING WRAPPED UP IN ONE SIMPLE PACKAGE

Mike and Sheila are ecstatic. At 55, they're the proud grandparents of Emma – their first grandchild. They're already planning the sleepovers and the trip to Disney. But Emma has got them thinking about something else...

**M**ike, a dermatologist, and Sheila, vice president of a public relations firm, earn very good incomes – and they pay a healthy amount of income tax too. Over the years they've worked with their advisor, Russ, to invest strategically. Careful money management has put them in a fortunate position and they have extra funds they want to use to build an inheritance for Emma – one that won't leave her with a tax burden. So Mike and Sheila have some planning to do, and who better to talk to than Russ? He's coming by their house later today.

### **A STRAIGHTFORWARD, COST-EFFECTIVE SOLUTION**

"Mike and Sheila, you're in a great position," says Russ. "I know you've

maxed out your RRSPs and you're taking full advantage of your TFSAs, so finding a place to put away extra money isn't an easy task – particularly since the goal here is to make sure the money is tax-exempt when it's passed on to Emma, to other family or even to a favourite charity. But I think I have a solution for you: universal life insurance."

Mike and Sheila are surprised. "Life insurance?"

Russ assures them he's serious and explains, "The beauty of universal life insurance is that it offers you insurance protection and the opportunity to invest and accumulate money in the policy without tax implications. But there has to be a balance between the amount of investments and the amount of insurance. If you don't have enough insurance in

relation to your investments, the balance is off and you may have to pay income tax on some of the investment growth."

Russ tells Mike and Sheila that some universal life plans take care of the balancing act for them by automatically adjusting the amount of insurance. This means they keep the amount of insurance low, while at the same time ensuring the policy stays tax-exempt. It keeps the cost of insurance in check too and makes for easy, hands-off insurance management that can allow Mike and Sheila to focus on their investment options.

"And there's more," says Russ. "How you pay for this type of plan is different from traditional universal life policies. Rather than paying a premium to cover the insurance costs, you're given a guaranteed

rate that's deducted from the posted interest rate of each investment account – it's called a spread rate. When the value of your investments increases or decreases, so does the amount you pay. The rate is based on factors such as your age and health and it's guaranteed to age 85. After that, it's not deducted anymore. And what I love about this design is that – again, unlike traditional universal

life policies – no matter how your investments perform, your insurance costs will always be covered.”

“So you think this plan is right for us? Right for what we want to accomplish?” asks Mike.

“This product has been designed for people like you,” says Russ. He

adds, “It can give you that alternative to taxable investing you're looking for and leave a tax-exempt benefit. Here. I always say a picture speaks a thousand words. Let's look a little closer at how it works.”

**DEPOSIT(S)**

- Minimum initial deposit is \$25,000
- Deposits can be made up to the 10<sup>th</sup> policy anniversary
- A two per cent deposit load is deducted from each deposit to offset a provincial premium tax that the insurance company pays

**INVESTMENT ACCOUNTS**

- Your deposit(s) go into an investment account or accounts you choose
- The availability of over 50 investment accounts helps ensure that your plan is customized to suit your specific investment profile, risk tolerance, etc.
- Your deposits earn a rate of return based on the performance of the associated accounts, minus the spread rate

**LIFE INSURANCE PROTECTION**

- The amount of your initial deposit determines the initial amount of insurance you'll need to keep the policy tax-advantaged
- To pay the cost of insurance, a spread rate, which is determined when your policy is issued, is deducted from the posted interest rate for each investment account
- Each year, on your policy anniversary, the amount of insurance is adjusted to keep it at a minimum, while at the same time making sure it stays within government guidelines for tax-exempt policies

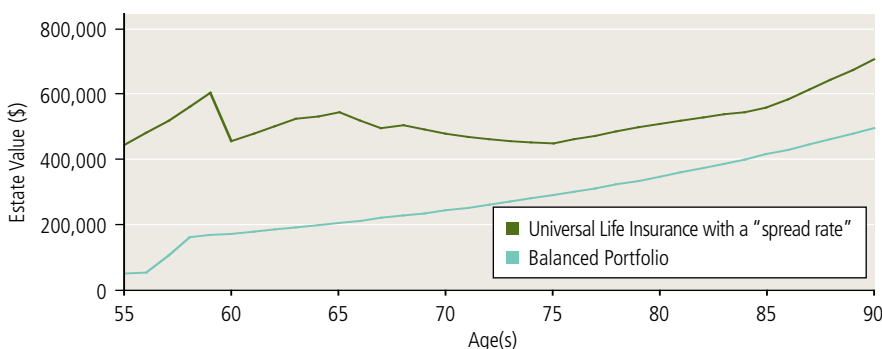
“Don't forget, this is life insurance so you'll need to be underwritten for the policy,” Russ reminds them.

Sheila and Mike both pick up on something Russ mentioned earlier – that this universal life insurance plan is a good alternative to a

taxable investment. They ask if he can show them just how good it is.

Russ has just what they're looking for. He shows them the Estate Value Comparison chart below.

**Estate Value Comparison**



**This example assumes:**

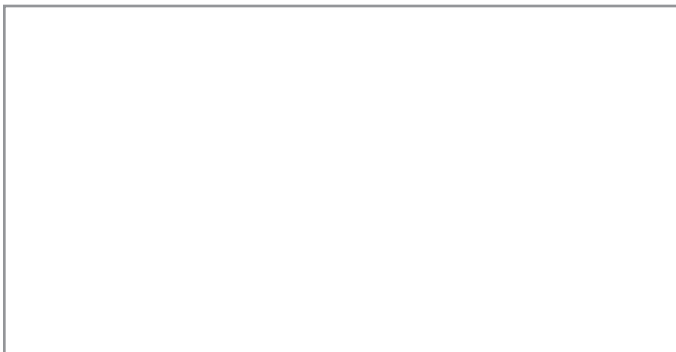
- Universal Life Insurance with a "spread rate": Joint last-to-die policy (one death benefit payable on the death of the last insured), clients 55 years old, Healthstyles 3 underwriting, spread rate is 0.38 per cent, rate of return of five per cent
- Balanced Portfolio: rate of return of five per cent, 30 per cent interest, 20 per cent dividends, 20 per cent deferred capital gains, 30 per cent realized capital gains

“Wow, I'm impressed,” says Mike. Sheila doesn't hesitate: “Me too. I'd like to know more.” “Okay then,” says Russ, “let's get started.” •

**SPEAK WITH YOUR ADVISOR**

For more information on how universal life insurance can fit into your financial plan, speak to your advisor today.

# Solutions



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