

# Increase your retirement cash-flow on a tax-free basis

▶ Benefiting business owners and family members





## *Corporate Insured Retirement Program*

The Corporate Insured Retirement Program (IRP) provides a business planning opportunity with insurance protection plus the potential to access accumulated policy values tax-free.

Most business owners agree that their corporation needs life insurance protection. They also understand that they need liquidity—quick access to cash. What most business owners don't realize is that corporate-owned life insurance can meet both of these needs.

### *Three Building Blocks of the Corporate Insured Retirement Program*

#### **1. Life Insurance**

Most business owners will agree that their corporation needs life insurance protection. Life insurance may address diverse business needs like coverage for the loss of a key person, provision for a shareholder's capital gains taxes or funding for buy-sell agreements. In addition to the life insurance protection provided by an exempt policy, significant cash values can accumulate within the policy.

#### **2. Accumulation**

Within limits set by the Income Tax Act (the "Act"), values in an exempt life insurance policy accumulate on a tax-deferred basis. Depending on the amount of insurance purchased, a significant value can build inside the policy and remain exempt from annual taxation

#### **3. Access**

The accumulated value in your exempt life insurance policy is a corporate asset. The value can be accessed without giving up ownership of the asset by using the policy as collateral security for a bank loan. Depending on a number of variables explained later in this guide, it is possible that the interest expense associated with this bank loan could be tax deductible.

## *Innovative Alternative Strategy with an Insured Retirement Program*

Many companies that purchase life insurance (for example, to cover the loss of a key person or fund a buy-sell agreement) also have funds to invest. Often, these funds are used to purchase investments subject to annual taxation at high corporate investment tax rates. The Corporate Insured Retirement Program is an innovative alternative. This program provides the business with permanent insurance protection, access to a tax-deferred investment vehicle and tax-free use of the investment funds. It is a planning opportunity that offers flexibility, security and liquidity.

### *How Does it Work?*

Once you've determined the need for corporate life insurance, consider purchasing an exempt life insurance policies suited to maximizing growth within the policy. Your financial advisor can help you select the policy that best meets the particular needs and circumstances of your corporation. The purchase of this policy creates the option to use it in the future as collateral security for a bank loan to the corporation or a shareholder. In addition, all the benefits provided by the life insurance policy are available from the day the policy goes into effect. Your insurance advisor can provide more information, including an explanation of how the values in the policy will accumulate, what the death benefit is, the structure and consequences of corporate borrowing versus shareholder borrowing and other issues you will want to consider. This information can help you develop an effective strategy for using this innovative concept. Sometime in the future, the policy may be used as collateral for a loan from the Bank.

The loan may be structured in one of two ways under the Corporate IRP concept. Either the corporation or a shareholder may borrow money from a bank using the corporate-owned life insurance policy as collateral. Tax consequences will vary depending on how the Corporate IRP is structured so, when you purchase the policy, you will need to consider which of these options best meets your needs. Loan advances generate a cash flow that may be applied in a number of ways, including supplementing retirement income, buying out a retiring shareholder or a variety of other applications depending on the structure of the Corporate IRP.



## A Case Scenario

Consider a 40-year-old male non-smoker. He currently needs \$1,000,000 of life insurance. He plans to deposit \$25,000 into the life insurance policy for the next 15 years. He plans to retire at age 65 and estimates that during retirement, he needs an after-tax income from nonregistered sources of approximately \$40,000. With the Insured Retirement Program, he can receive tax free loans from age 65 to age 84 in the amount of \$46,766 each year. Here's a comparison

	Insured Retirement Program	Taxable Investment
Annual deposit (over 15 years)	\$25,000	\$25,000
Rate of return	5%	5%
Annual tax-free payout	\$49,871	\$49,871
Death benefit at age 85	\$3,735,237	\$0
Loan balance at age 85	\$2,051,399	\$0
<b>Net Estate Value</b>	<b>\$1,683,838</b>	<b>\$0</b>
Personal tax rate assumption: 39%	Loan rate assumption: 7%	

## Important Points to Discuss with Your Advisor

**Loan Interest as a Tax Deduction** - The deductibility of interest charged on the bank loan depends on a number of factors, with the Act providing the framework for determining deductibility

**Interest Rate Assumptions** - In demonstrating the potential uses of the Corporate Insured Retirement Program, your insurance advisor will need to make specific interest rate assumptions to show the potential growth within the exempt policy and the rate that will apply to the loan. These rates are not guaranteed and could change over time.

**Retirement Compensation Agreement** - An RCA is an employer-funded plan or arrangement to provide post-retirement benefits to an employee. RCA rules will apply to situations where the employer has a legal obligation to provide post-retirement benefits to the employee and it is reasonable to assume that an employer-owned life insurance policy is acquired to fund the obligation.

**General Anti Avoidance Rule (GAAR)** - While CRA may choose to apply GAAR in certain situations, it should not interfere with the well-established principle of law that a taxpayer is entitled to structure business affairs in a tax-efficient manner.

**Taxable Benefits** - Taxable benefits may result during the shareholder's life or at his or her death. The issue of whether taxable benefits may be assessed is one that you will want to consider carefully.

The Corporate Insured Retirement Program not only provides immediate protection to satisfy corporate life insurance needs, it provides the flexibility to address future cash flow needs, whether corporate or personal.

## Why IRP's Work

- Provides needed life insurance protection.
- Provides an opportunity to create cash value that grows on a tax-deferred basis.
- Provides security for a loan.
- Borrowed funds are tax-free.
- Insurance proceeds provide a means of repaying the loan at death.



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