Canada Life™

March 2013

newslink

Are you on track to qualify for the 2014 Canada Life Platinum conference? (see page 4)

Guaranteed income: "We have a plan for that."

Even if you live to 122, or more, Canada Life has you covered

Living to be 100-plus years old was once a rare thing. But thanks in part to better health care and nutrition, that's no longer the case.

It's something Canadians should keep in mind when planning for retirement – they need a plan to help ensure they'll have enough money to maintain their lifestyle whether they're 68, or 86.

According to Statistics Canada, the average Canadian will live to be 81.[1] And the number of centenarians is growing rapidly – in 2011, there were 5,825 – up 25.7 per cent from 2006.[2]

It's a trend across the world. Jeanne Calment of France, who lived to be 122, still holds the record for the oldest (verified) person ever – she died in 1997.[3]

Your clients may not live to be centenarians, but they need to have a retirement plan in place in case they do.

Segregated fund policies have features and guarantees not available with mutual funds and other similar investment options. This means added value for wealth transfers (estate planning), as well as capital preservation guarantees at maturity and death.

With Canada Life, they have options including the lifetime income benefit option and payout annuities.

Payout annuities

In return for a lump-sum premium, Canada Life will pay your client a guaranteed, regular, income for a fixed period of time, or for the rest of their life.

Lifetime income benefit

With the lifetime income benefit option, clients are guaranteed income for life[4], whether they live to 85 or beyond. Their income won't decrease, regardless of how segregated funds perform. In fact, certain features with the lifetime income benefit may even lead to income increases.

Retirement income – guaranteed and sustainable

Recent trends in market volatility and low interest rates have increased consumer awareness of a need

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Moving clients from accumulation to income

Retirement continues to evolve into a complex planning issue. In addition to planning how an income will be generated from savings, lifestyle risks like longevity, inflation, and investment returns need to be considered when building retirement plans for clients.

Canadians know retirement income planning is a priority, but many misunderstand the sources of retirement income and the products available. Most clients look for a dependable income stream in retirement, tax-effective strategies to keep more of their money, and a plan to leave a legacy to their family and/or community.

Clients are asking their advisors:

- Will I have enough retirement income to last my lifetime?
- I already have a defined benefit pension plan – do I need more guaranteed income?
- How do I get that guaranteed income if I need it?
- How much retirement income is enough?
- I want my investments to continue to grow but I'm concerned about risk and losing my capital. What should I do?

It's clear given the diversity in the retirement income market, clients can benefit from the advice of an advisor to coordinate the multiple sources of retirement income and develop a plan to help ensure they have enough for long enough.

^ The income allocator tool can help. It can provide support for your recommendations on how a client's focus can easily shift from investing to income sustainability and risk management. The income allocator simplifies the first step in income planning. It provides clients with a solid understanding of how they can create one effective income stream from a variety of sources.

This web-based application has been built using current knowledge of how guaranteed and variable sources of income can be combined to provide sustainable income for life.

Solutions for income transition

Canada Life offers a variety of income-producing investments to help clients live the retirement lifestyle they want:

- Guaranteed income for life whether they live to 85, 105 or beyond
- Growth potential and opportunity to increase retirement income
- Help protect against market downturns through automatic resets
- Potential creditor protection and estate planning benefits
- Interest paid at competitive rates with flexible terms
- Structured income payments to cover day-to-day, monthly, quarterly, semi-annual or annual expenses

Changes to the individual life insurance ASTRA program

Effective Jan. 21, 2013, the automatic substandard table rating agreement (ASTRA) program will not be applied to substandard individual life insurance cases where the reinsurer is retaining 100 per cent of the risk.

This change impacts a small number of potential individual life insurance clients who are assessed as high risk or who are deemed uninsurable.

For details on these changes, go to Canada Life RepNet™ under Home > News > Products > Life insurance.

Reminder of transition rules for critical illness insurance reprice

This is a reminder of the transition rules for the critical illness insurance reprice effective Nov. 26, 2012. Transition rules are still in effect for applications received or pending prior to Nov. 26, 2012.

If head office receives all evidence on or before March 1, 2013, and an underwriting decision can be made based on the information, old rates will be issued even if it's past the issue date deadline as per the transition rules.

Transition rules state all policies must be placed no later than 30 days after issue. The final deadline for placement of critical illness insurance policies issued with old rates is March 1. The flexibility in accepting evidence up to this date may mean a placement period of less than 30 days.

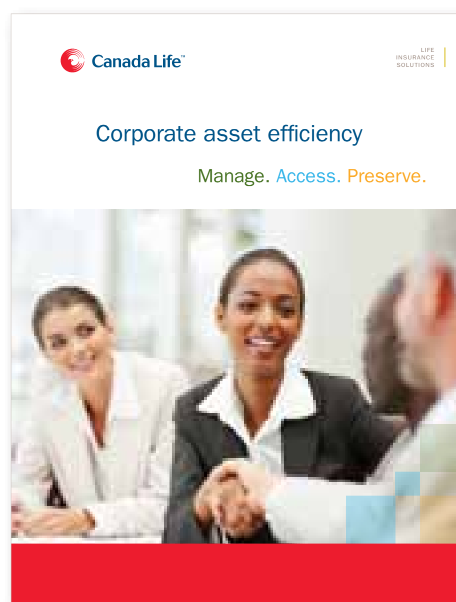
Updates to corporate asset efficiency material

The *corporate asset efficiency* illustration tool and brochure have been updated.

The update to the tool includes the *Buy term invest the difference* sales idea, as well as a few other minor changes.

Find the updated brochure on *RepNet* by going to Products & tools > Life insurance > Sales strategies > Corporate.

For the updated illustration tool, go to Products & tools > Life insurance > Tools & calculators > Calculators. It can also be found on your Canada Life Concourse™ software.



NEW New calculator illustrates impact of early RRSP withdrawal

Help protect your client's RRSPs from health interruptions

You help clients build their retirement savings. But what would happen if a client suffered a critical illness during their working years, and didn't have critical illness insurance coverage?

The new calculator for ***Protect your RRSP with critical illness insurance*** shows clients the impact of an early RRSP withdrawal, if they needed the money to help cover the costs associated with a critical illness. Use it to help demonstrate the importance of critical illness insurance protection.

The calculator for this concept can be found on *RepNet* under Products & tools > Living benefits > Tools & calculators > Calculators.

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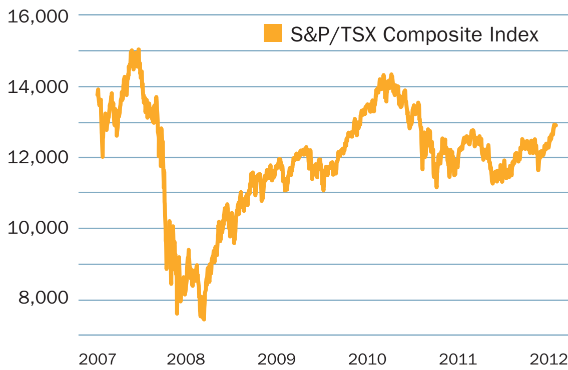
for guaranteed income. Future income relying solely on investment experience can be unstable. The value-added features of income solutions available from Canada Life can be attractive to Canadians.

Today's economic landscape

Volatile markets



Source: S&P Dow Jones Indices (http://ca.spindices.com/indices/equity/sp-tsx-composite-index) Dec 31, 2012.

Clients can feel assured that with the right plan in place through Canada Life, they won't run the risk of outliving their retirement income.

For more information contact your MGA or your Canada Life regional marketing centre.

[1]Statistics Canada: life expectancy. http://www.statcan.gc.ca/tables-tableaux/sum-som/l01/cst01/health72a-eng.htm

[2]Statistics Canada: the age and population in 2011. http://www12.statcan.gc.ca/census-recensement/2011/as-sa/98-311-x/98-311-x2011001-eng.cfm

[3]National Geographic Global Checkup Dec. 2012. http://news.nationalgeographic.com/news/2012/12/121213-global-health-disease-life-expectancy-nutrition/; http://en.wikipedia.org/wiki/Oldest_people

[4]Excess withdrawals will decrease the annual guaranteed income amount and they will no longer be eligible for any future bonuses. An excess withdrawal is a withdrawal that exceeds the annual guaranteed income amount.

A description of the key features of the segregated fund policy is contained in the information folder.

Any amount that is allocated to a segregated fund is invested at the risk of the policyowner and may increase or decrease in value.

Lisbon PORTUGAL

2014 PLATINUM CONFERENCE

Are you on track to qualify for the 2014 Canada Life Platinum conference? You'll join your peers in Lisbon, Portugal, April 7 to 12, 2014.

Full details available on Canada Life RepNet™ under Advisor support > Professional development > Platinum conference.

Please direct all comments and inquiries to: maureen_steenbergen@canadalife.com

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Cash surrender value impact on corporate share value at death

Concern about corporately owned permanent life insurance policies with high cash surrender values being included in the value of shares owned at death of the insured is often raised by advisors. However, this may not be a big concern.

The Income Tax Act does provide that the cash surrender value of the policy is included in the value of the corporation when valuing shares at death. However, this may not have any impact on taxes paid at death, or the impact may be significantly less than expected.

1. The cash surrender value is not always included in the value of a deceased insured's shares when he or she dies

In the case of shares that are fixed value preferred shares, they're worth whatever their fixed value is. For example, when an estate freeze has been implemented and the insured owns preferred shares worth $1 million, those preferred shares are fixed in value at $1 million, regardless of the cash surrender value of the policy held by the corporation.

In cases where the insured owns common shares, the cash surrender value is only included in the value of the common shares not left to a spouse or spousal trust. For example, if an estate freeze is not implemented and the insured owns common shares, provided the shares are left to a spouse or a qualifying spousal trust by the insured, on death the shares are deemed disposed of at their adjusted cost base, regardless of the cash surrender value of the policy held by the corporation.

These situations may cover most cases.

2. The "real" impact of the cash surrender value is included in the value of the shares

If there hasn't been an estate freeze of the deceased's shares or there is no surviving spouse, the impact of including the cash surrender value in the value of the shares really depends upon the value of other assets, net of liabilities, in the corporation at time of death. Generally, if that value is equal to or greater than the cash surrender value of the policy at time of death, the cash surrender value will have no impact on the testamentary tax liability. That is, if proper post-mortem planning steps are implemented. The best way to show this impact is through two examples. In both examples, assume the corporation is 100 per cent owned by the insured, and the insured has no spouse and is male.

continued

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Also, the corporation owns a policy so when the insured dies, it has a cash surrender value of $1 million, pays a death benefit of $2 million and has no adjusted cost basis (so the addition to the corporation's capital dividend account is $2 million).

Example A:

Corporation has other cash (or tax-paid assets) of $1 million

When the insured dies, he's initially deemed to dispose of his shares for $2 million (the cash of $1 million plus the $1 million cash surrender value). Assuming the original cost base of the shares was nominal, this will increase the adjusted cost base of the shares to $2 million in the estate.

The corporation will receive a death benefit and an addition to its capital dividend account of $2 million, and will have assets worth $3 million. The corporation will then be wound-up such that the corporation has a $3 million distribution, which is treated as a deemed dividend for tax purposes. Then, $2 million will be distributed as a tax-free capital dividend and $1 million as a taxable dividend.

This wind-up will also result in a $2 million capital loss for the estate because the adjusted cost base of the shares is $2 million and the deemed proceeds (which is the amount received on winding-up of $3 million less the deemed dividend of $3 million) is zero. Since the estate will have received a taxable dividend of $1 million, this capital loss will *not* be reduced by the stop-loss rule in subsection 112(3.2) of the *Income Tax Act* (Canada) (the "Act").

The estate can then carry back this $2 million capital loss under subsection 164(6) of the Act against the $2 million capital gain realized on the insured's date of death tax return. This will offset the capital gain realized at death.

As a result, only the $1 million of original cash in the corporation (i.e., the non-insurance assets) will be taxed and the cash surrender value of the policy is not taxed. The same tax result would be realized if the corporate net asset value (other cash or tax paid assets) was greater than $1 million, i.e. the value of these non-insurance assets would be taxed as a dividend and the cash surrender value of the policy would not be taxed.

Example B:

Corporation has cash (or tax-paid assets) of $500,000

When the insured dies, he is initially deemed to dispose of his shares for $1.5 million (the cash of $500,000 and the $1 million cash surrender value). This will increase the adjusted cost base of the shares to $1.5 million in the estate.

The corporation will receive a death benefit and an addition to its capital dividend account of $2 million and will have assets worth $2.5 million. The corporation will then be wound-up so that the corporation has a $2.5 million distribution, which is treated as a deemed dividend. Then, $2 million will be distributed as a tax-free capital dividend and $500,000 as a taxable dividend.

This wind-up will initially result in a $1.5 million capital loss for the estate because the adjusted cost base of the shares is $1.5 million and the deemed proceeds (which is the amount received on winding-up of $2.5 million less the deemed dividend of $2.5 million) will be zero. However, the stop-loss rule in subsection 112(3.2) of the Act will reduce this capital loss by $250,000 so the estate has a capital loss of $1.25 million.

The estate can then carry back this $1.25 million capital loss under subsection 164(6) of the Act against the $1.5 million capital gain realized on the insured's terminal tax return. This will result in a net capital gain of $250,000 that will be subject to tax in the terminal return.

As a result, the original non-insurance assets in the corporation will be taxed (as in the first example). Plus, only 50 per cent of the amount by which the cash surrender value of the policy exceeds the value of the original non-insurance assets will be taxed as a capital gain (which is only 50 per cent taxable).

Conclusion

As you can see from these examples, in most instances, the cash surrender value will not be taxed. It will generally be taxed only in cases where the cash surrender value of the policy exceeds the value of the non-insurance assets, net of liabilities, of the corporation at time of death. In those cases, the rule of thumb is the amount subject to capital gains taxation will be only 50 per cent of the amount by which the cash surrender value exceeds this latter amount.

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