

# Why Universal Life Insurance?



BMO  Insurance

# Why Choose BMO® Insurance for Universal Life?

If you are contemplating the purchase of a universal life plan, there are several factors you should consider.

At BMO Insurance, we recognize that universal life can be a very useful financial vehicle, but we also realize that most people are not insurance experts, so we have structured our product with many features and guarantees that are provided in the policy contract.

## Guarantees

- One of the key items you should verify when contemplating the purchase of a universal life plan is whether the insurance costs are guaranteed. Like most universal life plans, BMO Insurance guarantees the cost of insurance rates in your plan regardless of the cost structure you have elected. The rates are stated in the policy information pages of your policy contract.
- Another common cost in a universal life plan is a monthly administration charge and at BMO Insurance we state what this charge is in your policy contract which will not change as long as your policy remains in force.
- Premiums paid into a life insurance policy are subject to provincial premium tax and are deducted from each deposit made into the Investment Accounts of a universal life policy. On the first page of the policy information pages of your policy, we state the current provincial premium tax rate for your plan and we also indicate that we will not change that rate being charged unless government legislation changes it.
- Many universal life products offer investment bonuses that are typically designed to enhance the rate of return that is credited to the plan, usually as a reward to longer term clients. Some companies' investment bonuses are guaranteed without conditions, while other bonuses are conditional. At BMO Insurance, we recognize the need to provide you with something you can count on, so our Investment Bonus ...where available... is guaranteed to credit additional interest to your policy. Details on this guaranteed bonus are listed in your policy contract.

## Investment Options

- One feature of BMO Insurance's universal life plan that appeals to many people is the wide selection of more than 400 investment options available. Some of these options allow clients to benefit from the returns of various stock market indices or from returns that are linked to the performance of mutual funds. There is a management fee for these types of investments and we state any guaranteed fees in your policy contract. BMO Insurance also includes the cost of the Investment Income Tax (IIT) in this fee and cannot adjust the fee upwards if IIT goes up. Another item of significance is whether the rate of return being credited to an investment account includes the reinvestment of dividends. Any Indexed Account we offer credits a return that includes the reinvestment of dividends. Providing these types of investments and guaranteeing their costs is not of much value to you if we can withdraw all of the investments, so we guarantee to offer at least four Market Indexed Accounts.
- While market-based investments appeal to some, they are not for everyone. In recognition of that, BMO Insurance offers a Daily Interest Account and Guaranteed Interest Accounts. These accounts have a minimum interest rate crediting formula that is guaranteed in your policy contract. Such a minimum interest rate guarantee is of limited value if the investment option can be withdrawn from the policy: we guarantee that we will always offer the Daily Interest Account and Guaranteed Interest Accounts. We also guarantee to always offer at least one Guaranteed Investment Account with a guaranteed minimum rate of return (see your contract for further details).

Considerable debate has been waged on the merits of a universal life plan as an investment vehicle that could match or exceed those of an outside investment. Depending on the particular situation, a universal life plan can in fact provide accumulations that beat outside investments, provided that you compare results in after-tax dollars – even allowing for the fees associated with the universal life.

An up-to-date listing and key facts about all of our investment options are available on the BMO Insurance investment PRO website.



Visit [www.bmoinvestpro.ca](http://www.bmoinvestpro.ca)

## Flexibility

While there are many purposes for a universal life policy, one of the more popular developments involves assigning the policy as collateral to a lending institution and then taking out a series of loans from the lender, all backed by the collateral of the cash value of the policy. Such arrangements may provide tax-free income with the accumulating loan paid off by the death benefit of the policy when the life insured dies – with any excess available for beneficiaries. There may be some significant opportunities for some people to pursue such a strategy, provided that they seek out appropriate financial advice and secure an appropriate arrangement with a lending institution.

The flexibility offered by BMO Insurance's Life Dimensions universal life plan allows it to be adapted to a variety of personal and business situations such as estate creation/preservation, additional retirement income funding, or funding buy/sell agreements between business partners. While universal life may not be the answer to all situations, the tax efficiencies it offers make it a powerful wealth accumulation and wealth transfer tool.



# Universal Life is Tax-Efficient

Universal life insurance is a flexible permanent insurance plan that combines life insurance protection and a tax-deferred investment vehicle. With proper financial planning advice, a universal life plan can often play a role in meeting estate and investment planning objectives. National accounting firms have publicly stated the merits of using universal life insurance for estate preservation and wealth accumulation, with particular emphasis typically placed on the tax effective investment opportunities coupled with the tax-free payout of death benefits to beneficiaries. Sections 148 and 12.2 as well as Regulations 304 to 307 of the Income Tax Act (Canada) are of particular interest when examining the taxation of life insurance policies. As discussed in Canada Revenue Agency's Interpretation Bulletin IT87R2 "Policyholders' Income from Life Insurance Policies", these sections and others provide the basis for the tax advantages of tax "exempt" policies such as BMO Insurance's Life Dimensions universal life policy.

The following example shows the tax efficiency offered by universal life that combines insurance and investments.

Let's assume that Pat's life insurance costs are \$1,000 per year and that Pat is in a 40% tax bracket.

- Pat has \$42,000 in a GIC earning 4%; the \$1,680 in annual interest earned will net Pat \$1,008 after taxes and provide enough money to pay the insurance premium.
- Instead, if Pat had only \$25,000 inside a universal life plan earning 4% it will generate \$1,000 and pay the \$1,000 insurance costs inside the plan, making this approach very tax-efficient.
- By utilizing universal life, some additional benefits may be realized. For example, by naming an appropriate beneficiary, both the death benefit proceeds and the cash value of the policy may be exempt from the claims of creditors. The universal life approach may also provide an opportunity to reduce or eliminate probate fees.

Contact your financial advisor today to learn more about how this powerful strategy can work for you.



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