Advisor Guide

The BMO® Insurance Insured Retirement Plan

BMO Insurance

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Introduction to The BMO Insurance Insured Retirement Plan

Universal life insurance (UL) is a flexible planning tool that contains both insurance and investment elements. Due to this flexibility, UL can be structured to fit many different financial planning objectives. In particular, there are several opportunities using The BMO Insurance Insured Retirement Plan that you may want to consider for your clients who require permanent insurance as well as a tax effective source of cash to supplement their retirement income.

With this plan, your clients can get the insurance they require, in addition to benefiting from the following:

- Tax-deferred growth of deposits (net of charges) into the plan
- A conversion of taxable investments into non-taxable portfolio*
- A reduction in future taxable income since assets are transferred into a life insurance policy with tax-deferred accumulation
- Access to a source of tax-free retirement income beyond Registered Retirement Savings Plans (RRSPs) and Registered Pension Plans (RPPs) limits via a third party line of credit (or other loan)
- An effective way of paying-off the loan through the tax-free proceeds of the UL policy

This combination, when structured properly, can create a powerful financial planning tool.

To help support your understanding of the mechanics of The BMO Insurance Insured Retirement Plan, we encourage you to read this Guide and use the latest version of our Wave illustration software to help you prepare personalized proposals for your clients.

Once you have had a chance to familiarize yourself with the concepts presented, test yourself on the mechanics by taking the short quiz at the end of this guide!

Note: The ideas presented in this guide should be reviewed for suitability to individual circumstances. The information contained in this guide is general in nature and should not be construed as legal or tax advice. You and your clients are encouraged to seek the advice of other professionals such as legal and tax experts to ensure that the ideas presented are appropriate for the circumstances of the individual(s) for whom this plan is being considered.

* Certain limits apply to the tax-deferred growth within the policy. Refer to an illustration for a projection of these amounts.

The Opportunity

Many individuals who are in the wealth accumulation phase of their lives understand the need for retirement planning but their ability to save for retirement is constrained by the limits placed on contributions to RRSPs and RPPs. The need to accumulate a sufficient flow of retirement income in a tax efficient manner is a challenge that they may face. Investment portfolios set aside for this purpose are typically what they rely on, but income tax can erode their growth significantly.

Depending on the profile of your client, The BMO Insurance Insured Retirement Plan may be an ideal opportunity to generate this required income in a tax efficient environment with the added benefit of permanent life insurance.

Target Market

Ideally, The BMO Insurance Insured Retirement Plan is targeted at clients with the following profile:

- Individuals (or couples) age 35-55 and who require permanent life insurance
- Are in good health and are able to qualify for life insurance
- Are high income earners
- Are in the wealth accumulation phase of their lives
- Have maximized their RRSP contributions
- Foresee a gap in their retirement income needs
- Have excess cash that they would like to save for retirement
- Are comfortable with carrying debt

If your clients fit this profile, using The BMO Insurance Insured Retirement Plan, you can show them a tax efficient way to save for their retirement and how to get the permanent insurance they need – *all in one plan!*

The Solution

You may wish to use the following as a guideline to implementing The BMO Insurance Insured Retirement Plan. Depending on your client's profile, additional steps may be required and could involve the expertise of other professionals such as those with legal or tax expertise:

Step 1	Working with your client, determine the amount of permanent insurance they need.
Step 2	Then, determine how quickly they would like to make deposits from their taxable investment portfolio into their policy.
Step 3	They then apply for a UL policy from BMO Insurance and select an investment portfolio within the policy that suits their long-term objectives and risk tolerance.
Step 4	Once the policy is in force, check on a regular basis to determine whether the accumulation in the plan continues to meet their original objectives. Adjust the plan, if necessary.
Step 5	Once the policy has accumulated a significant Cash Value at retirement, they may then apply for a line of credit (or loan) from a third party lender using the policy's Cash Value as collateral. The proceeds from the loan may be drawn on a tax-free basis to supplement their retirement income needs*.
Step 6	Depending on the arrangement with the lender, the interest and principal balance of the loan or line of credit may be capitalized. Alternately, they may wish to pay the interest on the loan.
Step 7	At death, the balance of the loan is paid using the tax-free Death Benefit proceeds of the policy.

Note: Before proceeding with any proposal, you should determine the tax consequences of transferring assets from other investment vehicles into this plan.

Why The BMO Insurance Insured Retirement Plan Makes Sense

Your client purchases a universal life policy from BMO Insurance, with a stream of deposits that maximizes the tax-deferred growth in the policy. At retirement, the policy's Cash Value is pledged as collateral to secure a line of credit which may be used to supplement their retirement income on a tax-free basis. At death of the insured, the tax-free proceeds from the policy are used to pay off the loan.

Tax-deferred accumulation in policy **>** *Tax-free income from loan* **>** *Tax-free proceeds to pay-off loan*

* Based on Rules and Regulations in effect at the time of writing this Guide.

The BMO Insurance Insured Retirement Plan

Is The BMO Insurance Insured Retirement Plan Right for Your Clients?

When considering whether to suggest The BMO Insurance Insured Retirement Plan to any of your clients, you may want to run through the following checklist to determine if the plan is appropriate for their individual needs:

- Does your client require permanent insurance?
- Will the proposed lives insured qualify for insurance?
- Has he/she maximized their RRSP contributions?
- Would he/she like to transfer a portion of their taxable investment portfolio into a tax-deferred investment vehicle?
- Does he/she want to lower their personal income tax bill?
- Does he/she require more retirement income than what they anticipate getting from their RRSP/RRIF?
- Is your client comfortable with carrying debt?

If your client answers "yes" to these questions, then The BMO Insurance Insured Retirement Plan may be an ideal solution for them.

* Based on Rules and Regulations in effect at the time of writing this Guide.

Planning Considerations and Sales Tips

The timing and amount of deposits into a BMO Insurance Insured Retirement Plan, along with the investment return earned on the policy's Investment Accounts, has an impact on the amount of loans that your client will be able to get in the future.

> ***Sales Tip***
> *With the Wave illustration software, use different interest rate scenarios to project the accumulation of the deposit stream you are proposing to your client. This will help determine a range of future loan amounts that they can expect. Also, the Fund Simulator on the Wave can help you assess the impact of fluctuating interest rates on the Cash Value of the policy. Call your BMO Insurance Regional Sales Office to find out how.*

The amount of insurance will be reviewed by a BMO Insurance Underwriter, so it's important that your client qualify for the amount of insurance being considered.

> ***Sales Tip***
> *Attach a covering letter along with a copy of an illustration to the application that you submit to BMO Insurance. This will help speed up the processing of the application.*

Depending on the lending arrangement your clients are able to secure, there are limits placed on the amount of the loan; this can vary from 50-60% for the portion of the Cash Value in equity-style Investment Accounts or up to 90% in fixed income/GIC-style Investment Accounts.

> ***Sales Tip***
> *Be conservative in your illustrated rates for the Cash Value of the plan as well as the interest rate charged on the loan. Consult with your MGA or ask a BMO Insurance Business Development representative what makes the most sense for the case you're working on.*

If your client outlives their assumed life expectancy and the anticipated year in which you cease taking loans, the policy may not provide sufficient collateral for the outstanding balance on the loan. In this case, additional collateral or a partial repayment of the loan may be required. If this is not possible, then the loan could be called, triggering a surrender of the policy for its Cash Value and the tax liability that results from that type of transaction.

> ***Sales Tip***
> *Ask your BMO Insurance Business Development representative how to use the simple but flexible features of the Wave software including the built-in life expectancy tables to project a reasonable stream of loan amounts.*

Tax Considerations

1. To have a more complete understanding of the benefits and tax consequences of this plan, we encourage you to prepare a personalized projection for your clients using the most current version of the Wave illustration software. Also, we strongly advise that when you are working on structuring a BMO Insurance Insured Retirement Plan and have complex personal tax and estate planning issues to resolve, you consult with legal, tax and accounting experts.

2. While the principles of this strategy are sound, you should note that General Anti-Avoidance Rules (GAAR) prohibits financial transactions that generate a tax benefit. Section 245 of the Income Tax Act (Canada) describes an avoidance transaction as one

"that but for this section, would result directly or indirectly in a tax benefit, unless the transaction may reasonably be considered as undertaken or arranged primarily for bona fide purposes other than to obtain a tax benefit".

It is arguable that GAAR should not apply to this plan and it is a well established principle of tax law that a taxpayer is entitled to structure his/her affairs in a tax effective manner.

However, Canada Revenue Agency (CRA) has indicated that GAAR could potentially be applied where there is a link between the life insurance policy and the line of credit/loan. This could result in the loan being considered a policy loan with some or all of the proceeds being treated as taxable income. This risk can be substantially mitigated by the upfront justification of the amount of insurance that is purchased.

3. If, for any reason, the loan is called or is in a default position and the policy must be cashed-in, as a result, any amount of the Cash Value surrendered that exceeds the Adjusted Cost Basis (ACB) of the policy will be subject to income tax.

Case Study

Client Details:

Max and Marie are married and are both 40 year old medical professionals who don't smoke. In a fact finding discussion, their insurance advisor discovers that they need $850,000 of permanent insurance. They have been maximizing their RRSP contributions but realize that they need to save more, if they are going to retire comfortably (starting at age 65). They can afford to put an extra $25,000 a year towards their retirement savings but don't know where to best invest this money.

Solution: The BMO Insurance Insured Retirement Plan

	Life Dimensions (Low Fees) with Investor Maximizer	Traditional Taxable Investment Portfolio^
Annual Deposit (for 15 years)	$25,000	$25,000
Rate of Return	5.0%	6.0%
Projected After-tax income (starting from ages 65 to 85)	$36,211	$36,211
Initial Life Insurance Coverage	$852,000	$0
Gross Estate Value (at age 85)	$2,352,377	$483,841
Loan Balance (at age 85) (at 7% per year)	$1,624,613	$0
Net Estate Value (at age 85) (after loan and taxes)	$727,764	$463,802

The Result:

Their insurance advisor showed them that they could re-position their assets from a taxable environment into a tax deferred environment by using The BMO Insurance Insured Retirement Plan. With BMO Insurance, they were able to select from Investment Accounts with returns linked to brand name mutual funds (including names they recognized from their existing investment portfolio). Also, their advisor showed them a universal life investment portfolio that was aligned with their risk preferences – and which didn't have any additional UL fees attached!

Using this solution, they received the permanent insurance protection they needed and a vehicle that they could use to generate a tax efficient stream of retirement income.

Note: This example is based on a Life Dimensions (Low Fees) (***wave 21.0***) policy issued on a Joint Last to Die basis and is merely a projection of future results, using a set of assumptions that will change over time. Actual results are not guaranteed and will vary. This projection is not complete unless it is accompanied by all of the pages of a Life Dimensions (Low Fees) projection from the Wave illustration software.

^Assuming a Balanced Fund that has the following income: 50% interest, 30% dividends, 10% unrealized capital gains and 10% realized capital gains; personal tax rate: 45%; probate fees: 1.5%. Probate fees are not applicable in Quebec.

Underwriting and Administration Considerations

When proposing The BMO Insurance Insured Retirement Plan, you should consider the following:

- Check to ensure that the amount of insurance you are proposing on any life is reasonable and justifiable; this amount will need to be approved by a BMO Insurance Underwriter.
- Refer to BMO Insurance's Universal Life Underwriting Guidelines found under the Underwriting Guidelines menu of our Wave software for details on age, amount and financial underwriting requirements.
- Run a personalized illustration for your client, using the latest version of the Wave illustration software and include a signed copy with the application.
- To ensure that the Underwriter reviewing the application for insurance understands the purpose of the insurance, include a covering letter with a summary of what is being proposed.

Appendix

RRSP Deduction Limit

Your RRSP deduction limit is calculated using the previous year's earned income. This means that your 2010 RRSP contribution room will be based on your 2009 earned income.

The sources of income that qualify as earned income include:

a) net employment and business income,

b) disability payments from the Canada Pension Plan or the Quebec Pension Plan,

c) royalties,

d) net rental income,

e) taxable alimony and separation allowances received,

f) net research grants,

g) employee profit sharing plan allocations and

h) supplementary unemployment benefit plan payments.

Items that reduce earned income include:

- net rental losses,
- alimony or separation allowances paid,
- union or professional dues and
- employment expenses.

The easiest way to find your RRSP contribution room (or as Canada Revenue Agency [CRA] calls it, your deduction limit) is to look it up on the Notice of Assessment that CRA sends you after you file your annual income tax return. If you would like to verify the amount CRA says you may contribute to your RRSP, here's how to calculate it for yourself.

For 2010, your RRSP deduction is calculated by adding any RRSP deduction room you carried forward from 2009 to the lesser of $22,000 or 18% of your 2009 earned income.

If you are a member of a Deferred Profit Sharing Plan (DPSP) or Registered Pension Plan (RPP), you have one and possibly two more steps. You must deduct your pension adjustment (PA) and if you have a net past service pension adjustment (PSPA), you must also deduct that amount.

Appendix

2011 Top Personal Tax Rates*

Taxable income above $128,800	Ordinary Income and Interest	Capital Gains	Canadian Dividends	
			Eligible	Non-eligible
Federal only	29.00%	14.50%	17.72%	19.58%
Alberta	39.00%	19.50%	17.72%	27.71%
British Columbia	43.70%	21.85%	23.91%	33.71%
Manitoba	46.40%	23.20%	26.74%	39.15%
New Brunswick	41.70%	20.85%	19.77%	28.83%
Newfoundland and Labrador	42.30%	21.15%	20.96%	29.96%
Northwest Territories	43.05%	21.53%	22.33%	29.65%
Nova Scotia				
$128,800 - $150,000	46.50%	23.25%	30.70%	31.83%
Over $150,000	50.00%	25.00%	35.63%	36.21%
Nunavut	40.50%	20.25%	25.73%	28.96%
Ontario	46.41%	23.20%	28.19%	32.57%
Prince Edward Island	47.37%	23.69%	28.36%	41.17%
Quebec	48.22%	24.11%	31.85%	36.35%
Saskatchewan	44.00%	22.00%	23.36%	30.83%
Yukon	42.40%	21.20%	21.35%	30.49%

*Source: www.taxtips.ca

A Quiz on The Insured Retirement Plan

Q1

The BMO Insurance Insured Retirement Plan is ideal for those individuals and couples looking for:

a) an inexpensive insurance solution to cover their annual income tax liability

b) a retirement insurance program for employees in a small business

c) an insurance vehicle that could also generate supplemental retirement income

d) a savings vehicle for their child's education

Q2

Which one of the following does NOT fit the typical profile of a client considering The BMO Insurance Insured Retirement Plan?

a) Retired Individuals (or couples) who require permanent life insurance

b) Are in good health and are able to qualify for life insurance

c) Are high income earners

d) Have maximized their RRSP contributions

e) Foresee a gap in their retirement income needs

Q3

Which one of the following is NOT an appropriate planning consideration when setting up a plan for a prospective client?

a) Determine how much permanent insurance they need

b) Determine how they can benefit from this plan as a short-term (1-5 years) savings plan

c) Determine their long term objectives and tolerance to risk

d) Determine how to monitor the accumulation in the plan and whether it continues to meet their original plan objectives

Q4

What are some of the potential benefits of The BMO Insurance Insured Retirement Plan?

i. Tax-deferred accumulation in policy (net of insurance charges)

ii. Tax-free income from loan (via a line of credit or loan)

iii. Tax-free proceeds of the UL policy are used to pay-off loan

a) i and ii only

b) ii and iii only

c) i and iii only

d) All of the above

Q5

Which of the following variables can affect the plan you are proposing for your client?

i. The timing and amount of deposits made into the plan

ii. Interest rate earned on the Investment Accounts in the policy

iii. The interest rate charged on the loan

iv. The amount of the loan balance and period of time it is left outstanding

a) i and ii only

b) ii and iii only

c) iii and iv only

d) All of the above

Answers 1 c); 2 a); 3 b); 4 d); 5 d)

To find out more about BMO Insurance products, please call your MGA, contact the BMO Insurance regional sales office in your area, call 1-877-742-5244 or visit www.bmoinsurance.com/advisor.

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