

Life insurance protection and access to capital – in one plan

You may be a successful business owner who requires life insurance to fund a buy-sell agreement, to cover the loss of a key employee or to help fund taxes for estate planning that will arise upon your death. You may also be pursuing business and growth opportunities and don't want to tie up your capital in an insurance policy.

The challenge is, how can you get the insurance you need and still have access to capital to invest in your business?

The answer may be to use leverage.

For example, take a look at Sam

- 55-year-old successful IT Developer
- has significant retained earnings for potential reinvestment into new projects
- his children are actively employed in the company
- comfortable with debt as new projects are leveraged
- willing to commit \$2,500,000 over a 5-year period

Insurance Checklist for Sam

- ✓ needs permanent life insurance as part of his business continuation plan
- ✓ wants liquidity and premium flexibility while preserving capital
- ✓ likes the growth potential of equity market returns but can't stomach the ups and downs that come with them

The Solution: The Insured Corporate Financing Plan (ICF)

It's designed to help business owners get the permanent insurance protection they need with minimal impact on their cash flow. It also provides them access to funds for business purposes using leverage.

As part of the plan, Sam's insurance advisor proposes Wealth Dimensions, an ultra "low fee" universal life (UL) plan. It's designed specifically for high net worth individuals and business owners looking to build wealth through the tax-deferred investment account in the policy. It initially provides Sam with \$7,238,000 of life insurance and the following:

The plan also includes:

- A "super-charged" cumulative fund bonus that adds an extra 0.50% annual return to the policy's return.¹
- The Enhanced Market Indexed Account (EMIA) – equity-linked returns with a guarantee that the credited rate will never be negative.

Plus, the ICF combines the life insurance with a third-party loan. In order to maximize the collateral that's required by the lender, Sam's advisor suggested that he take advantage of BMO Insurance's "Waiver of Surrender Charges" program. This will optimize the value of his policy for such assignments and subsequently reduce the amount of personal collateral he will need to put up for such a loan.



Waiver of Surrender Charges Program on UL policies²

If you are looking to use the cash value of your universal life policy as collateral for a third-party loan, BMO Insurance can help optimize the value of your policy for such assignments (and subsequently reduce the amount of personal collateral you need to put up for such a loan). In case (you) the policy owner default on the loan and the lender subsequently demands payment, BMO Insurance will waive the surrender charge, providing the lender with access to more of the policy's fund value. Ask your insurance advisor for more details.

The North American Equity EMIA

- Daily credited interest rate
- Returns linked to the performance of the American and Canadian equity markets
- Reduced volatility
- Smoothed return
- No risk of a negative return

In addition, Sam's insurance advisor showed him a projection of values against an alternative investment option³:

Age	Cumulative Net Outlay*	Net Estate Value		ICF Advantage	IRR*	ERR*
		ICF	Alternative Investment			
60	162,354	5,693,633	91,842	5,601,791	197.60%	393.87%
65	443,604	3,019,920	266,934	2,752,986	40.32%	80.38%
80	1,287,354	3,636,918	946,065	2,690,853	7.90%	15.74%
85	1,568,604	3,947,572	1,231,701	2,715,871	5.82%	11.60%
90	1,849,854	4,249,979	1,551,506	2,698,473	4.49%	8.94%

Over a period of five years, Sam's net cash outlays amounted to only \$162,354. He was able to secure his insurance needs and at the same time, have the funds available to pursue other business opportunities. Plus, with Sam meeting all the requirements for the Waiver of Surrender Charges program, he significantly reduced the additional collateral required for the loan. He can also be certain that in the event of a loan default resulting in the lender demanding repayment, BMO insurance will waive the surrender charges on his policy, providing access to more of the policy's value.

By the time he reaches age 85, he's projected to leave \$3,947,572 to his children as part of his business continuation plan with the ICF (even after the outstanding balance of the loan is paid-off). Compare this to \$613,268 with alternative investment - that's a \$3,334,304 difference! In addition, the ICF would give Sam an unused Capital Dividend Account (CDA) balance of \$1,576,622⁴ which can be used to flow future profits out to shareholders on a tax-free basis.

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We're here to help.™

¹ A Cumulative Fund Bonus (CFB) of 0.25% is payable on all Indexed Interest, Guaranteed Interest Accounts (GIAs) and Guaranteed Market Interest Accounts (GMIA) starting at the end of the first policy year, provided the total in those accounts is at least 200% of the Cumulative Annual Premium at the end of that policy year. An extra 0.25% is paid once the Fund Value exceeds \$200,000 for a total CFB of 0.50%. Once qualified at a given policy monthly anniversary, the CFB will continue to be credited based on the total in the Indexed, GIAs and GMIA.

² Certain restriction applies.

³ Assuming \$500,000 annual deposit for 5 years for Wealth Dimensions Investor Maximizer (Level Death Benefit). Illustration rate: 3.50% (EMIA). Bank loan rate: 4.50%. Alternative investment: 100% in fixed income at 4.00%. Source: The Wave 44.0.

⁴ CDA credit is created upon receipt of a death benefit and calculated as death benefit less ACB. The loan in the ICF concept is paid from death benefit proceeds but does not reduce the CDA balance. The net death benefit (after loan repayment) can be distributed as a capital dividend but often this amount is less than the CDA created. The excess CDA balance remaining after the distribution of all the funds received upon death is called unused CDA. Unused CDA may have value immediately if the company has additional funds aside from the insurance proceeds to issue a dividend, future value if profits are generated after death and flowed out as a dividend, or no value if additional funds are not available and operations cease upon death.

* Cumulative Net Outlay: Premiums and interest less tax deductions. IRR: Internal rate of return earned on total death benefit. ERR: Equivalent rate of return required on taxable portfolio.

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