

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 you can 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 Marsha

- 45-year-old Real Estate Property Manager/Developer
- business has significant growth opportunities resulting in profits being reinvested into new projects
- comfortable with debt as new projects are leveraged
- willing to commit \$3,000,000 over a 10-year period

Insurance Checklist for Marsha

- ✓ preserve her estate value with \$5,500,000 of permanent life insurance
- ✓ wants liquidity while preserving capital
- ✓ prefers an insurance solution that requires minimal management, strong guarantees and steady returns

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.

In this example, Marsha's insurance advisor proposes BMO Insurance Whole Life Wealth Accelerator. It provides her with \$5,655,165 of life insurance along with the high short-term cash values that's she's looking for. The plan also includes:

- an annual Performance Bonus that provides added tax-deferred growth to the policy's death benefit and cash value
- assets that are managed in partnership with BMO Capital Markets and BMO Asset Management
- a cash value that's less sensitive in adverse scenarios



BMO Insurance Whole Life Simple. Flexible. Guaranteed.

- easy-to-understand
- guaranteed premiums
- guaranteed cash values
- a performance bonus that automatically adds "paid-up" insurance coverage and cash values
- can adapt to your changing needs
- backed by one of Canada's most respected financial institutions

In addition, Marsha's insurance advisor showed her a projection of values against an alternative investment option¹:

Age	Cumulative Net Outlay*	Net Estate Value		Insurance Advantage	IRR*	ERR*
		ICF	Alternative Investment			
55	\$465,743	\$6,322,193	\$285,928	\$6,036,266	59.8%	119.7%
80	\$2,583,920	\$9,580,625	\$2,135,765	\$7,444,860	7.3%	14.6%
85	\$3,015,170	\$11,290,027	\$2,659,979	\$8,630,048	6.3%	12.6%
90	\$3,446,420	\$12,942,447	\$3,249,470	\$9,692,977	5.6%	11.1%

Marsha's basic coverage includes a cash value that's guaranteed when she buys her policy. What's more, paid-up insurance coverage is added to the policy which also includes a guaranteed cash value that increases the total that she can access.

By the time she reaches age 85, she's projected to leave \$11,290,027 to her estate with the ICF (even after the outstanding balance of the loan is paid-off) compared to \$2,659,979 with alternative investment – a \$8,630,048 difference! In addition, the ICF would give Marsha's corporation an unused Capital Dividend Account (CDA) balance of \$2,300,203² which can be used to flow future profits out to shareholders on a tax-free basis.

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¹ Assuming \$300,000 annual deposit for 10 years. No interest financing. Illustration rate: 4.75%. Bank loan rate: 5.75%. Alternative investment: 100% in fixed income at 4.00%. Loan to Cash Surrender Value Ratio at 100%. Source: The Wave 57.0.

² 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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