Westward Advisors

Canada's leading provider of insurance-based tax and estate planning solutions

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Flexibility for Long Term Planning

There is little planning more long term in nature than life insurance planning. Considering the consequences of one's death and planning to improve those consequences is truly thinking ahead...probably way, way, way ahead. Therefore, the plan needs to survive the impact of life's twists and turns so that it can deliver the intended results on death. Since one cannot predict with certainty what life will deal to us in the future, life insurance planning must be flexible enough to survive a few bad hands.

When Westward designs a life insurance solution, we emphasize flexibility in the design. Solutions with more flexibility score more points when comparing to solutions with inflexible designs.

Many of our clients are entrepreneurs seeking long term life insurance solutions yet are also in need of capital to finance their entrepreneurial ventures. Consequently, many clients seek financing secured by their life insurance policies. The most flexible type of such financing is the ten year fixed rate credit facilities **("ICF")** offered by RBC Insurance and Industrial Alliance Insurance. These ICFs and the policies that secure them offer the following flexibility features:

1. Pre-approved credit limit for ten year term.
2. Competitive fixed interest rate for ten year term (currently 9.0%).
3. Option to draw on credit limit at any time when secured by policy cash value.
4. Option to pay down credit balance at any time without penalty or fees.
5. One-to-one loan to value ratio.
6. Zero surrender charges on policy cash value withdrawals from inception.
7. Investment income tax refunds added to any policy cash value withdrawal.
8. Waiver of 2.0% provincial premium tax on deposits to policy cash values.[1]
9. Tax free cash value payout options upon a critical illness or disability.

When life deals a bad hand to an entrepreneur, personal taxable income may temporarily decline. The tax deductible interest charges on the entrepreneur's ICF may yield significantly reduced income tax recovery if little or no income taxes are being paid. In such cases, the flexibility of the ICF can accommodate the entrepreneur in the following ways:

1. **Pay down the loan balance** partially or in full without penalty to reduce interest expenses. Sources of cash include personal assets, corporate assets, and the policy cash values.
2. **Create taxable income** to absorb the interest deductions. Methods include declaring corporate dividends or bonuses for offsetting shareholder loans, redeeming preferred shares for offsetting shareholder loans, or withdrawing policy cash values to create taxable income and simultaneously pay down the credit balance.
3. **Move the interest expense** to an entity that continues to realize taxable income. For example, a personal credit facility can transfer the personal interest deduction to a taxable corporation by re-loaning the borrowed money to the corporation at the same interest rate.

In summary, there are several options for the borrower if taxable income declines. The preferred option will depend on the circumstances at the time and will require professional tax and insurance advice. Our Performance Optimizer team will be on hand to assist our Clients if and when this happens, because you can never be sure when life will deal a bad hand.

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[1] This feature is generally restricted to policies expecting annual cash value deposits in excess of $350,000.

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