WESTWARD ADVISORS

2013 FEDERAL BUDGET
TRANSITION PROCESS SET TO BEGIN SHORTLY

THE ISSUE

The Department of Finance released draft legislation on September 13, 2013 reflecting the March 2013 Federal Budget changes that affect certain leveraged insurance arrangements. The draft legislation is substantially the same as the Budget proposals.

Effective January 1, 2014, these changes will affect clients who hold policies assigned with investment credit facilities (ICFs) with linked rates (typically 10/8% or 9/7%).

The insurers have yet to announce details of their **Transition Options** for ICF policyholders to comply with the Budget changes. When the Transition Options are announced, we will launch our **Transition Process** for our affected clients.

This Viewpoint provides a copy of the statement issued by PPI Advisory, a distributor of policies affected by the draft legislation, on September 13, 2013.

The opinions expressed in this memorandum are strictly those of Westward Advisors Ltd. This memorandum is for information purposes only and is not legal or tax advice.

The Discovery Process™ | The Strategy Builder™ | The Strategic Implementor™ | The Performance Optimizer™

The LifeStep Process™

PPI ADVISORY'S STATEMENT

The March Federal Budget had proposed to, after 2013, eliminate the deductibility of interest paid as part of 10/8 arrangements, eliminate the deductibility of premiums paid for policies assigned in support of such arrangements, and to restrict the credit to a corporation's capital dividend account for corporate-owned policies.

Compliant Loan Facility

The draft legislation and Explanatory Notes provide clarity on what will and will not be considered a '10/8' arrangement. A compliant loan facility must meet the following conditions:

- The interest rate credited annually to a new policy investment account will not be determined by reference to the interest rate charged on loans under compliant loan facilities
- Policyholders will be permitted to invest in all policy investment accounts without being required to borrow

As policy investment accounts will be available to all policyholders, regardless of whether they borrow against policy values, there will be competitive market pressures on investment account crediting rates, and therefore also on loan interest rates.

The draft legislation gives clear guidance to life insurance companies and clients on their options with regard to their policies.

We have worked with our insurers to revise their existing insurance policies and loan facilities, with the goals of protecting the interests of clients, complying with the proposed legislation and permitting the orderly transition into new facilities. We expect to be in a position to announce these changes within the next few days. In the meantime, we will be supportive of CALU in their ongoing consultations with Finance Canada concerning the draft legislation.

James A. Burton, ICD.D
Chairman and CEO
PPI

