UNIVERSAL LIFE INSURANCE

Any long-term investment planning strategy, especially in a highly-taxed country such as Canada, should take into consideration the effect taxes can have on your investments and your plans for the future. Universal life insurance is an attractive option to consider for just that reason - it accounts for the inevitability of both death and taxes.

WHAT IS UNIVERSAL LIFE INSURANCE?

Unlike traditional permanent life insurance such as "whole life" which bundles the life insurance protection and a savings component, a Universal Life policy has a discrete tax-exempt investment account to allow greater investment choice, flexibility and customization to meet your individual insurance and investment needs.

FEATURES AND BENEFITS OF UNIVERSAL LIFE INSURANCE POLICY

The true strength of a universal life insurance policy lies both in its flexibility and the ability to customize a policy that meets your individual needs through the careful selection and management of a wide range of investment and insurance protection options.

In addition to the powerful combination of life insurance protection and tax-advantaged savings opportunities, universal life insurance provides the flexibility to vary the amount or timing of premium payments, use accrued cash values in the policy to pay the cost of insurance, or increase the death benefit. Policyholders also have the opportunity to switch investments within the policy according to market conditions. This flexibility allows the policyholder to maximize growth in the plan, while minimizing the cost. The policyholder does not have to pay tax on this growth, provided it does not exceed limits prescribed under the Income Tax Act.

The policyholder, along with their other estate and financial planning advisors, can use the unique features offered by universal life insurance to design a plan that satisfies the policyholder's financial and estate planning goals which may include:

- **Retirement Planning**: Added tax-deferred savings for those who have maximized their RRSP and TFSA contributions. Policyholders can make withdrawals from the policy, subject to tax, and obtain tax-free loans that can be structured to be repayable upon the death of the insured.
- **Business Planning**: A tax-effective way to unlock the value of the business at retirement. The policy can provide added executive compensation and can provide tax-free funds for partners/shareholder buyouts upon the death or disability of the insured.
- **Estate Planning**: Provides protection for the policyholder's family and errors by providing cash when tax liabilities arise. Proceeds from the life insurance are paid tax-free to the named beneficiary, usually bypassing probate* and other estate settlement fees.

*Probate may not be applicable in Quebec.

HOW DOES A UNIVERSAL LIFE INSURANCE POLICY WORK?

With its unique features, you can design a universal life insurance policy to meet many of your financial and estate planning goals. Premiums can be paid monthly, annually, or in lump sum payments.[1] Premiums paid in excess of the costs to keep the insurance coverage in place (referred to as overfunding the policy) can be invested in a wide variety of investments, allowing you to choose those tailored more specifically to your needs and risk tolerance.

"Overfunding" the policy is a common strategy used by clients to create a pool of investments in the tax-advantaged savings portion of the policy, also called the "exempt account". The larger the portion of the premium retained in the exempt account, the higher the investment base upon which money can compound and grow. As long as these investments remain in the policy, the growth is tax-free and payments to the beneficiary after the death of the insured are also paid out tax-free. Ultimately, it is possible that the value of the investments in the exempt account can exceed the value of the base coverage itself. When you meet with your Investment Advisor to discuss a universal life insurance policy, you will receive an illustration that details coverage, insurance costs, and excess premiums if you will be overfunding the policy.

WHAT TYPE OF INVESTMENTS ARE ELIGIBLE WITH UNIVERSAL LIFE INSURANCE?

While insurance companies offer a wide variety of different investment options, all allow the policyholder to choose investments that meet their needs and risk tolerance. For the most conservative policyholders, there are guaranteed rates for durations of 3, 5, 10 and 20 years. In the fixed income sector, policyholders can choose investments linked to performance of various and bond market indices. On the equity side, choices vary among investments linked to Canadian, U.S. and international stock market indices, such as the S&P/TSX, S&P 500, NASDAQ, Nikkei and MSCI World, among many others. However, policyholders do not acquire shares or units in the mutual fund, rather, the insurance company agrees to pay the equivalent - or close to it - of the chosen indices' performances from a pool or pools of investments formed for that purpose. Universal life investments can switch among a range of index linked alternatives to allow policyholders maximum flexibility in asset allocation at any given time.

WHAT OTHER ADVANTAGES ARE THERE TO OWNING A UNIVERSAL LIFE INSURANCE POLICY?

- The potential for the investment to fund the cost of insurance
- Relatively unrestricted switching of investment options
- Potential eligibility for tax-free disability income
- Potential tax-free loan capability, repayable upon the death of the insured
- Investments may be withdrawn (subject to taxes) prior to the death of the insured

WHO SHOULD CONSIDER UNIVERSAL LIFE INSURANCE?

Universal life insurance will appeal to individuals who want and need permanent insurance protection, but prefer the flexibility to custom design a plan that will help them achieve their financial and estate planning goals, now and in the future.

Your CIBC Wood Gundy Investment Advisor, together with a CIBC Wood Gundy Estate Planning Specialist (Financial Security Advisor in Québec), can help you determine if universal life insurance will work for you. Contact your Investment Advisor today to learn more about how you can benefit from universal life insurance.

[1] Maximum lump sum premiums are calculated by the insurance company based on the applicable Income Tax Act Regulations. The tax-exempt status of a policy is contractually guaranteed by the insurance company who issues and administers the policy.