Insured Retirement Strategy

Planning for tomorrow, starting today

The Insured Retirement Strategy is a financial planning tool that leverages a permanent life insurance policy. The strategy is ideal for clients who have maximized their RRSP and TFSA savings and who have excess cash available to supplement their funds in retirement.

While non-registered investments are an option, the income and gains from these investments are subject to accrual taxation which could decrease their returns.

The Insured Retirement Strategy uses a Universal Life (UL) insurance policy as a base, so your client can:

- Grow tax-deferred investments within the tax-exempt limits of the policy
- Generate additional funds to supplement their retirement income

- Continue to have the added benefits that a UL policy provides, including:
  - Protection should they pass, or be diagnosed with an "occupational disability" or "critical condition disability" including the need for long-term care to address severe health care issues during the later stage cycle of retirement
  - The option to consider a partial cash withdrawal to provide income (subject to tax for cash exceeding policy adjusted cost base)
  - A choice of investment options (the portion of their premium allocated to an investment option, and that amount grows tax-deferred)
  - Flexibility to customize their UL policy specifically to their needs with optional riders and benefits

Here's how it works:

With an Insured Retirement Strategy, your client can deposit additional funds into their UL policy up to the maximum allowable limits. This will allow the cash value in their policy to grow on a tax-deferred basis. Then, in the future, your client can set up a lending arrangement with a third-party lender, using the cash value as a collateral asset.

The benefits of Insured Retirement Strategy

When meeting with clients, be sure to detail the three key benefits that an Insured Retirement Strategy can offer:

1. **Supplemental funds at retirement**

   Your client's funds supplement will come in the form of a collateral loan, rather than a cash withdrawal from their policy's cash value. A collateral loan provides additional funds to supplement retirement planning. This additional source of cash from the loan will be provided by the third-party lender, and may be repaid on a deferred basis. [1]

[1] Based on current ITA Rules.

2. **Deferred repayment of loan**

   The third-party lender and your client may negotiate a repayment arrangement. Depending upon the terms and conditions of the collateral loan, loan interest may be capitalized or be paid annually. The outstanding loan, plus interest, will be repaid using the proceeds (death benefit) derived from an insurance claim. Net death benefit proceeds after the outstanding loan has been repaid – the residual death benefit proceeds – will go to beneficiaries.

3. **Maximizing the policy cash value**

   Depending upon the loan interest rate charged by the third-party lender and the internal growth rate within this tax-deferred policy, collateral loans can be considered an alternate way to provide an additional source of funds in retirement, compared to other traditional methods of accessing a policy's cash value.

Presenting an Insured Retirement Strategy to your client

An Insured Retirement Strategy works with an ivari UL insurance policy. This policy will serve two objectives:

1) The need to supplement funds in retirement or protect the value of an estate
2) The desire to accumulate cash value on a tax-deferred basis for future use

Once the optimal balance of these two objectives is determined, the Insured Retirement Strategy is best suited for those clients who:

- Have maximized their RRSP and TFSA savings and are looking to shelter additional funds for their retirement in a tax-efficient manner
- Are generally in good health
- Are taxed in a higher tax bracket
- Are able to maintain a good credit rating

How much can a client borrow against their UL policy?

Third-party lending institutions will use many factors in underwriting the loan application. On approval, depending upon the interest options selected for where the policy cash value is invested, the maximum loan amount usually considered will be as follows:

a. Up to 90% on fixed rate UL investment options
b. Up to 60% on variable interest options (i.e., equity-linked interest options)

As long as the loan is kept in good standing, an “Insured Retirement Strategy” can potentially provide an additional source of funds for as long as the client lives.

UL coverage types based on your client’s needs

If your client is looking to:

- **Maximize policy tax-deferred cash accumulation:** ART COI UL with a level death benefit
- **Balance income and estate value:** Level COI with an increasing death benefit

Get the full view using Life*View*

Life*View* is a powerful illustration software that can be used to show your client how the Insured Retirement Strategy solves the challenge of supplementing retirement income by:

- Solving for the retirement funds they need
- Solving for the optimal amount of deposit and face amount to maximize the cash value
- Comparing alternative investment options available to your client and their rates of return

Consider the following when preparing an illustration for your client

It's important when illustrating an Insured Retirement Strategy that you use conservative rates and assumptions to provide a realistic illustration for your client. The following are some important notes to keep in mind:

Type of risk	Description	When preparing the illustration
Comparing alternative investments	Life*View* illustration software will allow you to compare the Insured Retirement Strategy with traditional alternative investments on an after-tax basis. It will take into account the appropriate tax rates being applied to the various alternative investment class assets.	You will need to define the alternative investment asset mix that closely resembles the ivari UL interest options. Appropriate tax rates will be applied to the various asset classes.
Assumed rates for alternative investments	The assumed rate-of-return varies depending on the investment type. Typically, the higher the risk investment type, the higher the volatility with potential return/loss.	Ensure you use realistic rates-of-return for each investment type. For example, it is not realistic to assume that a GIC will make the same rate-of-return as a variable interest option.
Individual tax rate	This determines how much tax the client pays on their income and investments.	Prior to retirement, use the client's marginal tax rate. Be aware that tax rates may differ at retirement and you may wish to apply a different realistic tax rate.
Loan capitalization	This is when the outstanding loan (interest+ principal) has reached the lender's maximum lending criteria. Loan amounts exceeding this lending ratio will require the policyholder to pledge additional assets.	With increased longevity and life expectancy, consider using "at age 100" for when the loan capitalization should occur. Using a capitalization rate at an age prior to 100 will increase the chance that the loan grows beyond the lender's maximum lending criteria. This would result in the loan needing to be addressed by the lender and policyholder.

Understanding the risks of an Insured Retirement Strategy

While you can do your part to ensure that the illustration you provide uses conservative rates and assumptions, you can't predict what is going to happen in the future. Please ensure you discuss the following risks with your client should they consider the Insured Retirement Strategy:

Type of risk	Description	What your client needs to know
Life expectancy risk	The life expectancy risk refers to the possibility of the client outliving their projected life expectancy, upon which the loan amount is based.	The longer you live, the more the loan amount can grow and the policy may not provide sufficient collateral to sustain the loan. It could result in the bank or lender needing more collateral to be provided, a partial repayment from another source, or the loan being called. Make sure your client is aware that this risk could result in potentially triggering a large tax liability.
Investment and loan risk	An insurance policy's investment growth rate can be predictable or volatile depending on what type of interest option your client chooses. Also, interest rates tend to rise and fall with the general economic cycle.	The Insured Retirement Strategy illustration cannot take into account the various fluctuations that happen to rates over the life of the policy. It assumes both a constant interest rate charged for the loan, and rate-of-return for policy-accumulation. If the interest rate on the loan increases or the policy's interest options perform below expectations, the loan amount could outplace the growth in the policy. This could cause the bank or lender to either: a) Demand a partial loan repayment or service the loan by monthly or lump sum payments, or b) Require additional capital/assets to be pledged, forcing the policy to be surrendered which will be subject to tax liability.

Type of risk	What your client needs to know	Description
Spread risk	Typically, guaranteed investments have returned less than the prime rate by approximately 2%. This difference is called the "spread." Changes to the spread effect the maximum amount a client can borrow annually. As the spread increases, the amount of loan available to supplement your client's retirement lifestyle will be much lower.	Historical spreads are not indicative of future spread risk. The extreme sensitivity makes conservative estimates for both the loan and investment rates-of-return essential for reasonable projections and risk management.
Market risk	Market risk refers to the volatility of the underlying investments.	This volatility needs to be taken into consideration you're your client decides on their choice of investment options for their UL policy. Also, their choice of investment options has an impact on the available loan ratio they may receive. Incorporating annual client policy reviews as a process will provide updates on how insurance values are meeting client objectives.
Credit risk	This refers to your client's ability to obtain a loan from the bank. During the loan application process the bank may propose different loan alternatives or amounts.	ivari is not a party to any loan agreement a policyowner may make with a third-party lender. We do not have any authority over the terms and conditions of the loan. ivari cannot guarantee the ability of a client to receive credit using ivari's Insured Retirement Strategy. Discretion regarding the issue and management of credit lies solely between the borrower and lender.

Type of risk	What your client needs to know	Description
Loan risk	Your client's loan can be terminated by the bank or lender at any time. Since the policy is used as collateral for the loan, the policyowner and the borrower must be the same person(s) in order to execute the Insured Retirement Strategy.	Clients must be aware that any of the following issues (among others) could result in the lender demanding partial or full loan repayment: • Termination of the insurance policy for any reason • Default on interest payments (where interest is not capitalized) • Outstanding loan exceeding allowable ratio when compared to the cash surrender value of policy • Bankruptcy by the policyowner • Death of the policyowner In a scenario where a loan is called and the policy must be surrendered, there will be negative tax consequences if the policy cash value exceeds the adjusted cost base. Clients need to be aware that there may be insufficient policy funds to repay both the outstanding bank loan and the taxes owing on the policy interest gained.
Taxation risk	Tax rules are constantly changing.	Key aspects of Insured Retirement Strategy are based on current tax legislation. There is no way to predict how future tax legislation will affect this program.

The right strategy for the right client

Insured Retirement Strategy is not for every client, but it can be the right strategy for the right client. To ensure you recommend this strategy only to appropriate clients, here are a few simple tips:

1. Know your client. Make sure they have the financial resources and sophistication to understand and manage the risks as previously identified.
2. Make sure that a UL insurance policy is right for their life insurance protection and investment growth needs.
3. When in doubt about the risks, functions or suitability of Insured Retirement Strategy, stop and get the information you need before proceeding.

For more information and additional resources, please connect with your ivari regional sales director.

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