CIBC PRIVATE WEALTH
WOOD GUNDY

GUIDE TO CHOOSING A PERMANENT LIFE INSURANCE PRODUCT

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Choosing a permanent life insurance product is not an easy task. There are many products which are offered by many insurance carriers. The right insurance advisor can help you reach your financial ambitions, working with you to assess your financial situation, and analyzing available products to determine the one that suits you best.

Read this guide and discover:

1. **10 reasons why high-net-worth individuals buy life insurance**
2. **10 common myths or misconceptions about life insurance**
3. **10 mistakes to avoid when choosing a life insurance product**
4. **10 questions to ask your insurance advisor**
5. **4 steps to a successful purchase of a permanent life insurance product**

This guide provides a high-level overview of things you may want to consider as you think about life insurance and the insurance advisor you may want to work with. If you have any questions, we invite you to call us at 1 800 463-8317.

Kind regards,

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*This learning tool has been prepared by the Goulet Estate Planning Group on behalf of CIBC Wood Gundy Financial Services (Quebec) Inc.

10 reasons why high-net-worth individuals buy life insurance

1. **Funding taxes payable at death.** For tax purposes, generally a taxpayer bequeathing their assets to people other than their spouse is deemed to have disposed of their assets, or withdrawn amounts from RRSPs and RRIFs at their market value immediately before their death. This means that there are significant amounts that are subject to tax, either in the form of capital gains, recapture of depreciation, or cashing of RRSPs and RRIFs. Life insurance represents the most affordable way to fund this obligation. A quantitative analysis of the present value of alternative scenarios (saving, borrowing, sale of assets) clearly demonstrates that.
2. **Minimizing taxes during your lifetime.** The growth on the investment component of a permanent life insurance policy is not taxable to the policyholder and, upon the death of the insured, the total death benefit including the growth will be paid to the designated beneficiary on a tax-free basis. If the policy is held until death, this results in a tax treatment similar to that of a TFSA.
3. **Balancing the estate.** Life insurance can be useful in a business succession context if we want to balance the estate when certain children are not involved in the business. The same applies if the family cottage or another asset of significant value is bequeathed to a given heir and we wish to transmit equivalent values to the other heirs.
4. **Maximizing the net estate value.** Life insurance is a tax-efficient strategy for accumulating, growing and transferring wealth to future generations. Investment income earned in an exempt permanent life insurance policy accumulates on a tax-deferred basis and the entire death benefit is paid tax-free. This generally results in a higher after-tax return than investments whose growth is taxable.
5. **Transferring wealth to successive generations.** By taking out an insurance policy on your child's life, you can minimize your taxes upon death by reducing the size of your taxable estate. You will eventually be able to transfer ownership of the policy to your child without tax implications. The child will receive a valuable asset that they can continue to grow for the benefit of themselves and/or their family.
6. **Diversifying your portfolio.** Permanent life insurance represents an asset class offering unique advantages. In particular, the dividends of a participating life insurance policy may offer a more attractive growth opportunity than traditional assets like GICs and bonds thanks to the unique diversification of participating accounts and to a smoothing mechanism for leveling out annual returns.
7. **Taking advantage of the capital dividend account.** A corporation may be the policyholder and beneficiary of an insurance policy on the life of its shareholders. Upon death, an amount equal to the excess of the death benefit over the adjusted cost basis of the life insurance policy will be credited to the capital dividend account and will generally provide for a tax-free dividend to the shareholders after death, such as the estate. This tool allows optimizing post-mortem tax strategies and helps reducing taxes payable at death.
8. **Accessing liquidities.** Permanent life insurance policies provide the opportunity to build a cash surrender value in the policy. A cash surrender value is the amount that the insurance carrier would return to the policyholder if the policy is surrendered before the death of the insured. The cash surrender value is accessible during the lifetime of the insured via withdrawals, policy loans, or collateral loans[1] guaranteed by this value while maintaining the life insurance policy in force. The cash surrender value can be used to carry out business or personal projects.
9. **Maximizing charitable donations.** Life insurance allows making a substantial charitable donation where the after-tax cost to the donor is much less than the amount received by the charity. It can also help reduce the impact of charitable donations on the family wealth. Life insurance sometimes constitutes the property that is the subject of the donation. It can also replace an asset that was donated during one's lifetime.
10. **Covering business needs.** A business may want to protect itself against the financial impact resulting from the death or disability of a key person. Life insurance, disability insurance and critical illness insurance can be useful in this context. Life and health insurance can also be useful in the context of buy-sell agreements between shareholders in order to redeem the shares of the corporation carrying on the business, in the event of death or disability.

[1] Collateral loans involve risk and should only be considered by sophisticated investors with high risk tolerance and access to professional advice from a lawyer and accountant. A policyowner should ensure they will have sufficient income and capital to cover the interest and loan repayment, as well as the insurance premium.

10 common myths or misconceptions about life insurance

1. **"Life insurance is irrelevant for wealthy people".** For people who have already achieved financial independence, the objective of life insurance may no longer be the protection of human capital. Protecting the person's lifetime earning potential may no longer be necessary. The person is already wealthy and, in the event of death, may not leave anyone in financial difficulty. The goal of life insurance in these circumstances is rather to deal with the mitigation of risk due to financial capital and to achieve financial and tax efficiency. The objective is to help achieve a smooth management of the estate and an efficient wealth transfer to the next generation.
2. **"A life insurance premium is an expense".** Rather than an expense or an unrecoverable financial effort, the premium for a permanent life insurance policy can be considered to be a contribution to building an asset. Permanent life insurance then becomes a way of creating wealth.
3. **"The life insurance product to select is the one with the lowest premium".** Although a participating whole life insurance product comes with a higher premium than a Term 100 life insurance product, it offers some significant benefits, such as a higher cash value and a higher total death benefit. The calculation of the internal rate of return on the death benefit of the product integrates the relevant factors into the analysis and allows products to be compared on the same basis.
4. **"Since insurance companies make profits, permanent life insurance is not worthwhile for clients".** There is great value in permanent life insurance for a client due to the fact that the death benefit is not taxable when paid to designated beneficiaries. Many permanent life insurance policies can generate an attractive internal rate of return based primarily on the investment component of the product.
5. **"If the insured person dies at an advanced age, the strategy will not have been profitable for the insured person and their family".** Several permanent life insurance products generate attractive returns even if death occurs at age 100 or older.
6. **"It is too late to take out insurance at the age of 70, the premiums being too high at this age".** The premium for a new insured aged 70 or 75 is indeed higher than the premium of younger new insured. However, the annual premiums will be payable over a shorter period. The internal rates of return on permanent life insurance policies remain attractive even if the policy is purchased at these ages.
7. **"Taking out life insurance should only be considered if the insured person is in very good health".** A life insurance policy subject to a substandard rating can also generate attractive internal rates of return. We can also choose to cover multiple lives rather than a single individual. It is sometimes possible to obtain a joint last-to-die life insurance policy with a standard rate even if only one of the insureds is in good health.
8. **"It is preferable to save, borrow, sell assets or use your own cash rather than take out life insurance to fund your taxes upon death".** When compared to the cost of saving in a taxable investment vehicle, borrowing, selling your assets or using your own cash, the cost of life insurance can be more affordable. Life insurance generally requires annual payments smaller than those of the other options given its preferred tax treatment.
9. **"Permanent life insurance is only useful for paying taxes at death".** In the context of maximizing the estate value, life insurance can not only provide sufficient amounts to pay taxes on death, but also reduce the tax bill as a whole as amounts grow in an exempt policy on a tax-free basis.
10. **"Life insurance should not be considered if I wish to help my children during my lifetime".** It is possible to help your children both during your lifetime and after your passing. One does not exclude the other necessarily. Supporting children during your lifetime for their education, for buying a house, for starting a business or for a little help is logical and coherent. But financial aid not required for immediate needs often translates into children investing themselves the additional aid. If your investments are held in a corporation, there will be taxes payable before giving them the amount. Life insurance can offset these taxes and can increase the amount eventually received by your children.

10 mistakes to avoid when choosing a life insurance product

1. **Not measuring the cost of the status quo.** Choosing not to implement a life insurance strategy deprives the family of significant opportunities and potential gains.
2. **Beginning the process by examining insurance products without having discussed of your objectives and context with your advisor.** This is a common mistake. People tend to dive into tables and numbers too quickly. The client should consult a trusted advisor that understands their wants and needs, as well as their financial situation and structure before making insurance recommendations.
3. **Determining the amounts of coverage to be purchased and of premiums payable without first projecting the figures of the considered life insurance scenario in the financial projections of the holistic financial plan.** You must ensure that you keep enough money outside the life insurance policy to cover your own costs of living and to carry out your personal projects. You have to find the right balance between personal and estate goals.
4. **Choosing the wrong type of life insurance given your situation.** While term life insurance provides coverage for a certain period of years only, permanent life insurance lasts your lifetime as long as the premiums are paid. Permanent life insurance generally applies to individuals who have already accumulated significant wealth. If you have not yet achieved financial independence and must continue to save to generate your retirement income, you should consider term life insurance. A permanent life insurance comes with a higher premium in the early years and you may not afford the coverage amount that you need to protect your family in the event of premature death, whereas you could if you were opting for term life insurance.
5. **Choosing the wrong permanent product to achieve your goals.** Once it has been established that permanent life insurance is relevant in your situation, a qualified life insurance advisor can help you choose the best product to carry out your wishes. A review of the calculations of internal rates of return and the expected growth in cash surrender values, as well as the results of medical underwriting should be taken into consideration when selecting the final product.
6. **Not having an overview of the different types of permanent products before making a choice.** Each type of permanent product has its advantages and disadvantages. For example: Term 100 requires a lower annual premium, participating whole life offers higher cash values. Whole life 10 pay products guarantee a premium offset after 10 years whereas, lifepay products do not. Each product type offers different benefits and features that should be considered before choosing the most suitable product. Discussing your insurance needs with a credited advisor can help you determine the best product for your needs, before purchasing the coverage.
7. **Choosing a product whose profitability is not assured regardless of the age of death.** Certain life insurance products with increasing annual costs will be in a deficit position if death occurs at an advanced age. You must evaluate the internal rate of return of the product up to the age of 100 before opting for a product.
8. **Not selecting the correct entity as the policyholder and beneficiary of the policy.** If you are in business, you should think about where a life insurance policy should be held. Is it personally, through a trust, through a personal holding corporation, through a joint holding corporation or through an operating corporation? Changing the policyholder of a life insurance policy after it has been issued can result in significant tax costs.
9. **Neglecting the importance of choosing a good advisor.** Choosing a competent insurance advisor is crucial. It is just as important as the choice of product. A knowledgeable independent advisor will recommend the right product for you and provide service once the product is in force. It is not recommended to submit insurance applications to several insurance carriers through several advisors. For applications for large amounts, the capacities offered by insurers and reinsurers could be blocked if the multiple applications are not coordinated by the same advisor.
10. **Choosing an insurance advisor who does not distribute products from several insurance carriers.** No insurance carrier offers the best product in all applicable circumstances. At any given time, different carriers will offer different rates for different products. One company may be offering more competitive pricing for their participating whole life products and others for universal life, some for younger clients and others for older clients, some for policies issued with a standard rate and others with a substandard rating, etc. After medical underwriting, one insurer could grant a standard rate to a client while another could offer a substandard rating for the same client. Having several options allows better choices.

10 questions to ask your insurance advisor

1. **Can I talk about my goals and current financial situation before you offer me a product?** This is the first step in the process. Before diving into numbers, the advisor should take the time to have a conversation with you about your goals and your financial situation. Otherwise, their recommendation may not be pertinent.
2. **How do your recommendations contribute to achieving my goals?** The advisor must demonstrate how their recommendations bridge the gap between your current situation and the achievement of your goals.
3. **How did you determine the amount of recommended coverage and the amounts to invest in the life insurance policy?** The calculation of the amounts involved depends on the reason for which the life insurance product is being considered. For example, if life insurance is taken out with the aim of paying taxes upon death, coverage will be determined based on the estimated tax liability. If it is taken out as an asset class, the starting point for the calculations will be the amounts that you can contribute to your estate without compromising your own cost of living and the projects that you wish to carry out during your lifetime.
4. **Has the proposed solution been simulated in the long-term financial projections of my holistic financial plan?** We must ensure that the investment amounts provided for in the life insurance policy are consistent with your financial situation.
5. **Where will the liquidity to make the annual life insurance deposits come from?** Liquidity can come from your income or your investment accounts. Integrating the figures of the considered life insurance plan into your overall financial projections will make it possible to determine the sources of liquidity necessary to fund the product.
6. **Can you distribute all the life insurance products available on the market?** Your advisor should have access to all (or almost all) products offered on the market. Ideally, they should not be limited to offering the products of only one particular insurance carrier. If your advisor only offers products from one insurance carrier, the proposed solution may not be the best option available to you on the market.
7. **Do you perform a due diligent assessment of the products offered on the market as well as of the changes to which they are subject?** Your advisor should find the product that is most suitable for you among those available on the market. Hence, it is important for an advisor to closely monitor the products available, as well as the changes to which they are subject.
8. **What are your selection criteria when comparing different life insurance products?** Your advisor should analyze different products by considering qualitative and quantitative factors and evaluating how one product or another will adapt to your profile. From a qualitative standpoint, it will mainly be a question of flexibility and security. From a quantitative standpoint, the calculations of the internal rate of return on the death benefit and the increased value of the estate make it possible to measure the return on investment.
9. **Are your life insurance scenario projections based on conservative assumptions? Are the rates of return used for the projections net of applicable management fees and are they realistic?** Typically, advisors prepare projections using software applications provided by the insurance carriers, commonly called policy illustrations. Some advisors try to show the best possible results, sometimes at the expense of rigor. To avoid costly errors with such analyses, several parameters must be monitored. In particular, for universal life insurance, we must examine the projected rate of return on investments net of fees, the payment of bonuses during periods of fluctuation and the possible crystallization of investment losses during a market decline.
10. **Would the solution you are proposing be profitable even if I pass away at a very advanced age?** With certain life insurance products, you can choose a YRT cost (yearly renewable term) or a level cost. In the short term, the YRT cost is attractive, but it can cause significant problems later if the funds available are insufficient to meet these increasing costs at a more advanced age. The insurance policy may need to be surrendered before your death and the life insurance coverage would be lost.

4 steps to a successful purchase of a permanent life insurance product

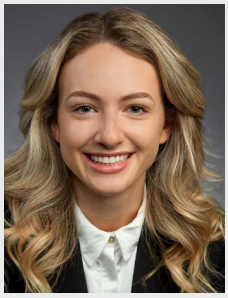
1. **Discovery.** The first step is to have a conversation with your insurance advisor so they understand your goals and concerns. They can assess your financial situation and collect information and documents. The insurance advisor often consults your other professional advisors to fully understand your context and financial situation.
2. **Analysis.** Your advisor prepares financial projections to see how your assets will evolve in the future. It establishes how much assets will be needed to cover your family cost of living, how much to realize your future personal projects and how much will be left to the people and organizations that are dear to you. It looks at whether your structure and the tools already in place are aligned with your objectives. If there is a gap, they examine all possible solutions to correct the situation.
3. **Recommendations.** The insurance advisor presents you with a detailed plan of recommendations that will allow you to meet your objectives.
4. **Implementation and monitoring.** Once the plan has been revised, the insurance advisor carries out the different stages of the plan. They coordinate its implementation with various stakeholders. Once the new tools are in place, the advisor carries out periodic reviews to ensure that the tools achieve the desired objectives and still meet your needs.

About Goulet Estate Planning Group

The Goulet Estate Planning Group is a group of financial security advisors. We are attached to CIBC Wood Gundy Financial Services (Québec) Inc. and we provide advice to high-net-worth clients. Our senior estate planning specialist, Mr. Martin Goulet, is recognized across the province for cutting-edge expertise in financial planning, life and health insurance, as well as his knowledge of taxation. Our insurance services are available through CIBC Wood Gundy Financial Services Inc. and, in Quebec, through CIBC Wood Gundy Financial Services (Québec) Inc.



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