CORPORATE INSURED RETIREMENT PROGRAM®

Bridge to Financial Security

Corporate Consumer Guide

THE MANUFACTURERS LIFE INSURANCE COMPANY

Manulife Insurance

Corporate Insured Retirement Program®

A Financial Planning Strategy

The Corporate Insured Retirement Program (CIRP) is an innovative business planning concept that provides life insurance protection plus the potential for future access to values that have accumulated in the policy on a tax-free basis. The concept is simple: the accumulated value of an exempt life insurance policy* purchased from us today provides cash flow in the future by serving as collateral for a loan from the Manulife Bank. For purposes of the Corporate Insured Retirement Program, the loan is structured as a line of credit (LOC).

THE THREE BUILDING BLOCKS OF THE CORPORATE INSURED RETIREMENT PROGRAM

Life Insurance – Most business owners will agree that their corporation needs life insurance protection. Life insurance may address diverse business needs like coverage for the loss of a key person, provision for a shareholder's capital gains taxes or funding for buy-sell agreements. In addition to the life insurance protection provided by an exempt policy, significant cash values can accumulate within the policy.

Accumulation – Within limits set by the Income Tax Act (the "Act"), values in an exempt life insurance policy accumulate on a tax-deferred basis. Depending on the amount of insurance purchased, a significant value can build inside the policy and remain exempt from annual taxation.

Access – The accumulated value in your exempt life insurance policy is a corporate asset. The life insurance policy can be used as collateral security for a bank loan. Depending on a number of variables explained later in this guide, it is possible that the interest expense associated with this bank loan could be tax deductible.

HOW DOES IT WORK?

The purchase of one of Manulife's tax-exempt life insurance policies creates the option to use it in the future as collateral security for a bank loan to the corporation or a shareholder. In addition, all the benefits provided by the life insurance policy are available from the day the policy goes into effect.

Your insurance advisor can provide more information, including an explanation of how the values in the policy will accumulate, what the death benefit is, the structure and outcome of corporate borrowing versus shareholder borrowing and other issues you will want to consider.

This information can help you develop an effective strategy for using this innovative program. The loan may be structured in one of two ways under the Corporate IRP concept. Either the corporation or a shareholder may borrow money from a bank using the corporate-owned life insurance policy as collateral. Tax consequences will vary depending on how the Corporate IRP is structured. You will need to consider which of these options best meets your needs.

Loan advances generate a cash flow that may be applied in a number of ways, including supplementing retirement income, buying out a retiring shareholder or a variety of other applications.

* An exempt life insurance policy is one where any growth that remains in the policy is not subject to annual taxation. Exempt status is based on current tax laws and may change if the tax laws change.

How to make the strategy work for your corporation

The Corporate IRP process involves the corporation purchasing an exempt life insurance policy from Manulife. Then, at some point in the future, the policy is used as collateral to secure the bank loan.

STRUCTURING THE BANK LOAN

The details and assumptions surrounding the bank loan are more complex and the following issues should be considered when determining which structure best fits your situation.

The bank loan can be structured in one of two ways:

(1) the corporation can borrow the funds or,
(2) the shareholder can borrow the funds.

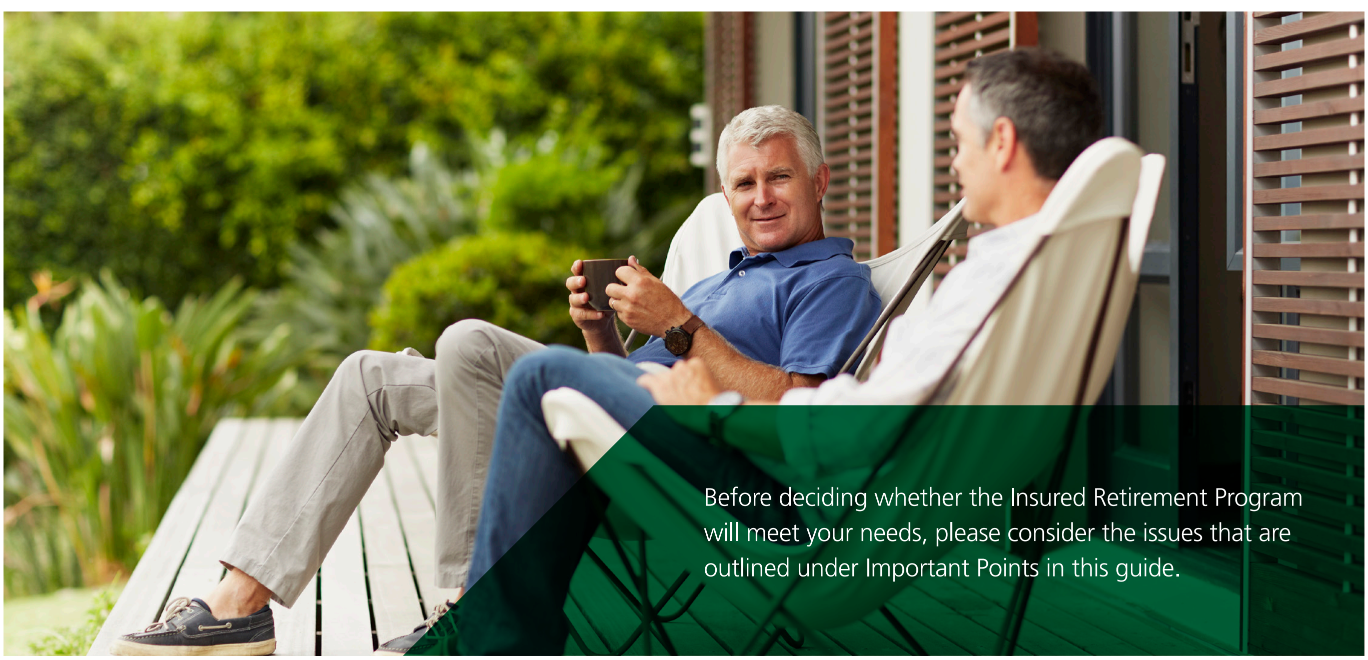
In either case, the corporation's exempt life insurance policy may be used as collateral. The tax consequences will vary depending on which option is chosen.

The Corporate IRP assumes the loan will be repaid after the person who is insured dies. The corporation is designated as beneficiary under the policy.

If the Corporate IRP is structured with the corporation borrowing the funds, the death benefit that the corporation receives when the insured person dies would be used to repay the loan. Any excess proceeds would be paid to the corporation (beneficiary of the policy). The corporation would be entitled to a credit to its Capital Dividend Account (CDA) for an amount equal to the death benefit less the Adjusted Cost Basis of the policy. Any proceeds paid to the estate of the deceased shareholder may be paid tax-free via the corporation's CDA.

If the Corporate IRP is structured with the shareholder borrowing, appropriate steps with Manulife Bank must be taken to ensure the funds can be paid to the corporation and then to the estate of the deceased shareholder via the private corporation's CDA. These funds would be used by the shareholder's estate to repay the bank loan. Once the loan is repaid, any excess proceeds may remain in the estate. If these steps are not taken, a shareholder benefit could result. (See Taxable Benefits with Shareholder Borrowing under Important Points.)

If the policy is surrendered either in whole or in part prior to death, a taxable disposition may occur. This means the bank will receive the proceeds of the policy up to the amount of the loan and the corporation will receive tax reporting for any policy gains realized. Also, depending on the circumstances, a surrender of the policy may result in a taxable benefit to the shareholder.



Before deciding whether the Insured Retirement Program will meet your needs, please consider the issues that are outlined under Important Points in this guide.

Important Points

When deciding if the Insured Retirement Program is right for you, you will want to consider the following important information. We suggest you review this section with an independent professional advisor to determine whether the issues discussed apply to your situation.

INTEREST AND ITS EFFECT ON THE BANK LOAN

The bank loan can be arranged so that interest is paid on a regular basis or interest can be added to the loan amount.

The difference between the interest rate charged on the loan and the rate of growth in the insurance policy is an important factor to consider in determining whether a Corporate IRP is viable. Because policy values and loan rates are not guaranteed, it is possible that the bank loan could eventually exceed the accumulated value within the policy.

Manulife Bank will monitor the loan to ensure it does not exceed the maximum amount.

Current Manulife Bank lending practices allow for the maximum loan amount to be based on a percentage of the cash surrender value of the policy. Depending on the life insurance product selected, this lending limit currently ranges from 75% to 90%.

If the loan grows to the point where it would exceed this percentage, the bank may require additional collateral or payments on the loan, or it could exercise its rights under the collateral assignment and loan agreement to surrender the policy. At the time you or your corporation apply for the bank loan, you will want to consider the interest rates available at the time and how interest will be paid to address these potential results.

LOAN INTEREST EXPENSE AS A TAX DEDUCTION

Whether interest charged on the bank loan can be claimed as a tax deduction depends on a number of factors, with the Income Tax Act (The Act) providing the framework for determining deductibility. The timing of the loan advances, the way the money is used and generally the structure and arrangement of the taxpayer's affairs can affect the deductibility of loan interest payments. Future changes to the Act could also affect the deductibility of loan interest expense.

The current provisions of the Act state that interest charged on borrowed money is deductible when it is paid or payable in respect of the year (depending on the method regularly followed by the taxpayer) pursuant to a legal obligation and the borrowed money is used for the purpose of earning income from business or property. Interest on borrowed money used to earn tax exempt income or to acquire a life insurance policy is not deductible.

A taxpayer who uses the cash method of reporting income may deduct interest in the year in which the interest is paid, while a taxpayer using the accrual method may deduct interest in the year in which it is payable. As a result, if a taxpayer who reports income on a cash basis borrows against the cash value of a life insurance policy and the accumulating interest on that loan is continually added to the loan balance rather than being paid, the interest deduction will not be available until the loan is repaid with the insurance policy's death benefit proceeds.

For a cash basis taxpayer to deduct the interest expense before that time, the loan must be structured so that the interest is actually paid annually.

Generally, compound interest (i.e. interest on interest) will be deductible only if it is paid in the year. It will not be deductible if it is capitalized by simply adding the interest to the outstanding loan balance.

For these reasons, when an illustration with interest deductibility is presented, the illustration assumes the taxpayer pays the interest annually; then an additional loan equal to the amount of the interest is advanced to the taxpayer and this advance is used for the purpose of earning income. The illustration also assumes that the interest deduction will result in annual tax savings and that these annual tax savings are applied to reduce the outstanding loan balance. In order to realize the tax savings from the interest deduction, the taxpayer must have income at least equal to the interest expense.

INTEREST RATE ASSUMPTIONS

In demonstrating the potential benefits of the Corporate Insured Retirement Program, your insurance advisor will have made specific interest rate assumptions to show the potential growth within the exempt insurance policy and the interest rate that will apply to the loan. These rates are not guaranteed and could change over time. These projections include interest rate sensitivity analysis to demonstrate the impact of a higher loan interest rate. You can request additional projections based on different assumptions to demonstrate the sensitivity of the Corporate IRP to changes in interest rates.

RETIREMENT COMPENSATION ARRANGEMENT (RCA)

An RCA is an employer-funded plan or arrangement to provide post-retirement benefits to an employee. RCA rules will apply to situations where the employer has a legal obligation to provide post-retirement benefits to the employee and it is reasonable to assume that an employerowned life insurance policy is acquired to fund the obligation. If the Canada Revenue Agency (CRA) considers the Corporate IRP to be an RCA, immediate tax consequences would result to the corporation and employee.

GENERAL ANTI-AVOIDANCE RULE (GAAR)

GAAR may apply to any transaction that attempts to avoid taxes. This may be a single transaction or a series of transactions that result in a tax benefit. For example, it is possible that CRA could attempt to apply the General Anti-Avoidance Rule of the Act to the bank loan, with the intent to consider it a policy loan and tax the proceeds accordingly.

While CRA may choose to apply GAAR in certain situations, it should not interfere with the well-established principle of law that a taxpayer is entitled to structure business affairs in a tax-efficient manner.

TAXABLE BENEFITS WITH SHAREHOLDER BORROWING

If the Corporate IRP is structured with the shareholderborrowing using the corporation’s asset (the life insurance policy) as security for a loan, a taxable benefit issue may arise. If the shareholder is also an employee, a taxable benefit issue may be assessed based on the individual’s status as an employee.

Taxable benefits may result during the shareholder's life or at his or her death. The issue of whether taxable benefits may be assessed is one that you will want to consider carefully when:

- choosing shareholder borrowing versus corporate borrowing and,
- the bank loan is repaid when the shareholder dies.

CHOOSING SHAREHOLDER BORROWING VERSUS CORPORATE BORROWING

The main advantage of choosing shareholder borrowing is that the shareholder may receive loan advances taxfree. Please consider the following important issues when structuring the bank loan with shareholder borrowing.

a) Shareholder Benefit Issue

There is a risk that a taxable benefit to the shareholder may result during life or at death. There are different methods to estimate the amount that could be included in the shareholder's income as a taxable benefit. Two possible methods include:

1) The difference between the interest rate the shareholder would be charged to borrow the funds using his or her personal assets as collateral and the interest rate the shareholder would be charged to borrow the funds using the corporateowned insurance policy as collateral.

2) What the shareholder might have to pay as a guarantee fee if he or she were not using the insurance policy as collateral. A guarantee fee is the amount the corporation or a third party would charge to pledge assets as collateral for the loan. Other methods may also take into account other factors, such as the amount borrowed or the premiums paid under the policy.

b) Valuation of the shares of the corporation

In general, the value of a life insurance policy for the purpose of valuing shares owned by an individual shareholder at death is deemed to be the cash surrender value of the policy. When a corporation uses a life insurance policy as collateral security for a corporate loan, the cash value will increase the value of the shares for this purpose, while the loan amount will reduce the value of the shares. If instead the individual shareholder uses the corporate owned life insurance policy as collateral security for a loan, again the cash value of the policy will increase the value of the shares, but because the loan is to the individual rather than the corporation, the loan will not reduce the share value.

c) Use of the capital dividend account

Where a shareholder leverages a corporate owned life insurance policy, the capital dividend account is used to facilitate the loan repayment. As a result, the capital dividend account available to make subsequent distributions to the shareholder will be reduced. Where the corporation leverages the policy (corporate borrowing), the loan is repaid utilizing the insurance proceeds, and the balance in the capital dividend account remains fully available for future distributions.

d) Interaction with other estate planning

Structuring the bank loan with shareholder borrowing may have an impact on certain estate planning opportunities such as estate freezes.

AT LOAN REPAYMENT

When the shareholder dies, the bank, the executor of the shareholder's estate and the corporation need to take steps to ensure that a taxable benefit is not assessed to the shareholder's estate. If proper steps are not taken to settle the loan, the amount of the loan may be included in the shareholder's income.

The goal is to ensure that the shareholder's personal bank loan is not repaid by the corporation.

The onus is on the executor of the shareholder's estate to provide adequate security to the bank so that the death benefit proceeds can be paid to the corporation. The corporation would then distribute the proceeds to the estate, which would then pay the debt owing to the bank. Provided the shareholder's estate pays off the bank loan, a taxable benefit should not be assessed.

The checklist on the next page suggests the steps that need to be taken by the shareholder and then, after the shareholder's death, by the executor of the estate, the bank and the corporation. We suggest you store this information with your Will.

We have asked you to acknowledge the issue of taxable benefits when you sign our Acknowledgement page at the back of this brochure.

Shareholder Borrowing Checklist

This checklist provides important information if you are structuring your Corporate IRP with a shareholder taking out a bank loan using the corporation's insurance policy as collateral. It is designed to help ensure the right steps are taken, when the loan is repaid, to ensure a taxable benefit is not assessed to the shareholder's estate.

WHAT THE SHAREHOLDER NEEDS TO DO

Documentation, storage and notice

____ All relevant documents relating to the Corporate Insured Retirement Program should be stored with your Will (Corporate Insured Retirement Program consumer guide, the bank disclosure document, this checklist).

____ Let your executor know where the Will and any accompanying documents are located.

____ If you update your Will to change the executor, advise the new executor as explained in the step above.

WHAT THE EXECUTOR OF THE SHAREHOLDER'S ESTATE NEEDS TO DO WHEN THE SHAREHOLDER DIES

Locate Documentation

____ Locate the Will and accompanying documents (including the Corporate Insured Retirement Program consumer guide).

____ Contact the corporation to determine the status of the insurance policy and provide a copy of this checklist to the corporation since it contains the important steps set out on the next page.

____ If you don't know where the Will is located, contact the shareholder's lawyer or family members or the corporation's lawyer.

____ The Will may need to be validated by a court (probate). You should seek legal advice to determine whether this is required.

HOW THE EXECUTOR OF THE SHAREHOLDER'S ESTATE, THE BANK AND THE CORPORATION NEED TO WORK TOGETHER TO REPAY THE LOAN WHEN THE SHAREHOLDER DIES SO THAT NO SHAREHOLDER BENEFIT TAX ISSUES ARISE.

The following steps are recommended when the loan is repaid at the shareholder's death. Cooperation and coordination are required between the bank, the executor of the shareholder's estate and the corporation to ensure the shareholder's estate is not assessed with a taxable benefit.

The goal of the following steps is to ensure that the shareholder's personal bank loan is not repaid by the corporation, since, if this did occur, the amount repaid could be considered a taxable benefit.

______ The executor contacts the bank and the corporation to notify them of the Will and his or her appointment as executor under the Will. (The executor may need to have the Will validated by a provincial court (probate) and this validation may be requested before the bank and the corporation will consider direction from the executor.)

______ The executor gathers all documentation required to make a death claim under the policy, including a death certificate and probate, where required, and provides copies as requested by the corporation, bank and insurance company.

______ The executor reviews the Corporate Insured Retirement Program consumer brochure to determine the steps to be taken to have the bank release its interest in the life insurance policy being held as security for the bank loan.

______ The executor contacts the bank to determine what it needs to release the insurance policy being used as security for the loan and to substitute other assets for the policy.

______ The executor may need to contact the officers and directors of the corporation to determine what other assets are available to serve as security for the loan.

______ The executor enters into a new security arrangement with the bank. The substitution of assets will permit the release of the policy so the policy's death benefit can be paid to the corporation.

______ The corporation submits documents to claim the life insurance proceeds as required by the insurance company to allow the proceeds to be paid to the corporation.

______ The executor contacts the officers and directors of the corporation to ensure that insurance proceeds will be paid to the estate by way of a dividend.

______ The executor of the estate uses the insurance proceeds to pay the outstanding loan to the bank.

______ The executor notifies the corporation when the bank loan has been repaid in full. At this point, the assets that were used to substitute for the insurance policy will be released by the bank.

Corporate Insured Retirement Program

The Corporate Insured Retirement Program is a unique business planning concept that provides life insurance protection, the potential for tax-deferred accumulation of funds within an exempt life insurance policy and tax-free access to those funds in the future by way of a bank loan. This is accomplished by using the accumulating values within the exempt life insurance policy as collateral for the bank loan.

The Corporate Insured Retirement Program not only provides immediate protection to satisfy corporate life insurance needs, it provides the flexibility to address future cash flow needs, whether corporate or personal.

Deductibility of the interest expense for this bank loan will depend on a number of factors including the Income Tax Act, the structure of your Corporate IRP and the ultimate use of the borrowed funds.

The interest rate assumptions used by your insurance advisor to show potential growth within the life insurance policy and the rate that will apply to the loan are not guaranteed. These projections also include interest rate sensitivity analysis. You may request additional projections using different assumptions to demonstrate the Corporate IRP's sensitivity to changes in interest rates.

Taxable benefits may result during life or at death if the Corporate IRP is structured with the shareholder borrowing the funds, using the corporation's policy as collateral.

In considering whether the Retirement Compensation Arrangement rules will apply to your situation, you will need to determine whether a legal obligation to provide post-retirement benefits exists.

While a taxpayer is entitled to structure business affairs in a tax-efficient manner, it is possible that CRA could review the transaction under the General Anti-Avoidance Rule.

It is my understanding that Manulife is not engaged in giving tax, legal and other professional advice and that it is my responsibility to obtain the professional advice necessary to determine whether the concept is right for me.

I acknowledge that the Manulife Bank of Canada may, from time to time, require information relating to the cash values and death benefit under the policy. I authorize Manulife to release information about this policy to the Manulife Bank of Canada for purposes of the Corporate Insured Retirement Program.

I acknowledge that I have received and reviewed both the consumer guide and the concept illustration on the Corporate Insured Retirement Program and that I should keep a copy of each with my policy contract. I acknowledge that the intent of these documents is to provide an overview of the concept only.

SIGNING OFFICER OF THE CORPORATE POLICY OWNER	**DATE**
INSURED SHAREHOLDER (IF OTHER THAN ABOVE)	**DATE**
INSURANCE ADVISOR	**DATE**

For more information, please contact your advisor.

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