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Corporate Planning & Insurance Discussion

2 messages

Brian Laundry <brian@brianlaundry.ca>
To:

Tue, Mar 10, 2020 at 9:41 AM

Good afternoon Scott and Chris,

Thanks again for taking the time to speak with me last week. I enjoyed our conversation.

The purpose of this email is to summarize (in detail) our conversation. For me, this email is essentially my notes from the meeting and what I will refer back to in future conversations. I apologize for the length, but I hope you find great value in the message.

A. Current Manulife Plan - Review & Gameplan

The current plan has two layers of life insurance coverage:

1. Permanent Guaranteed Cost Universal Life (\$500,000) - Premium \$3,958/yr
2. 10 Year Term Life Insurance (\$500,000) - Premium \$4,408/yr (recently renewed)

The policy has a cash value of approximately \$165,000. I ran a few different projections to show various options (see attached summary). Ultimately it makes the most sense to (a) change the investment allocation to a guaranteed investment account (highest guaranteed rate is 1.5%), (b) stop making deposits to the existing policy (there is sufficient cash value at 1.5% to offset all future costs) and (c) convert the \$500,000 of 10-year term insurance to a permanent plan to be owned and paid by your corporation (more detail later in this email).

Below is a projection of the current plan after removing the 10-year term insurance component and stopping deposits (at 1% and 4%):

Illustration #1b - Keep Innovision UL & Cancel 10-Year Term (No Deposits)

Policy year	Values as of	Annual deposit	Cash Value		Total death benefit	
			1.000% interest	4.000% interest	1.000% interest	4.000% interest
10	Feb 08, 2020	\$0	\$165,939	\$165,939	\$665,939	\$665,939
11	Feb 08, 2021	\$0	\$163,475	\$168,387	\$663,475	\$668,387
12	Feb 08, 2022	\$0	\$160,987	\$170,933	\$660,987	\$670,933
13	Feb 08, 2023	\$0	\$158,474	\$173,581	\$658,474	\$673,581
14	Feb 08, 2024	\$0	\$155,936	\$176,335	\$655,936	\$676,335
15	Feb 08, 2025	\$0	\$153,373	\$179,199	\$653,373	\$679,199
16	Feb 08, 2026	\$0	\$150,784	\$182,178	\$650,784	\$682,178
17	Feb 08, 2027	\$0	\$148,169	\$185,276	\$648,169	\$685,276
18	Feb 08, 2028	\$0	\$145,528	\$188,498	\$645,528	\$688,498
19	Feb 08, 2029	\$0	\$142,860	\$191,848	\$642,860	\$691,848
24	Feb 08, 2034	\$0	\$129,116	\$210,723	\$629,116	\$710,723
34	Feb 08, 2044	\$0	\$99,489	\$261,627	\$599,489	\$761,627
44	Feb 08, 2054	\$0	\$66,760	\$336,980	\$566,760	\$836,980
54	Feb 08, 2064	\$0	\$34,584	\$452,567	\$534,584	\$952,567

B. Corporate Life Insurance

Corporately owned life insurance is the most powerful tax planning product available in Canada. Depending on your particular circumstances/goals, a corporate life insurance policy can provide the following:

- Eliminate tax on passive income (50.17%) -- this is the tax rate on interest income in the corporation
- At death, replace highly taxable dividends (47%) with tax-free capital dividends (0%) -- this is what we discussed and I showed an example in our meeting
- Provide a fixed income investment allocation with guarantees (and no tax) -- This will be applicable for any new policies (not the conversion)
- Provides valuable leverage opportunities (banks will often lend up to 100% of the value of the policy) -- This will be applicable for any new policies (not the conversion)

10-Year Term Life Insurance

The plan is that we convert the 10-year term life insurance plan to a permanent life insurance policy that maximizes the capital dividend account (0% tax from the corporation). First, we convert the policy and then we transfer the policy ownership (beneficiary and payor) to

your corporation. The best product is another Manulife Innovision Universal Life plan as seen below:

Effective date:	March 5, 2020	
Tax exempt status:	Exempt	
Assumed rate of return:	1.500%	
Side Account interest rate:	3.000%	
Residence:	Ontario	
Current Deposit Load rate:	2.00%	
Marginal tax rate:	50.00%	
Death Benefit type:	Level death benefit	
Policy Bonus Option:	Valued Client	
First year deposit details:	Minimum first year deposit	\$10,970.16
	Planned annual deposit:	\$10,970.16
	Additional first year lump sum deposit:	\$0.00
	Total first year planned deposits:	\$10,970.16
	Maximum first year deposit:	\$30,534.59
Planned deposit:	Level minimum deposits based on deposits for 43 years	
	Frequency: Annually	
<hr/>		
	Single Life, Level COI	\$500,000
----- Male, 57, Healthstyle 3	Life expectancy: Year 27	
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This policy has guaranteed costs for life and provides a significant capital dividend account ("CDA") credit (which is the non-taxable dividend at Scott's death):

Year	Age	Coverage Death Benefit - 1 -	Adjusted Cost Basis	CDA Credit
1	58	\$500,000	\$10,230	\$489,770
2	59	\$500,000	\$20,101	\$479,899
3	60	\$500,000	\$29,685	\$470,315
4	61	\$500,000	\$38,967	\$461,033
5	62	\$500,000	\$47,924	\$452,076
6	63	\$500,000	\$56,530	\$443,470
7	64	\$500,000	\$64,747	\$435,253
8	65	\$500,000	\$72,531	\$427,469
9	66	\$500,000	\$79,839	\$420,161
10	67	\$500,000	\$86,623	\$413,377
11	68	\$500,000	\$92,833	\$407,167
12	69	\$500,000	\$98,411	\$401,589
13	70	\$500,000	\$103,298	\$396,702
14	71	\$500,000	\$107,428	\$392,572
15	72	\$500,000	\$110,733	\$389,267
16	73	\$500,000	\$113,142	\$386,858
17	74	\$500,000	\$114,920	\$385,080
18	75	\$500,000	\$116,046	\$383,954
19	76	\$500,000	\$116,498	\$383,502
20	77	\$500,000	\$116,258	\$383,742
21	78	\$500,000	\$115,314	\$384,686
22	79	\$500,000	\$113,654	\$386,346
23	80	\$500,000	\$111,272	\$388,728
24	81	\$500,000	\$108,167	\$391,833
25	82	\$500,000	\$104,339	\$395,661
26	83	\$500,000	\$99,793	\$400,207
27	84	\$500,000	\$94,538	\$405,462
28	85	\$500,000	\$88,587	\$411,413
29	86	\$500,000	\$81,952	\$418,048
30	87	\$500,000	\$74,656	\$425,344

I sent you the paperwork required to convert the policy, change the investment allocation and stop payments yesterday morning. The transfer of ownership will happen after. Kindly DocuSign the paperwork to execute the change.

C. Additional Corporate Life Insurance

With regard to the money held in your corporation, let's assume you strip all available CDA and pay down your mortgage (Chris recommendation). That will leave approximately \$800,000 of cash/investments inside your corporation. We agreed that this money is not required for retirement income and is earmarked for your children/grandchildren.

Below is an example of your \$800,000 portfolio (@ 5% interest in a balanced portfolio). Notice the net estate values (red outline) is significantly less than the current portfolio balance (green outline). This is a result of punitive taxation.

Year	After-tax Estate Value	Cumulative Deferred Capital Gains	RDTOH Balance*	Capital Dividend Account	Taxable Dividends at Death	Net Estate Value**
1	\$824,400	\$4,000	\$11,960	\$4,000	\$831,360	\$444,621
2	\$849,544	\$8,122	\$24,285	\$8,122	\$863,676	\$465,871
3	\$875,455	\$12,370	\$36,985	\$12,370	\$896,979	\$487,768
4	\$902,157	\$16,747	\$50,074	\$16,747	\$931,296	\$510,334
5	\$929,672	\$21,258	\$63,561	\$21,258	\$966,661	\$533,588
6	\$958,027	\$25,906	\$77,459	\$25,906	\$1,003,104	\$557,551
7	\$987,247	\$30,696	\$91,782	\$30,696	\$1,040,659	\$582,245
8	\$1,017,358	\$35,633	\$106,541	\$35,633	\$1,079,359	\$607,693
9	\$1,048,388	\$40,719	\$121,751	\$40,719	\$1,119,239	\$633,916
10	\$1,080,364	\$45,961	\$137,424	\$45,961	\$1,160,336	\$660,939
11	\$1,113,315	\$51,363	\$153,576	\$51,363	\$1,202,686	\$688,787
12	\$1,147,271	\$56,930	\$170,220	\$56,930	\$1,246,328	\$717,484
13	\$1,182,263	\$62,666	\$187,371	\$62,666	\$1,291,301	\$747,056
14	\$1,218,322	\$68,577	\$205,046	\$68,577	\$1,337,646	\$777,530
15	\$1,255,480	\$74,669	\$223,260	\$74,669	\$1,385,404	\$808,933

Corporate Life Insurance Example:

Let's assume we use the cash in the corporation (\$800,000) and purchase a joint-life annuity for Scott and Tracey. An annuity is a contract that provides a guaranteed stream of payments in exchange for a lump-sum purchase. The annuity would provide ~\$24,000 per year (after tax) for life (guaranteed).

Financial Institution	Monthly Income
Equitable Life	\$2,520.06
Desjardins Financial Security	\$2,495.71
Canada Life	\$2,486.93
Sun Life Assurance Company of Canada	\$2,309.95

The \$24,000 of annuity income is used to purchase a permanent life insurance policy with a death benefit of \$2,234,000. Remember, the income is guaranteed for life and the insurance premium is guaranteed for life (it works perfectly).

At death, the proceeds of the life insurance (\$2,234,000) is paid to the corporation tax-free. At the same time, a corresponding capital dividend account ("CDA") credit is created in the corporation. The corporation can now pay a capital dividend of \$2,211,066 (which is taxed at 0%) to the children rather than a taxable dividend (47%).

In 30 years (closer to Tracey's life expectancy), the net estate \$2,084,000 (CDA is \$1,916,734). See below:

Age	Adjusted Cost Basis	Corporate Capital Dividend Account	Death Benefit Cov 1
43	\$22,933.73	2211066.27	\$2,234,000
44	\$45,475.95	2188524.05	\$2,234,000
45	\$67,697.16	2166302.84	\$2,234,000
46	\$89,579.45	2144420.55	\$2,234,000
47	\$111,083.65	2122916.35	\$2,234,000
48	\$132,193.15	2101806.85	\$2,234,000
49	\$152,849.82	2081150.18	\$2,234,000
50	\$173,017.75	2060982.25	\$2,234,000
51	\$192,627.31	2041372.69	\$2,234,000
52	\$211,608.61	2022391.39	\$2,234,000
53	\$229,914.85	2004085.15	\$2,234,000
54	\$247,440.99	1986559.01	\$2,234,000
55	\$264,124.03	1969875.97	\$2,234,000
56	\$279,823.00	1954177.00	\$2,234,000
57	\$294,421.27	1939578.73	\$2,234,000
58	\$307,786.14	1926213.86	\$2,234,000
59	\$320,145.70	1913854.30	\$2,234,000
60	\$331,377.80	1902622.20	\$2,234,000
61	\$341,366.66	1892633.34	\$2,234,000
62	\$349,966.58	1884033.42	\$2,234,000
63	\$357,022.26	1876977.74	\$2,234,000
64	\$362,369.75	1871630.25	\$2,234,000
65	\$365,820.69	1868179.31	\$2,234,000
66	\$367,163.33	1866836.67	\$2,234,000
67	\$366,166.47	1867833.53	\$2,234,000
68	\$362,586.60	1871413.40	\$2,234,000
69	\$356,185.89	1877814.11	\$2,234,000
70	\$346,684.12	1887315.88	\$2,234,000
71	\$333,798.77	1900201.23	\$2,234,000
72	\$317,266.34	1916733.66	\$2,234,000

Corporate Life Insurance Summary

I am not recommending the annuity or this particular policy but I think this example demonstrates the tax-power of corporately owned life insurance. I think it's a good idea that we talk about different insurance products in the corporation (some contracts have cash value if you want to keep an investment portfolio).

To be clear, the example is not a recommendation but rather a guaranteed solution using corporate life insurance.

D. Next Steps

I have already sent you an email with paperwork to execute the following:

1. Stop payments to existing Innovision policy
2. Change the investment allocation to a guaranteed investment account
3. Convert the 10-year term portion of the policy to a permanent policy (which will be transferred to the corporation)

I suggest we schedule another meeting to talk more about implementing a new life insurance policy for the remaining corporate money (as outlined above). This new policy requires an application (telephone interview and nurse visit to collect blood/urine).

One last thing, I will be sending you my compliance documents via DocuSign shortly after this email. Kindly open and sign.

Whew! Sorry for the length of this email, but I hope it helps summarize our conversation.

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Brian Laundry

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