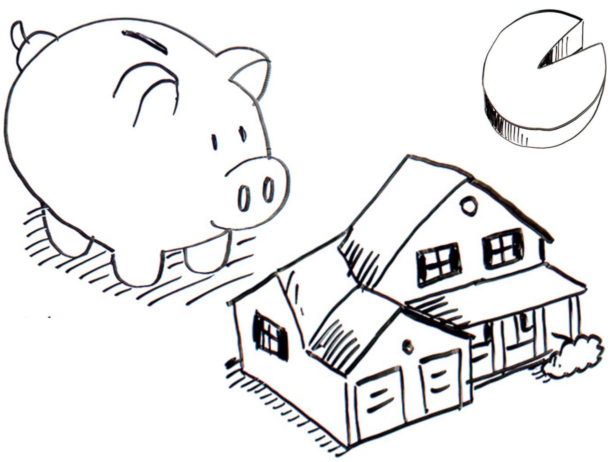
LIFE INSURANCE *for the* WEALTHY

The myth-busting benefits

KEY INSIGHTS:

1. Insurance can help preserve affluent lifestyles
2. Permanent life insurance can protect or enhance financial capital
3. Permanent insurance is an asset class worth considering



There are grains of truth to many myths, but others simply don't stand the test of time. For example, years ago parents would tell their kids to dress warmly so they wouldn't catch a cold. But medical professionals busted that myth when they discovered that cold air doesn't make you sick.

There's another old myth about life insurance too: "the wealthier you are, the less you need insurance." Like many other generally accepted "truths", this one appears logical on its surface. But dig down a little deeper and you'll find a different story.

Consider a typical scenario for an affluent, middle-aged couple who own a successful business: their kids have grown, they own a beautiful home, and their business has prospered, providing them with a valuable asset and a steady annual income. Life insurance was essential protection for this couple 25 years ago when their debt was high and the kids were young. But today, with no mortgage and millions in investment and business assets, the need for life insurance would appear to be greatly reduced.

But is it?

While the couple now has more than enough financial security to meet their basic living needs, the surprising fact is this: the benefits they can derive from life insurance are greater than ever.

BIOGRAPHY

Wayne G. Miller

BMATH, ASA, ACIA

Regional Vice-President, National Accounts & Strategic Business Development, Sun Life Financial

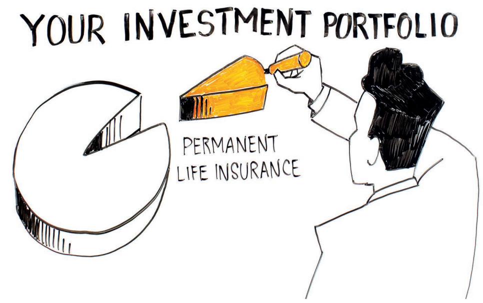
Wayne Miller is a Regional Vice-President with Individual Insurance Distribution for Sun Life Financial Canada. A respected industry expert and advocate, his mission is to debunk some of the common myths and misunderstandings about insurance and ultimately, help advisors improve their practices. When not presenting to large and small groups of advisors to share his insights, he invests his time developing best practice methodology for firms and advisors so they can recognize insurance as an integral component of their business model.

He joined Sun Life Financial in 1990 in the individual product pricing area and quickly gained exposure to various areas of the business including Marketing and Distribution through a number of positions of increasing responsibility. Wayne was promoted to Regional Vice President in 1998 and has been integral in building out a tight-knit team to support strategic and valued partners to grow Sun Life's insurance business.

Wayne graduated from the University of Waterloo in 1986 with an Honours Bachelor of Mathematics degree, majoring in actuarial science. That same year, he attained the Associate of the Society of Actuaries (ASA) designation. His industry involvement includes membership in Advocis, GAMA International Canada and the Conference for Advanced Life Underwriting (CALU). He's served as Chair and member of the Canadian Life and Health Insurance Association Inc. (CLHIA)'s various task forces.

Myth: The wealthy don't need life insurance
Busted: Insurance can help preserve affluent lifestyles

> The more clients have, the more they have to lose.



The need for money and ongoing cash flow doesn't decrease with wealth; it increases – with multiple properties to maintain, luxury vehicles, high-end travel and more. The higher an individual's pre-retirement income, the greater the percentage of income replacement they'll need to maintain their lifestyle.

THERE ARE TWO KEY BENEFITS LIFE INSURANCE CAN PROVIDE FOR WEALTHY INDIVIDUALS:

Human Capital Benefits

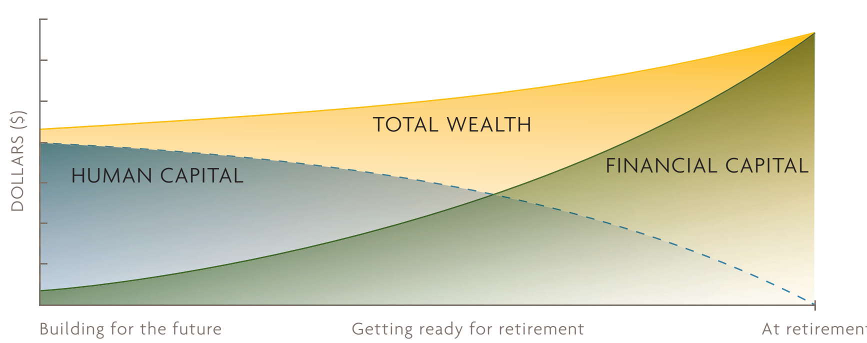
Protecting the value of an individual's income earning potential.

Financial Capital Benefits

Growing and protecting assets that an individual already owns, and that make up their net worth (real estate holdings, a business, investments).

LIFE INSURANCE IS WEALTH PROTECTION

TOTAL WEALTH = Human Capital + Financial Capital
HUMAN CAPITAL is the value of one's future income earning potential
FINANCIAL CAPITAL is the value of one's net worth



What do wealthy individuals need to protect?

HUMAN CAPITAL BENEFITS – income and lifestyle protection

While the need to protect human capital typically declines as individuals approach the end of their income-earning years, it may still have an important role to play for wealthy individuals with some earning years left and a lifestyle they want to maintain. It is important to discuss insurance protection while individuals are insurable.

For example, imagine the successful business couple continue drawing income from their business each year, and don't plan to retire for another 10 years. A term insurance policy – which provides insurance protection for a specific period of time and is the lowest cost form of insurance – could be put in place to help protect this income stream if an early death occurs.

Likewise, a disability insurance policy could protect this income stream in the event one of the business owners becomes disabled and is no longer able to work.

And finally, critical illness insurance – which pays a lump sum amount upon the diagnosis of a major illness if the individual survives the required waiting period – can be instrumental in covering some of the high costs that can stem from an illness. The payout from the policy can be used towards whatever is required, like financing a leave from the business, hiring staff at home or at work, or managing ongoing credit costs – while preserving the investment nest egg that the couple has built.

Affluent individuals also have a lifestyle that they want to maintain – and they shouldn't underestimate the impact of a serious illness on it. Over one third of Canadians who experienced a serious health event or accident said that it triggered a significant lifestyle change.[1]

> It's estimated that individuals with more than $150,000 in annual income will need to replace 84% of their income in retirement years to sustain their desired lifestyle.
>
> **Aon Hewitt** for the Retirement Income Industry Association, 2012

For a couple

AGE

65

THERE IS A

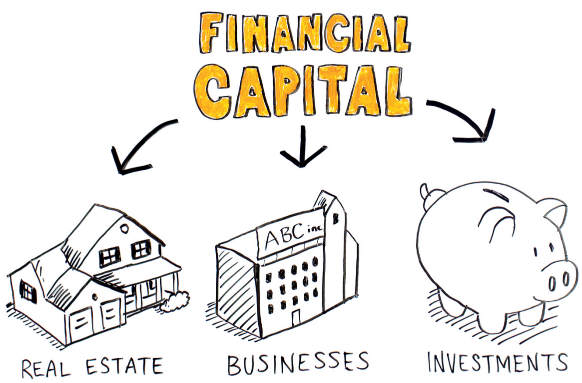
71%	chance of one of them experiencing a critical illness in their retirement years
82%	probability that one of them will require long-term care.

Source: Munich Re, 2011.

[1] Sun Life Canadian Health Index™, 2013.

What do wealthy individuals need to protect?

FINANCIAL CAPITAL BENEFITS
– estate, business, and lifestyle planning



While the need for these "human capital" protections should be assessed for all individuals, it's the "financial capital" benefits that the affluent miss out on if they buy into the myth that life insurance isn't for them.

As wealth grows, the need for estate, business and lifestyle planning increases. Life insurance can play a valuable role in many of these planning strategies – and that's not only in protecting wealth but in growing it.

Here's an overview of some of the ways that insurance can be used to protect or enhance financial capital – while accomplishing clients' estate and other financial planning objectives.

> As wealth grows, the need for estate, business and lifestyle planning increases.

For secure investment goals – insurance as an alternative asset class

When we think of investment asset classes, we usually think of stocks, bonds, real estate and cash investments. But permanent life insurance policies – either whole life or universal life that stay in place for an individual's lifetime – can produce superior rates of return than more traditional, conservative investments like Guaranteed Investment Certificates (GICs) or government bonds.

Once an individual maximizes their tax-sheltered saving opportunities (Registered Retirement Savings Plans (RRSPs), Individual Pension Plans (IPPs) and Tax Free Savings Accounts (TFSAs)) there are limited options for tax deferral or tax savings. For individuals who have enough savings to finance their retirement income needs and are looking to minimize tax and maximize their estate's value, a permanent insurance policy can provide significant benefits:

1. A tax-free death benefit
2. Tax-sheltering of policy investment income
3. Avoidance of estate settlement costs such as probate fees

Typically, the benefit to the estate upon death is significantly greater for the life insurance than for the non-registered investment regardless of when death occurs. And given that death is a 100 per cent certainty, permanent life insurance is worth considering as an asset class.

Even if the individual needs to access his savings during his lifetime, life insurance offers comparable liquidity to a bond portfolio, with even less volatility.

What do wealthy individuals need to protect?

FINANCIAL CAPITAL BENEFITS – estate, business, and lifestyle planning

Providing additional tax-free retirement income

While permanent life insurance can be an excellent way to build estate value, it can also be used to provide an additional tax-efficient source of retirement income.

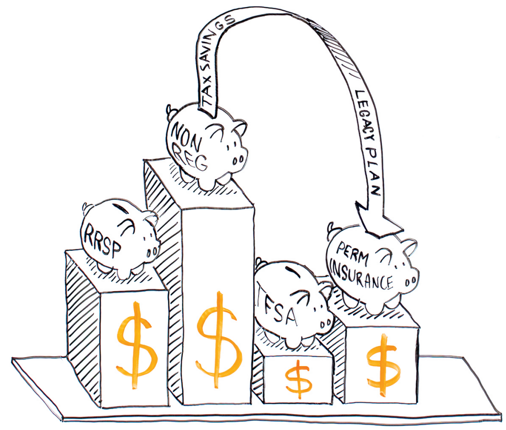
The most common method of doing this is by using the cash surrender value of the policy as collateral for a loan from a financial institution. The financial institution provides the individual with a series of loans, for which the insurance policy is the collateral. Under current tax laws, the loan proceeds are received tax free.

The loan arrangement can be structured so that no interest is payable on the loan until death. When the individual dies, part of the death benefit goes to pay out the loan, with the excess going tax-free to the named beneficiaries.

Individuals can also access their insurance policy's value through a withdrawal of the policy's cash value or through a policy loan directly with the insurance company. However, a withdrawal or policy loan could trigger tax consequences depending on the adjusted cost basis of the policy. For this reason, a loan arrangement from a third-party financial institution is the most common method of generating additional income in retirement.

8% of households CONTROL » 77% OF ALL financial wealth

Source: Investor Economics - Household Balance Sheet, 2013.



Making the most of charitable giving

While many affluent individuals would like to make a substantial charitable contribution beyond their annual support for various causes, they (or their estate) may not have the liquid cash to make it happen. One affordable solution is the use of life insurance to make a charitable bequest.

To donate using insurance, the individual applies for a permanent insurance policy. When the policy is approved, they transfer ownership of the policy to the charity of their choice, with the same charity also named as beneficiary. The individual pays the annual premium and gets a tax receipt for that amount.

The charity is guaranteed the amount of the death benefit provided the individual continues to make premium payments. In addition, the payment of the death benefit is made outside of the estate, so the charity receives the proceeds quickly, and with no probate fees payable on the amount.

Another way to use insurance proceeds is to replace the cost of a charitable gift at death. The individual makes a direct charitable bequest in their will, and the charitable tax credit is used to reduce income taxes payable by the estate. The proceeds of the life insurance policy are paid to the children or other beneficiaries to offset the cost of the charitable gift and ensure they get the full inheritance intended.

What do wealthy individuals need to protect?

FINANCIAL CAPITAL BENEFITS
– estate, business, and lifestyle planning

Covering estate tax liabilities, or equalizing the estate

When an individual dies, they are deemed to dispose of all their capital property – and their estate must cover the tax on any capital gains. In addition, tax-sheltered assets held in registered plans (such as RRSPs and RRIFs) lose their tax-sheltered status upon death and become fully taxable, unless they rollover to a qualified beneficiary, such as a spouse or minor child.

There can be other expenses as well. Probate fees – which the estate must pay to the government to confirm the validity of a will – can amount to thousands of dollars depending on the province of residence. In Quebec, although probate fees are not applicable, court verification fees apply for non-notarial wills.

The proceeds of a life insurance policy can be an ideal way to cover some or all of these estate expenses. The death benefit is non-taxable and can provide an estate with the (liquid, ready) cash needed to ensure that non-liquid assets, such as a cottage or business, do not have to be sold to cover the estate's liabilities.

This liquidity can also be used as a means of equalizing an estate amongst beneficiaries. For example, if an individual owns a business and wants one child to assume ownership and control, life insurance proceeds can be used to provide an equal share of the estate to other beneficiaries, without the need to sell the business or other assets.

Business uses for insurance

For businesses, insurance can play a key role in a number of ways:

Funding a buy-sell agreement: If there are multiple business owners, a buy-sell agreement sets out the conditions (such as death, disability, non-contribution due to serious illness) under which one owner has the right to buy the ownership share of other owners.

To be effective, the agreement needs to be funded in a way that won't cause financial hardship to either the company or to the partner being bought out. One of the most effective solutions is buying life, disability and critical illness insurance to insure each owner. When an owner dies or becomes disabled or ill, the company (or the surviving owners depending on how the insurance arrangement is structured) can use the insurance proceeds to buy out the partner's business interest.

Providing key person insurance: Losing a key owner or employee through death, disability or critical illness could have a significant business impact. The business loses the input of a valuable member, creditors could withdraw financing and customers might go elsewhere. In addition, there could be significant out-of-pocket costs in terms of recruiting and training a suitable replacement.

Key person life, disability and critical illness insurance can provide the funds necessary to keep a business operating should a key person suffer an unexpected illness, accident or death. The business is the beneficiary of the policy, and the funds can be used for any number of business purposes, such as recruiting or training a replacement, providing supplementary cash flow to replace a decline in business income, or paying suppliers.

Tax-effective transfers: Insurance arrangements can also be structured so that some or all of the insurance proceeds are used to pay tax-free capital dividend payments from the company to one or more of its shareholders. There are a number of variations in how such arrangements can be structured, depending on the situation and business purpose.

The insurance opportunity

It's time to bust the myth that insurance has no place in the portfolio of wealthy individuals. As age and wealth increase, what was once a necessary protection expense becomes a very valuable financial opportunity.

Insurance products can add value for insurable business owners and affluent individuals in so many ways: enhanced retirement income, business protection, estate preservation, and tax-efficient wealth transfers. It's an investment worth exploring for the affluent.

THE WEALTHY DON'T NEED INSURANCE BUT THEY SURE WANT IT.

NEED TERM INSURANCE (protecting human capital)

- Replace income in the event of premature death or disability of a bread-winner or key person
- Meeting shareholder buy-sell obligations

WANT PERM INSURANCE (protecting financial capital)

- Low risk asset class
- Tax-effective transfer of assets from a corporation
- Inter-generational transfers
- Philanthropic gifting
- Funding tax liabilities
- Estate equalization tool
- Protecting the value of an investment portfolio in the event of an illness

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Permanent life insurance can protect or enhance financial capital

As wealth grows, the need for estate, business and lifestyle planning increases. Life insurance can play a valuable role in many of these planning strategies – and that's not only in protecting wealth but also in growing it.

Permanent insurance is an asset class worth considering

Typically, the benefit to the estate upon death is significantly greater if clients put some of their money into a permanent life insurance policy instead of a non-registered investment. Since death is a 100 per cent certainty, permanent life insurance is worth considering as an alternate asset class.

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