Insurance

As an incorporated professional, a significant part of your wealth will be tied up in your professional corporation. Even though you have maximized contributions to your RRSP, you would like more flexibility and choice regarding your retirement lifestyle. In addition, if you are like most incorporated professionals, you have a need for permanent life insurance. You are looking for a financial planning strategy that will address both your current need for insurance and your future need for flexibility when you retire.

An option to consider – the Corporate Insured Retirement Program with Shareholder Borrowing

With this strategy, your professional corporation deposits funds into a permanent life insurance policy in excess of the amount required to cover the insurance premium and other policy costs. In the future, your corporation assigns the policy to a bank as collateral for a personal loan to you. By having your corporation purchase the life insurance policy and use it in this manner, you address your needs for permanent life insurance protection today and flexibility at retirement.

You can use the tax free annual income in any way you wish…travel, buy a new vehicle or just enjoy a higher standing of living with the higher income! It’s your choice!

A Case Scenario

Consider a 40-year-old male non-smoker. He currently needs $1,000,000 of life insurance. He plans to save $25,000 from his professional corporation in a life insurance policy for the next 15 years. He plans to retire at age 65 and estimates that during retirement, he needs an additional income of approximately $25,000.

With the Corporate Insured Retirement Program, he can receive tax free loans from age 65 to age 85 in the amount of $23,221 each year.

Here's a comparison:

	Insured Retirement Program	**Taxable Investment**
Annual deposit (over 15 years)	$25,000	$25,000
Rate of return	6%	6%
Annual tax-free payout	$23,221	$23,221
Death benefit at age 85	$2,486,380	$0
Loan balance at age 85	$1,114,741	$0
Net Estate Value:	**$1,371,639**	**$0**

Personal tax rate assumption: 46%   Loan rate assumption: 7%

In the above scenario, deposits totalling $375,000 were made and grew tax free inside the corporately owned insurance policy. At retirement, more than $480,000 of tax-free retirement income was received by the shareholder. There is also a net estate value of over $1.3 million with this strategy.

When you die, your estate provides other assets as collateral for the bank loan. This allows the bank to release the life insurance policy that has been serving as collateral for the loan and your professional corporation to receive the policy's tax-free death benefit. Your professional corporation then uses the proceeds to pay a tax free capital dividend to your estate. Your estate uses these funds to repay the outstanding loan balance and distributes the excess as directed in your will.

This strategy, in effect, enables you to withdraw monies out of your professional corporation and into your hands over time on a tax free basis!

Contact Paul for a no-obligation quote based on your circumstances