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Universal Life Insurance

An Introduction for Professional Advisors

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Introduction

Universal life insurance is one of the few tax shelters, outside RRSPs, available to Canadian taxpayers.

This guide is designed to improve your knowledge of Universal Life Insurance and its applications. Armed with this knowledge, you will be in a better position to determine if this product is appropriate for your clients.

The guide begins with an examination of the taxation of life insurance as it relates specifically to universal life contracts. It then provides an overview of the concepts and product applications used in the market today.

Finally, it offers a brief commentary on potential changes to life insurance product design and application.

Life Insurance uses

The property of permanent life insurance has wide application for both individuals and businesses alike.

On the individual side, permanent coverage is used for:

- **Estate Creation:** To replace income lost through premature death.
- **Estate Preservation:** To provide the estate with sufficient liquidity to ensure that all taxes and other estate debts are eliminated.
- **Wealth Accumulation:** To provide individuals with tax deferred cash to supplement retirement income or to take advantage of other opportunities.

On the business side, permanent life insurance can be used to:

- Provide the liquidity required to offset the loss of a key employee whether that loss is caused by death or retirement.
- Ensure that funds are available to permit existing partners, shareholders or key employees to purchase the interest of a deceased or retiring business partner or owner.
- Provide a retirement supplement for the owner or other key employees of a business. These individuals are often “shortchanged” because of the limitations that exist in registered plans.

Taxation of Life Insurance

Legislation relating to the taxation of Life Insurance contracts was originally introduced in 1982. At that time, rules and regulations were enacted that placed restrictions on the cash values that could accumulate inside a life insurance contract and have that contract exempted from accrual taxation.

To understand these rules, it's important to study the basic premise relating to the payment of benefits under an exempt life insurance contract, regardless of the type of contract

1. Death Benefits under a life insurance contract are paid to the beneficiary(ies) on a tax-free basis.
2. If the benefits payable also include accumulated cash values which have accumulated on a tax deferred basis, these benefits are also payable tax free.
3. If the beneficiary is a Canadian Controlled Private Corporation, the mortality gain under the policy can be deemed a Capital Dividend and therefore payable to the shareholders of the corporation tax free.
4. The mortality gain mentioned in (3) above is defined as the total death benefit minus the Adjusted Cost Basis (ACB) of the policy.
5. The ACB of a policy is defined as the total premiums paid minus the accumulated costs of riders and benefits added to the contract, and minus the cumulative Net Cost of Pure Insurance (NCPI). It can never be less than zero.
6. The NCPI rates are contained in a table produced by the Canadian Institute of Actuaries and approved by the Canadian Customs and Revenue Agency.
7. For corporate beneficiaries, proceeds that are not eligible for credit to the Capital Dividend Account (CDA) will be payable to the retained earnings and surplus of the corporation. They may be paid to the shareholders as a regular taxable dividend.

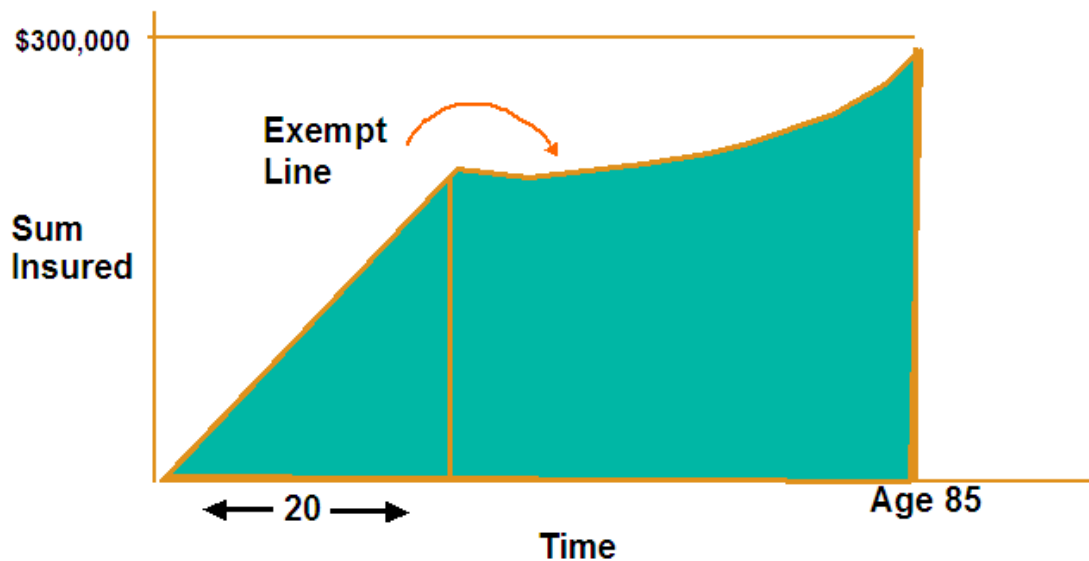
Accumulating Cash/Fund Values

In addition to flexibility, people who buy universal life insurance are often very interested in its tax sheltering capacity.

An insurance contract can accumulate values based on what is referred to as a "Notional Exempt Test Policy." In this context, "notional" means that it exists only for determining the exempt limits of the policy under consideration.

The exempt test policy is described as a 20-pay endowment at age 85 for policies issued to insureds 65 years of age or younger. Under this definition, a policy can accumulate cash value at age 85 equal to the face amount of the policy at issue. A person who buys \$300,000 of life insurance at age 40 could accumulate \$300,000 of cash in this contract at age 85. **Figure 1** gives an example of how this works.

Figure 1: Exempt Line Graph



Maximizing Cash/Fund Value

People who purchase universal life insurance sometimes find it challenging to maximize the cash/fund values in the contract. The graph in **Figure 1** shows the maximum values that can accumulate. The question becomes how to manage the contract to accumulate these values. Most people do not want to contribute for 20 years. The period could be longer or shorter. In addition, most people will be depositing funds into investments that are variable. In good years, these will accumulate to an amount greater than the policy can accept. In bad years, the amount will be less.

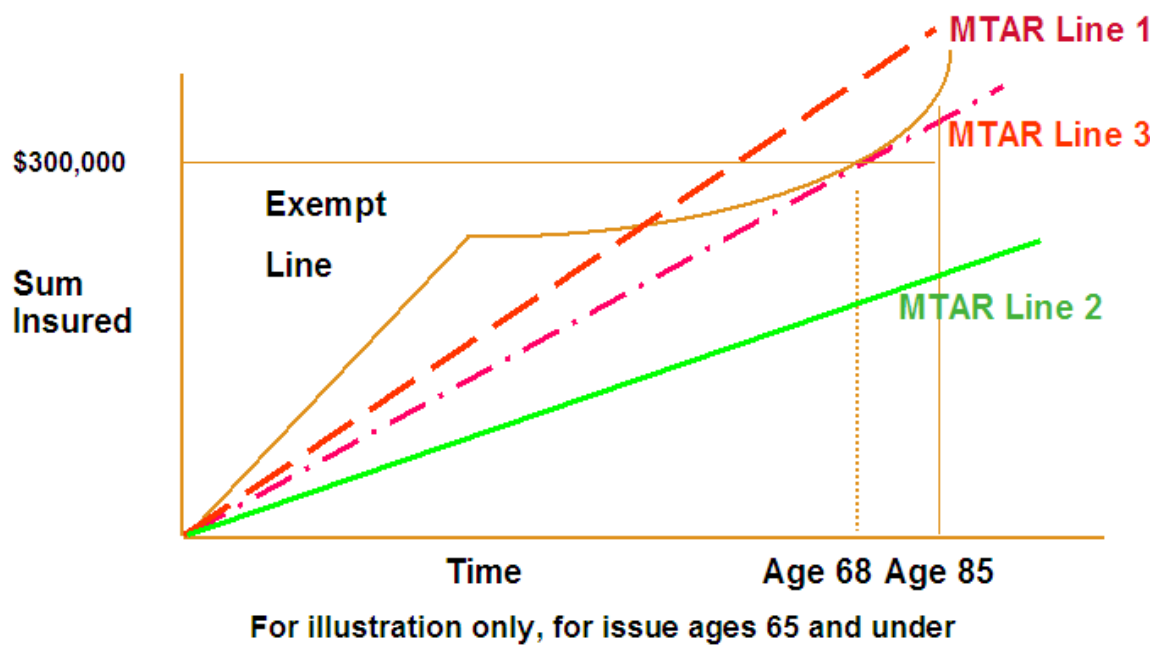
In **figure 2**, you can see an example of three different funding levels.

Line 1: In this example, the policy is accumulating more funds it can handle (not in the earlier years, but beyond approximately the 23rd policy year).

Line 2: This shows a funding level substantially less than the policy is capable of handling. Substantial accumulation room is available.

Line 3: This situation appears to be the most favourable. The policy is able to accumulate values that, at age 68 are exactly the maximum that can be accumulated without exceeding the limits. There is still unused "room" prior to age 68 and after age 68, but this is the best possible scenario. Or is it?

Figure 2: Exempt Line Graph, Level Deposits

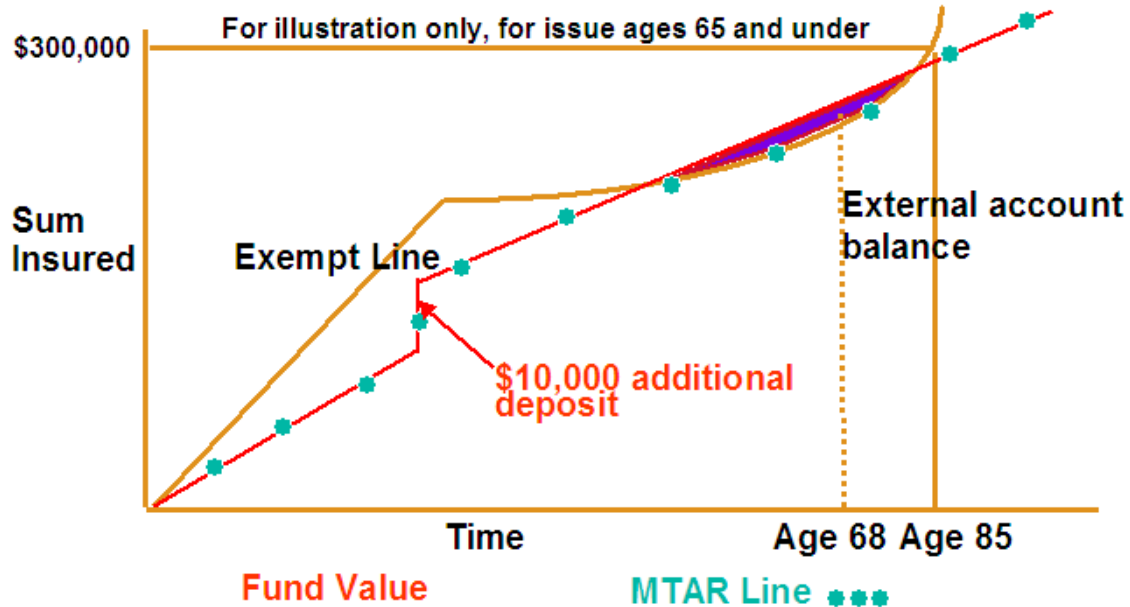


One of the options available to attempt to take advantage of the unused room is to make additional deposits. In **figure 3**, we make an additional \$10,000 deposit. While this will have no initial impact on exempt status of the contract, we end up in a position where the contract goes “offside” (becomes non-exempt). This is indicated by the term “external account balance”.

One of the remedies available to policy owners to prevent their entire contract from becoming non-exempt is to transfer sufficient funds from the contract to an external side fund. This will ensure that the contract maintains its exempt status. There are tax implications to this strategy:

1. The transfer of funds to the external account is a policy disposition.
2. Policy dispositions are taxable to the extent that the cash/fund value of the contract exceeds the ACB of the contract.
3. Partial dispositions, i.e. dispositions of amounts less than the full cash/fund value of the contract, are taxable on a proportionate basis where the proceeds are not fully taxable.
4. Funds in the external account earn taxable income.

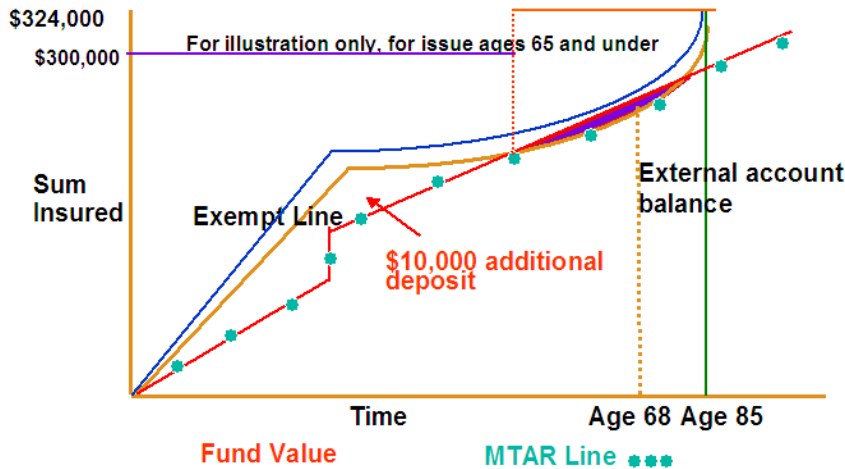
Figure 3: Exempt Line Graph



There is another remedy available under the ITA for policies that fail the exempt test. Under this remedy, the face amount of the contract can be increased to 108% of the previous year’s face amount (this issue is covered in The Act under Regulation 306).

Increasing the face amount to 108% increases the amount of cash/fund value permitted in the contract by the same amount. This is because the exempt room is based on the fact that the exempt line increases by the same percentage.

Figure 4 Exempt Line Graph, Increasing Death Benefit by 8%. This graph illustrates the effect of increasing the \$300,000 policy to \$324,000.



Walking the MTAR Line

The majority of companies offering universal life insurance today have the capacity to manage their policies so that they are able to “walk the MTAR line.” Simply put, this means they are able to calculate deposits each year that will bring the policies cash/fund values as close to the permitted maximum as possible. The next two graphs illustrate a contract that “walks the MTAR” for seven years.

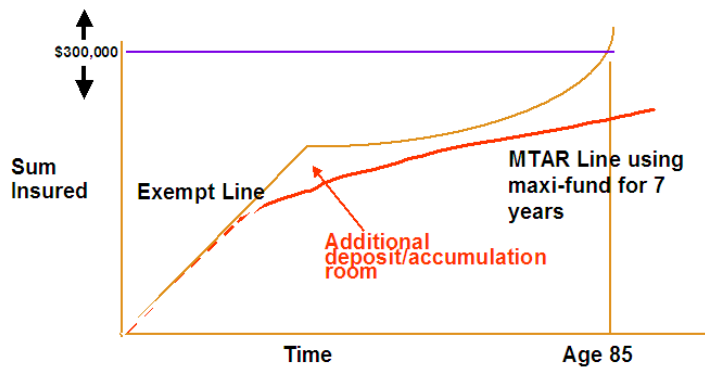
MTAR stands for Maximum Tax Actuarial Reserve. It refers to the tax-exempt value of the policy at any point in time. The MTAR of a universal life contract is the value of the exempt fund or cash or fund value, depending on the interpretation. See page 9 for a more detailed discussion of MTAR.

In **figure 5**, you can see substantial exempt room available when the contract is funded for a limited period. If you use this contract primarily as an investment vehicle, you’ll find that there is too much insurance.

Is there any way to optimize the investment nature of this contract? Fortunately, the answer is yes. You can reduce the sum insured.

Although the maximum increase allowable in any year is 108% of the previous year’s amount, there is no maximum, under the ITA, by which the sum insured can be reduced. This is limited only by the insurers’ rules.

Figure 5: Exempt Line Graph, “Walking the MTAR”



Current Tax Situation

As we speak, there has been very little change in taxation to Life Insurance products since 1982, when the current legislation was introduced. This legislation has become dated. This is because while the product itself has undergone a great deal of change, tax legislation has not. This has left the industry to attempt to interpret what the authorities intended when they drafted the original legislation.

The other thing that we must remember is that this legislation is currently under review by the Canadian Customs and Revenue Agency (CCRA).

What has happened in our industry since 1982?

Universal Life has become the product of choice. Back in the early '80s, Universal life insurance did not exist. Now it's a tool for all seasons and, for some people, a tool for all reasons. The other thing that's happened is that there is a lack of a clear tax policy relating to this product. There are varying interpretations with respect to taxation. Some reasons for this can be found in the proliferation of the "bells and whistles" that some companies have added to this particular product.

A couple of examples reflecting this lack of clarity follow:

1. When a policy's maximum tax actuarial reserve (MTAR), is calculated, should the calculation be based on cash or fund value?
2. Does the exempt testing occur only up to age 85 or does it occur beyond?

MTAR & Exempt Testing

We have already mentioned MTAR. In addition, we have discussed the fact an exempt test policy makes reference to an endowment at age 85. Does this mean that policies are only tested to age 85? Under guidelines communicated by the Canadian Life and Health Insurance Association (CLHIA), the maximum amount of increase after age 85 is 8%. Should the values in the contract exceed this amount, one of two things will happen:

1. The excess amount will be transferred to the policy's transit, non-exempt, account. This is a taxable disposition.
2. The excess will be considered as the fund value of a new exempt policy and insurance of \$1,000 for every \$100 of excess value would have to be purchased.

Investments

Investments are another issue. Can a universal life policy invest in managed funds? The answer under the current legislation is unclear. Some companies have their index investments tied to one of their own specific segregated funds. Is this a contravention of the law? Can we have these types of products and still have them exempt from accrual taxation? Can Standard Life tie our universal life product, Perspecta, to the company's own segregated funds? Currently we have all of our indexed investments tied to outside indices. Other companies chose to go the other way.

Recently, CCRA was asked to offer an opinion on the eligibility of having managed funds as eligible investments. They responded by quoting the ITA on this subject. Standard Life requested an opinion from an outside consulting firm, Eckler Partners. Their opinion is that universal life investments in third-party managed funds are eligible investments under the ITA. Should the funds offered be only those of the insurer issuing the contract or could the fund be specifically designed by the insurer as an investment for a universal life product, we may have an ineligible investment.

Insurance Component

Finally, we examine the insurance component. Is insurance really required?

A substantial amount of universal life insurance is sold today on the basis that the life insurance or death benefit component is a “throw away” and we try to reduce this amount as quickly as possible. There are companies that offer a product that reduces the death benefit to zero after age 85.

These are some of the varying interpretations being placed on some of the aspects of universal life by certain individuals and companies. They have worked on the assumption that if a particular type of operation of a contract is not excluded under the law, then it is included.

“Grandfathering”

People probably hope that somewhere down the road, when all the dust settles and the regulations are better defined, that these “positive” interpretations they made for the benefit of their clients will be grandfathered.

In all likelihood, however, grandfathering will not occur if the actions were based on incorrectly interpreted regulations. Just because the legislation was interpreted incorrectly does not mean that a contract will be grandfathered.

In 1982, grandfathering occurred when regulations changed, not because of interpretations. Regulators generally offer grandfathering in interpretative situations where the majority of companies have interpreted a regulation in the same way. Grandfathering will not occur if the incorrect interpretation is that of a single or a few insurers.

Taxation Specifics

Funding Limits

To begin, we will examine the wide funding corridor that exists inside the universal life contracts. It can be examined from two perspectives: minimum funding and maximum funding.

There are also three specific concerns to consider:

1. The 250% rule, also known as the anti dump in rule.
2. Maximum Premium Calculations
3. Exempt Test Failure.

Before we move on any further, let's look at the definition of some of the terms we will be using. The first is **MTAR**. It stands for Maximum Tax Actuarial Reserve, but it means the tax-exempt value of the policy at any point in time. The MTAR of a universal life contract is the value of the exempt fund or cash or fund value, depending on the interpretation.

Another important phrase is **exempt line**. This is the year-by-year calculation of the maximum cash/fund value, or MTAR, allowable under section 306 of the income tax act.

1. 250% Rule

The 250% rule is a creature of the 1982 regulations when they were promulgated. We will look at this rule and see how it impacts our contracts.

A common sales approach for practitioners who market universal life contracts goes like this:

“Mr. Prospect, we have determined that you have a permanent need for \$500,000 of life insurance. We both know that currently you are on a tight budget, that we anticipate will change within a couple of years. We recommend that the type of contract best suited for you now and in the future is Standard Life's universal life policy, Persepcta.

In the short term, Persepcta offers insurance protection at a very reasonable cost. In the future, as your cash flow improves, you will have the flexibility to make additional tax sheltered contributions that will accumulate cash value on a tax deferred basis.”

The reason for this approach is the general perception that clients can contribute up to the exempt line, the maximum accumulation value permitted, with no tax on the investment earnings inside the policy. This is correct to a degree, *but...*

For a policy to remain exempt (exempt from accrual taxation on a year by year basis), the MTAR of the policy, cash value, must remain less than or equal to the exempt line.

Yearly maximum premium is the amount that can be paid into a contract in a given year that will bring the cash value (MTAR), as close as possible to the exempt line without exceeding it.

At Standard Life, the maximum premium is calculated at 4% plus bonus earned in the previous year. Premiums for life insurance contracts are assumed to be paid at the beginning of the year. Testing to determine if a contract remains exempt occurs at the end of the year. This is the rule for all contracts.

Back to the 250% rule. What is it and what does it mean? It says that beginning at the 10th policy anniversary, the MTAR of the policy (the cash/fund value of the policy) cannot exceed 250% of the value that existed at the 7th policy anniversary. From the 10th year on, this test is applied every year and always looks back three years. If the policy fails the test, excess funds are transferred to an external holding account with possible tax implications. At Standard Life, and at most companies, monies are either transferred to an external holding account or sent to the client.

The regulations do make provisions for correcting this particular problem. On a tax basis only, the policy's exempt line can be re-established as if the policy were three years old, thereby creating additional tax-exempt room. However, this is difficult to explain to the client. There may well be companies whose systems cannot handle such changes. This happens to be one of those items that is permitted under law but is not be practical for some companies to carry out.

So what does all this mean, really? Simply this: if a policy has been minimum funded through the 7th policy anniversary, the allowable MTAR, or cash value and the extension of that, is that the amount of premium that can enter the policy from the 10th year on will be greatly reduced.

If, when reviewing your client files, you find people who are minimum funding their universal life contracts, make sure these clients are advised of the 250% rule and act accordingly. Furthermore, if you sell any new contracts that are minimum funded, sell them with 250% rule in mind. Make sure clients understand that additional funding must be done prior to the 7th anniversary of the contract, especially if they are minimally funding the contracts in the early years.

2. Maximum Premium Calculations

Here again we are looking at an area of interpretation. When calculating the yearly maximum premium, should these premiums be based on the accumulation of funds value, which in most companies contain surrender charges, or the actual cash value of the contract after surrender charges are applied?

The method used will make a big difference in the calculation of yearly maximum premiums during the surrender charge period. If we chose to interpret that the **Ymax** (yearly maximum premium) is based on fund values, we will end up with lower deposits into the contract than if we based on our interpretation on cash value. At Standard Life, we have applied the cash value interpretation; therefore our yearly maximum premiums will be higher than our competitors who have chosen the fund value interpretation.

Another important consideration is the interest rate used in determining how these yearly maximum premiums are calculated. We'll call this illustration vs. reality.

Regardless of what is illustrated on the company's illustration system, all companies' administration systems use one rate for the calculation of these premiums. It could be a 4% rate, it could be an 8% rate, and it could be a 10% rate. As mentioned previously, at Standard Life we use a 4% base interest rate in the calculation of all yearly maximum premiums for all universal life contracts. The actual rate is 4% plus bonus earned for the previous year. Therefore, at Standard Life this interest rate will vary between 4.7% and 5.2%.

The question you may be pondering is: which of these is better? Higher or lower? It is an excellent question. Companies that use a high rate of interest will have a lower maximum premium than companies that use a low rate of interest.

In calculating this way, there is less potential for a contract to go off side. However, premiums or cash and fund values will not be maximized for GIC type investments where interest rates are around 4% to 5% or an index link fund that happened to perform poorly in a particular year or number of years.

Companies like Standard Life which use a low rate are at risk of the contract going “off side”, or becoming non-exempt. On the other hand, premiums will be maximized for GIC type investments and when index linked investments perform poorly.

What's the bottom line? Simply put, either type of calculation can benefit the client. It depends on where the investments are and how the company actually manages the process.

At Standard Life, the management process is as follows:

1. The company conducts exempt tests each year at the anniversary date. If the client has chosen our shelter optimizer (walk the M.T.A.R. line) option and has deposited the exact maximum premium as calculated at the beginning of the policy year, we will automatically increase the sum insured by 8%, the maximum increase permitted by regulation. If the client has not chosen this option, we will either transfer money to the transit account or send a cheque to the client. This will depend on the option selected by the client.

If the clients are looking to maximize their contracts, we will first increase the sum insured. If, after the exempt test, we still have a policy that is off side, we transfer money to the transit account or send them the cheque. Our default option is to transfer to the transit account.

2. The second step is to calculate our yearly maximum premium at 4%.
3. We look at the contract to find out if there is any money that exists in the transit account by virtue of an exempt test failure or because of monies that may already reside in the transit account.
4. We prepare an annual statement. This annual statement will indicate to the client the maximum deposit for the upcoming year. This deposit will be the yearly maximum premium less any amounts that exist in the transit account.

When clients make the yearly maximum deposit they should be aware of the following:

- a. Don't pay early. Make sure the client waits for the annual statement. This statement will show the maximum amount that can be deposited to the contract for the upcoming year.
- b. Remember the yearly maximum deposit calculation is imperfect. This is because calculations are based on deposits being made at the beginning of the year, while we do exempt testing at the end of the year. It's a guesstimate. If the policy performs better than our 4%, the client could have excess funds in the contract.
- c. Another thing to remember is that the calculation is only made once a year, regardless of the premium mode chosen. The yearly maximum premium or yearly maximum deposit is the gatekeeper.

For example: say that we've determined that the yearly maximum deposit for the year is \$40,000 and the client is depositing monies on a monthly basis at \$4,000 per month. On this basis, once \$40,000 has been contributed to the contract, any other monthly premiums will automatically go into the transit account.

3. Exempt Test Failure

Clients should be made aware of what will happen if the policy fails the exempt test.

At Standard Life, this doesn't happen because there are automatic procedures in place to prevent it. One of these procedures is to transfer funds in excess of what is permitted to the transit account. This is a partial disposition of the contract and this disposition could be a taxable disposition requiring the client to pay income tax. This will occur if the product outperforms the assumptions that we have used. An over-performance will reduce future deposits. As has already been stated, we always look at the transit account when determining what the following year's maximum deposit will be. We should also remember that this is most likely to occur if the contract is maxi-funded or if the client is "walking the MTAR."

Capital Benefits

Capital Benefits are benefits that are paid out of a universal life policy for reasons other than death.

They can be a disability benefit payable as a lump sum. Should they meet the definition under section 148 (9) (h) of the Income Tax Act (ITA), they would not be considered a disposition and would be tax-free.

Another type of capital benefit is a monthly disability benefit. This may also be tax-free. Whether it is or not is dependent upon the definition of total and permanent disability. This is because the definition of disability is different for monthly benefits than for lump sum benefits. For a monthly benefit to be paid from a life insurance contract tax-free, the disability must be total and permanent.

Other types of capital benefits include critical illness insurance (CI). The taxation of critical illness benefits still has to be determined by CCRA. The consensus is that the payment of a benefit by virtue of an insured contracting a critical condition, as defined in the contract, would be tax-free. Payments for ancillary benefits under a CI policy or rider attached to a UL contract may not be tax-free.

Concepts

In today's market there has been a tremendous interest in utilizing the cash values in a life insurance contract as collateral for a loan or a series of loans. This concept is known by any number of marketing terms. We know it as leveraging.

Why is leveraging such an important topic?

The ITA says that a disposition does not include an assignment of all or any part of the interest in the policy for the purpose of securing a debt or a loan other than a policy loan. Therefore, policies assigned to a bank for a series or a single loan are not considered to be a disposition. It is important to be careful regarding how these particular contracts are structured.

A number of these contracts for leveraging are set up as a corporate obligation to pay. In other words, the corporation owns the policy and enters into an agreement with the employee to pay out benefits upon retirement. If it is a corporate obligation to pay, it is in all a Retirement Compensation Agreement (RCA), and therefore could be subject to the payment of a refundable tax equal to the investment, in this case equal to the annual deposit.

What is a RCA? It is a customized pension that helps businesses attract and retain key employees and it ends the ceiling on RRSP contributions. RCAs can be set up to the benefit of these individuals and also to the benefit of business owners and executives. They are plans under the income tax act.

Are there tax considerations for an RCA? Of course. The first is that the employer contribution is 100% tax deductible. However, a 50% tax on the contribution to the RCA and a 50% tax on investment earnings must be sent to Revenue Canada in the form of a refundable tax. Note that this refundable tax does not accumulate interest. As UL contracts accumulate on a tax-deferred basis, it is not necessary to pay the refundable tax on the deferred growth.

Once the monies are withdrawn from the plan, tax is refunded to the RCA trust, \$1 for every \$2 for the benefits paid. These payments aren't taxable in the employee's hands until received upon retirement. One received by the retired employee or other beneficiaries, they are fully taxable.

Leveraging

If you are considering recommending leveraging and you feel comfortable it will not be an RCA, always ensure that you illustrate the concept conservatively.

Excess leveraging could lead to all kinds of unfortunate occurrences.

- There could be a requirement for additional collateral.
- There could be a cessation of the loans from the financial institution
- The financial institution could cause a disposition of the contract.

While none of these are preferable, a disposition of the contract is the last thing that we want to have happen.

Let's look at an example at what we mean by excessive leveraging. Let's look at a situation where last year there was a fund value in the Life Insurance contract of \$1,500,000. There was a loan balance of \$1,000,000 dollars and this was increasing based on a loan interest rate of 8%.

So not too bad, our leveraging percentage here was at 67%.

This year, there has been a market value decline of 23%. This means that our fund value, instead of being \$1,500,000 is now down to \$1,155,000.

Our loan balance is now \$1,000,000 plus 8%, 1,080,000 and we have not been able to take out a loan for the current year. In other words, no revenue to us. Our leveraging percentage now is up to 93.5%.

Here's the problem. While the fund value is \$1,155,000, it's **all taxable**, so if the loan is called, we have a tax payable of \$577,500 on the disposition.

We owe the bank \$1,080,000. So we have a deficit of \$502,500.

This is dangerous. Do you think the bank will foreclose? It probably will unless the client can provide addition collateral. The bottom line, be conservative.

Multiple coverage contracts

Multiple coverage contracts or "Multiple Lives Contracts" are insurance policies that offer coverage on more than one life or group of lives. The coverage offered can be different for each life insured. The major benefits in issuing this type of contract are:

- The policy fees are greatly reduced. At Standard Life, insuring five lives under five different contracts would produce policy fees totaling \$600.00 each year. Under a multiple lives contract, the cost would be \$216.00
- There is only one policy to deal with, one premium to pay and one set of investment decisions to make.

Multiple Lives contracts may be well suited for individual, i.e. non-corporate, applications. In corporate situations the benefits may well be overshadowed by the way capital dividend account (CDA) credits are calculated.

The following example will illustrate the situation:

In this example we have two individuals insured, each requiring \$2,000,000 of coverage. There is a slight disparity in age. The death benefit is increasing or "face plus fund value." This is the only death benefit available for multiple lives coverage at Standard Life.

The first death occurs in year 16 and the second death occurs in year 17.

If we issued **individual contracts**, the pay out of the death benefit would be as follows
First death in year 16:

- We have a death benefit of \$3,900,000.
- This includes \$1, 900,000 of fund value.
- The adjusted cost basis (ACB) of this contract is \$1,000,000
- The credit to the Capital Dividend Account is \$2,900,000

The second death occurs in year 17 and this time the insured is somewhat younger.

- We have a death benefit of \$2,500,000
- This includes \$500,000 of fund value.
- The ACB is \$500,000
- The credit to the CDA is \$2,000,000.

Let's review the total after tax payout in this particular case.

- We have payable from the Capital Dividend Account \$2,900,000 plus \$2,000,000 a total of \$4,900,000
- In addition we have the ACB of both policies. The ACB amounts are \$1,000,000 plus \$500,000 a total of \$1,500,000.
- This amount is a credit to the retained earnings of the company and would be available for payout as a taxable dividend.
- Dividends are taxed at approximately 33 1/3%.
- After-tax this will amount to \$1,000,000.

What is the total that would be available after tax if these two contracts were individual contracts? The total would be \$5,900,000. That's \$4,900,000 from the CDA and \$1,000,000 from the after-tax "regular" dividend.

With Multiple Coverage contracts we have a slightly different situation.

On the death benefit of the first to die, we still have \$3,900,000 including \$1,900,000 in fund value. Instead of being \$1,000,000, the adjusted cost basis is now \$1,500,000 because both lives are combined for the ACB calculations. This means that the CDA credit is \$2,400,000.

At second death in following year, we still have \$2,500,000, including \$500,000 fund value but the ACB is \$1,400,000. It has not reduced significantly. The result is a CDA credit of \$1,100,000.

When we look at the total after-tax amount under this scenario, we will see that total payable from our CDA is \$3,500,000 vs. \$4,900,000 when separate contracts are used. The taxable dividends available are \$1,500,000 at first death and \$1,400,000 at second death for a total pre-tax dividend of \$2,900,000, using an effective dividend tax rate of 33 1/3%. This would produce \$1,935,000 after tax. Comparing individual contracts with a multiple life contract, we find that the total after-tax payout is \$5,900,000 vs. \$5,435,000, a difference of \$465,000

Why is this?

This happens to be one of the anomalies under the ITA. Multiple Coverage contracts are not recognized under the act. Therefore the ACB is not reduced when one of the lives under the contract dies.

Payment of Fund Value at first death under a Joint Last to Die (JLTD) contract

In May of 2000, CCRA responded to a question relating to the payment of fund value at first death under a JLTLD contract. CCRA stated that fund payout at first death may be a disposition rather than a payment in consequence of death. They were asked to reconsider the position.

CCRA re-examined its position. It agreed with the industry that the Income Tax Act was not sufficiently clear on the subject. This matter will now form a part of the overall legislative review process.

Summary

CCRA is currently reviewing the regulations as they relate to the taxation of life insurance and some of the marketing application relating to it. How long it will be before this review is complete and the regulations are replaced, clarified or deleted is not known, it is fair to assume it is at least 2 –3 years away. Until this occurs we will continue to have of uncertainty. We suggest prudence.