The Tax Letter®

Vol. 29, No. 11 | Your Guide to Tax-Saving Strategies | Single Copy: $10.00 November 2011

*TAX*STRATEGY

S.O.S.™ Shared Ownership Strategy can protect you, your business and your family, with the added benefit of attractive…

Guaranteed Returns

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Most business owners and incorporated professionals realize the importance of having life insurance and other living benefits such as Critical Illness Insurance (CI), Long Term Disability Insurance (LTD) and Long Term Care Insurance (LTC) to protect them in case their health goes awry.

These products need to be considered as part of an overall financial planning strategy with a professional insurance advisor, ideally a Certified Financial Planner.

Unfortunately, most business owners don't have the proper protection in place. They are kept busy taking care of their clients, staff, shareholders, partners, creditors, etc. and haven't invested the time to take care of their own financial "housekeeping."

They also don't have the right amount of protection in place because insurance premiums can appear very high and unaffordable. If only the insurance costs could be reduced to zero, then everyone would have what they truly need.

Using the Shared Ownership Critical Illness insurance strategy, business owners and incorporated professionals can now enjoy the best of both worlds: proper protection for themselves, their families and their business – with a substantial guaranteed return on their investment.

What is Critical Illness Insurance (CI)?

CI is probably the best-kept insurance secret in Canada, despite being around for almost 15 years.

- CI Covers more than 2 dozen conditions like heart attack, cancer, stroke, bypass surgery
- Pays up to $2 million in a tax free, lump sum 30 days after diagnosis of a covered condition
- The money has no strings attached and can be used as you wish
- Returns all of your premiums if you don't make a claim and just stay healthy (optional Return of Premium ROP rider)

Most people have never heard of CI, or confuse it with Long Term Disability insurance (see box below).

The CI Shared Ownership Tax Strategy.

Shared ownership arrangements have been used for many years to acquire permanent life insurance while providing attractive tax benefits to shareholder/owner managers and key persons.

This strategy is still a very attractive way to acquire life insurance at the lowest possible cost.

The CI Shared Ownership Strategy involves sharing the ownership rights to a CI policy and carries exactly three prerequisites: a cash flow within the company, an insurable individual (company owner, shareholder, executive or key person) and a professional insurance advisor.

What the strategy accomplishes

This strategy is most appropriate for companies with a single shareholder, age 25 to 55, who is also a key employee (e.g. owner-managed businesses and professional corporations). Both the company and the employee/shareholder stand to benefit.

If you are a company owner, shareholder, executive or key

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Long Term Disability	Critical Illness Insurance
Top 3 Claims: **Emotional, Musculoskeletal Circulatory**	***Top 3 Claims:*** **Cancer, Heart Attack, Stroke**
• Replaces a portion of your lost income	• Pays a lump sum to be used as you choose
• Requires ongoing proof of lost income	• No ongoing proof is required
• Benefits reduce or end once an income is earned	• Benefit is not affected by other income
• Benefit limited to a % of pre-disability income	• Benefit is the full amount of the policy

person this strategy will:

✎ Protect against financial consequences of a critical illness

✎ Ensure continuity of your business in the event of a critical illness

✎ Provide a tax free benefit if you remain in good health

✎ Provide a tax effective way to withdraw money from the corporation

How the strategy works

Purchase Critical Illness Insurance (CI) coverage on participating company owner(s), shareholder(s), key people and executives with premiums paid for by the company.

Choose the optional Return of Premium (ROP) rider with the CI – it provides for full reimbursement of all the premiums any time after 15 years if there's no claim for a critical illness.

Designate the company, not the insured owner(s), shareholder(s), key people and executives, as the beneficiary of the CI policy critical illness benefit. The company pays the insurance premium for the CI benefit only, using tax-effective corporate dollars.

Name the insured individual, not the company, as the beneficiary of the ROP premium reimbursement. The insured individual pays the premium personally for the ROP portion only.

At any time after 15 years, the insured individuals can receive a cheque from the insurance company for all premiums paid by both the company and the individual.

Some people decide to 'self-insure' – they don't buy CI insurance because they have access to their own money if they ever experience a critical illness and/or they think they can invest the CI premiums in a traditional investment portfolio and 'do better.'

The Investment Opportunity

The investment opportunity in the CI Shared Ownership strategy is very attractive, allowing shareholders to withdraw funds from their corporation in a tax – effective manner. This strategy should not be ignored by even the savviest investor.

When set up properly, the ROP (which includes all the premiums paid by the corporation) is received by the shareholder/employee.

The rates of return are very high, often in the pre-tax range of more than 30 per cent. This return assumes the shareholder or employee does not get critically ill and elects to take the ROP after 15 years (see box below).

The company needs a steady cash flow to pay the insurance premiums for 15 years. The full reimbursement of premiums (ROP) is only available after 15 years. If CI protection is needed beyond 15 years, a separate contract should be used.

It's prudent to consider the practical issues (as well as the tax and legal issues) in determining if the CI Shared Ownership strategy is appropriate for you, and if there are any downside risks given your own personal situation.

This strategy involves tax and legal issues that should be considered with the assistance of your own professional advisors to determine which ownership structure is most suitable for your needs – whether owning the policy individually or corporately in its entirety, or a shared ownership arrangement.

Aside from evaluating the tax and legal issues associated with the CI Shared Ownership strategy, you should take a step back to review your overall insurance, retirement and estate planning programs with your professional insurance advisor to ensure that you are properly protected, no matter what happens. ❐

A recent client

Male, age 45, non-smoker, $500,000 of level to 100 critical illness coverage.

Note - Up to $2 million of CI coverage is available, this illustrates only $500,000

$500,000 of CI coverage - annual premium	$ 9,385	company pays
Optional ROP rider - annual premium	3,435	individual pays
Total combined annual premium	$12,820	
Premiums paid by company over 15 years	$140,775	($9,385 x 15)
Premiums paid by individual over 15 years	$ 51,525	($3,435 x 15)
Total Premiums Paid	$192,300	
ROP paid to individual at year 15	$192,300	
Pre-tax equivalent gross yield	32 %	
Internal Rate of Return (IRR)	16 %	
(Assumes 46.41% marginal tax rate)		