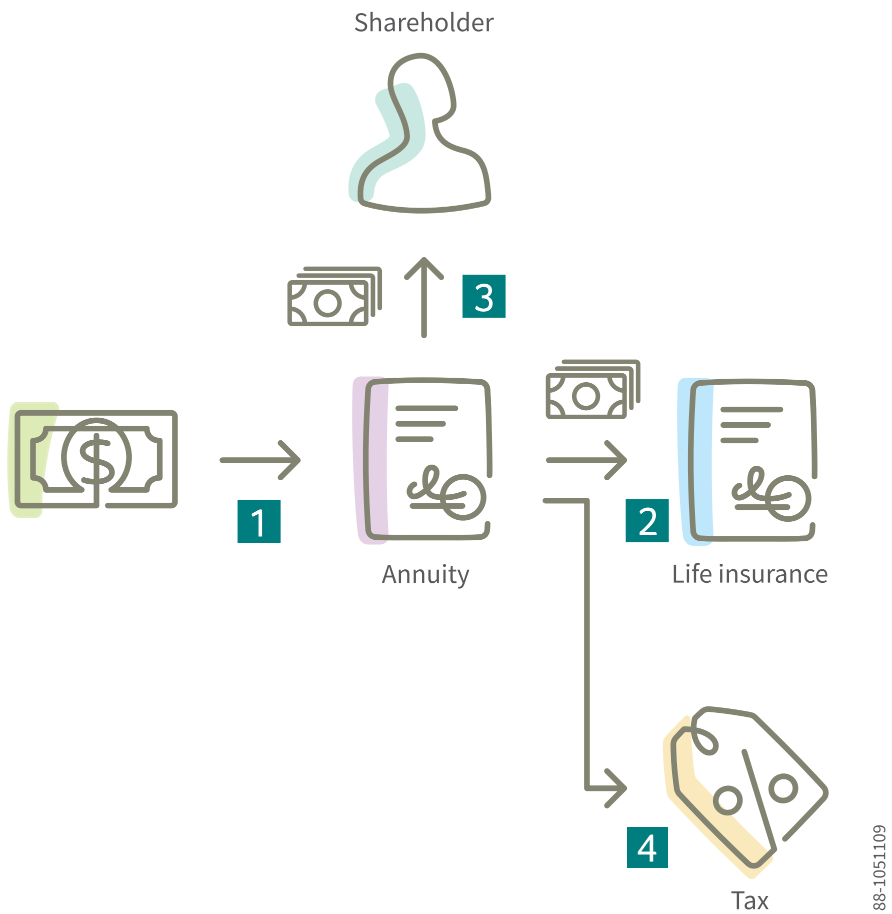
Corporate insured annuity strategy

The corporate insured annuity strategy provides guaranteed income for life, preserves the value of your estate and may reduce your tax bill at death.

Cash flow from a corporate-owned life annuity supplements your retirement income and pays the premium on a corporate-owned life insurance policy, which provides a death benefit. The death benefit replaces the capital used to purchase the annuity.

canada life™

How does the strategy work?



During lifetime of the life insured (shareholder)

1. Some of your corporation's investment capital is used to purchase a life annuity. Your corporation must secure an offer for life insurance coverage before it purchases an annuity.
2. Your corporation purchases a permanent life insurance policy on your life and uses a portion of the income stream from the annuity to pay the insurance premiums. The life insurance policy has an amount of coverage equal to the capital used to purchase the annuity.
3. The remaining portion of the annuity income stream is distributed to you, usually as a taxable dividend, and supplements your retirement income.
4. A portion of the annuity payment is taxable. The annuity payment is paid to your corporation each year over the annuity's life. The payment amount stays the same each year, and consists of a combination of tax-free capital and taxable interest. The interest component of the payment is taxable as passive income in your corporation. Also, as a non-prescribed annuity, the taxable interest component of an annuity payment will vary and gradually decrease each year.

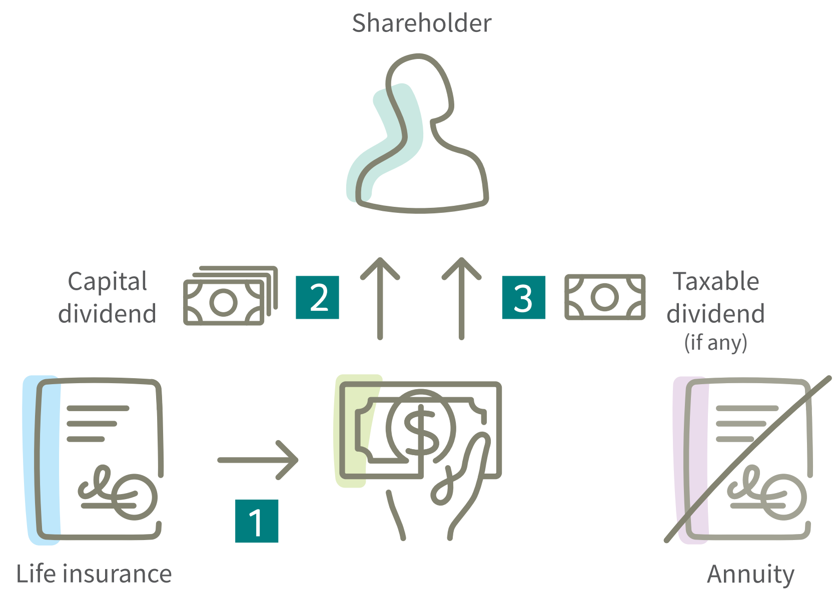
At death of the life insured (shareholder)

1. On your death, the death benefit from the life insurance policy is paid to your corporation as the named beneficiary.

2. Generally, the death benefit will credit the corporation's capital dividend account (CDA) by an amount equal to the death benefit, less the adjusted cost basis of the insurance policy. The CDA can be used to distribute all or a portion of the insurance proceeds on a tax-free basis to the successor Canadian resident shareholder of your corporation (for example, your estate, spouse, or kids).

3. Any portion of the death benefit not distributed as a capital dividend may be distributed as a taxable dividend.

Note: The life insurance policy and annuity may contribute to a lower share value at death for tax purposes.
[See our article *Corporate insured annuities* for more detail.]



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Considerations

If you're interested in the corporate insured annuity strategy, consult with your financial, legal and tax advisors to consider:

- ✓ If the strategy is able to meet your current and future needs.
- ✓ If your corporation is able to obtain life insurance coverage on your life. The corporation must have the insurance coverage before it buys an annuity.
- ✓ The corporate insured annuity strategy is inherently illiquid and inflexible because the annuity and life insurance policy typically don't have a cashable feature or cash value.
- ✓ That your corporation must obtain life insurance without any reference or linkage to you purchasing an annuity. If you don't do this, the Canada Revenue Agency may view the life insurance and life annuity as a single non-exempt life insurance policy.
- ✓ If you actually need life insurance.
- ✓ How to purchase the annuity. If your corporation liquidates assets to purchase an annuity, it may end up with a taxable capital gain or a foregone interest payment, or both.

The availability of insurance coverage is subject to our underwriting requirements.

The information provided is based on current laws, regulations and other rules applicable to Canadian residents. It is accurate to the best of our knowledge as of the date of publication (October 2023). Rules and their interpretation may change, affecting the accuracy of the information. The information provided is general in nature, and should not be relied upon as a substitute for advice in any specific situation. For specific situations, advice should be obtained from the appropriate legal, accounting, tax or other professional advisors.

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