

Gain Tax-Free Income Through Universal Life

Universal Life insurance is a little-known plan that can have a big impact on your retirement income. It combines life insurance and an investment account in one package. When a deposit is made into a Universal Life policy, that amount, less a small premium tax, is put into the investment portion of the plan. Administrative expenses and the cost of insurance charges are withdrawn monthly. Meanwhile, the remainder of the deposit, up to an amount subject to Income Tax Act limits, accumulates in the investment account, sheltered from taxation. At even the most conservative rates of return, deposits that are large enough to fund both the insurance and the investment program can potentially grow into substantial, tax-free wealth. Later in life, the Universal Life contract may be assigned as collateral for a loan† which provides an income stream upon retirement that is tax-free. Interest on the loan is capitalized and is repayable upon death. At death, the basic death benefit, in addition to the tax-deferred accumulation, is paid out on a tax-free basis. Part of the total death benefit is used to satisfy the outstanding balance on the loan while the remaining amount is paid out to one's estate or named beneficiaries on a tax-free basis.

Funding Your Retirement with Universal Life

Here's an example: A couple, both aged 40 and non-smokers, purchase a Universal Life policy with an initial death benefit of \$850,000. They make annual deposits of \$20,000 for 15 years. Let's look at how their Universal Life plan might develop over the next 50 years, assuming a 6 per cent rate of return††. Let's assume further that the couple chooses to enhance their income by taking out a series of tax-free loans beginning at age 65 against the value of the insurance policy. The loan will pay them \$26,666 per year of tax-free capital for 25 years. The outstanding loan balance of \$2,273,830 is repaid at their death, using proceeds from the policy's \$5,588,632 death benefit. The remaining \$3,314,802 death benefit that is left once the loan has been paid, will be paid out to the couple's beneficiaries. As you see from the chart, the couple has succeeded in enhancing their retirement income tax-free while at the same time protecting their family with a life insurance policy that accumulates tax-free and pays a tax-free death benefit.



Initial death benefit	\$850,000
First year deposit	\$20,000
Total deposits at age 90	\$300,000
Annual tax-free advances at age 65	\$26,666
Total tax-free advances over 25 years	\$666,650
Projected death benefit at age 90	\$5,588,632
Outstanding loan balance at 8.00% ^{†††} at age 90	\$2,273,830
Net estate value at age 90	\$3,314,802
Internal Rate of Return, after tax, assuming death at age 90	6.57%

The key to getting the most out of any Universal Life plan is to have your life insurance licensed Investment Executive guide you through the variety of products available to you, and then to help you direct the investment options within the plan you choose in accordance with your overall financial strategy.

† Based on current tax rules. You must satisfy credit criteria to qualify for the loan. The loan is designed so that the maximum loan plus its interest never exceeds 50-75% of the accumulated policy cash value.

†† For illustration purposes only. Rates are not guaranteed.

††† Based upon current loan rates. Rates may vary and are not guaranteed.

This publication has been prepared by ScotiaMcLeod, a division of Scotia Capital Inc.(SCI), a member of CIPF. This publication is intended as a general source of information and should not be considered as personal investment, tax or pension advice. We are not tax advisors and we recommend that individuals consult with their professional tax advisor before taking any action based upon the information found in this publication. This publication and all the information, opinions and conclusions contained in it are protected by copyright. This report may not be reproduced in whole or in part, or referred to in any manner whatsoever, nor may the information, opinions, and conclusions contained in it be referred to without in each case the prior express consent of SCI. Scotiabank Group refers to The Bank of Nova Scotia and its domestic subsidiaries. TM Trademarks of The Bank of Nova Scotia.

All insurance products are sold through ScotiaMcLeod Financial Services* companies. ScotiaMcLeod Financial Services companies are the insurance subsidiaries of Scotia Capital Inc., a member of the Scotiabank Group. When discussing life insurance products, ScotiaMcLeod advisors are acting as Life Underwriters (Financial Security Advisors in Quebec) representing ScotiaMcLeod Financial Services.

*ScotiaMcLeod Financial Services includes: ScotiaMcLeod Financial Services (Ontario) Inc., ScotiaMcLeod Financial Services (Quebec) Inc., ScotiaMcLeod Financial Services Inc.

