Whole Life Strategy - Illustration Recommendations

When comparing insurance options, it's crucial to understand the difference between guaranteed and non-guaranteed values. In estate planning, when a client's liability is fixed, it is common practice to recommend level, guaranteed insurance to cover the family's tax obligations. While Whole Life insurance includes some guaranteed elements, much of its appeal relies on non-guaranteed dividend performance. This means that the additional paid-up coverage presented is not contractually guaranteed and can fluctuate based on the insurance company's discretion.

To better understand the risks associated with such a product, we recommend asking the following questions of any Whole Life insurance presentation to clarify how much of the policy is truly guaranteed and how changes in performance may impact your coverage:

1. **Guaranteed Coverage Table:** Please provide the table that shows guaranteed premiums and coverage amounts. This reflects the coverage the insurance company is contractually obligated to provide, irrespective of investment performance.
2. **Impact of Lower Returns:** Please provide projections showing how the policy would change if the policy performance, i.e. the dividend scale interest rate, decreases by 1% and 2%. Specifically, how would the coverage be affected under those scenarios?
3. **Cash Value Tax Burden:** How does the strategy address the capital gains tax liability generated by the Whole Life policy's cash value, which is ultimately incurred by the estate?
4. **Premium Financing Risk:** If the strategy includes premium financing using a bank loan, please illustrate the financed strategy as follows:
    a. Policy dividend scale interest rate at 1% lower than the current rate.
    b. Loan interest rate at 6.45% for the loan duration.
    c. Corporate tax credit rate of 22% instead of 53%.
    d. Please confirm in writing that the tax credits illustrated comply with CRA guidelines for the duration of the strategy (see CRA memo below). If you cannot guarantee this, please illustrate the above scenario where the CRA denies the assumed credits.

CRA Correspondance 2000-005146: The deductibility of interest for income tax purposes is governed by paragraph 20(1)(c) of the Income Tax Act which allows a deduction for interest on borrowed money used for the purpose of earning income from a business or property. ***Specifically excluded from eligibility for deduction, however, is interest on borrowed money used to acquire a life insurance policy. Accordingly, if money is borrowed to purchase a life insurance policy, the interest paid or payable on those borrowed funds is not deductible for income tax purposes.***

for Director of Financial Industries Division
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