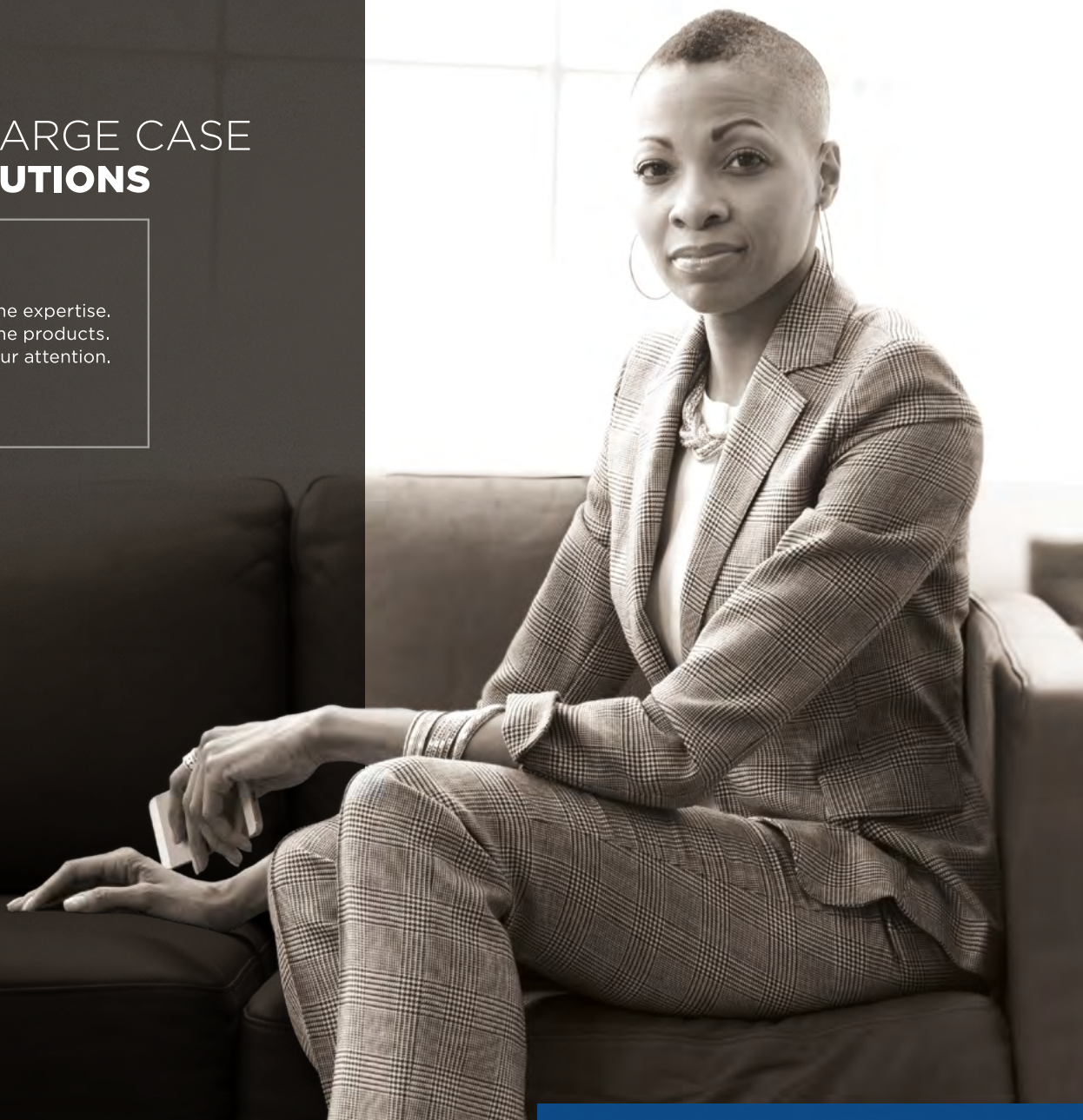


iA LARGE CASE **SOLUTIONS**

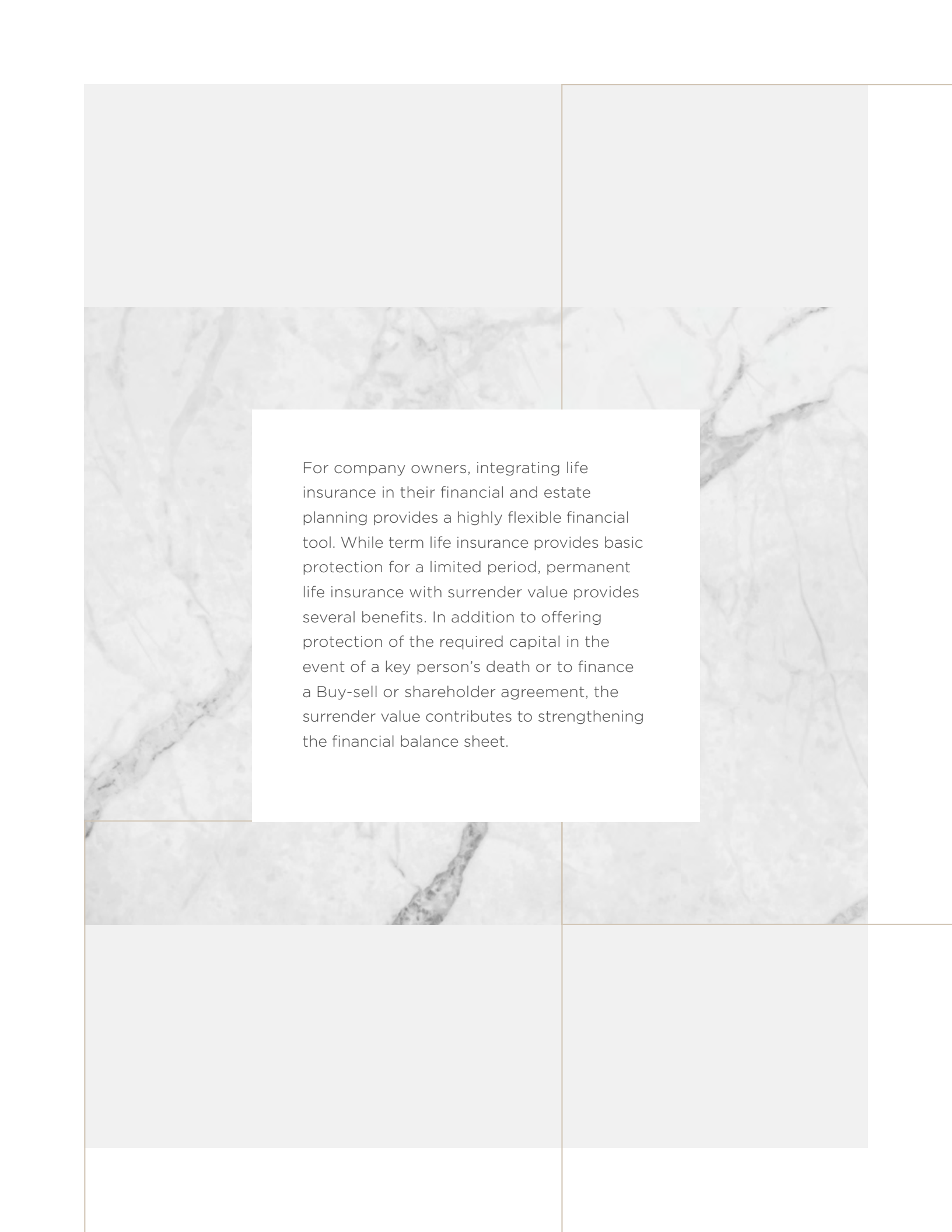
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BALANCE SHEET STRENGTHENING WITH PERMANENT LIFE INSURANCE

Implementation Guide





For company owners, integrating life insurance in their financial and estate planning provides a highly flexible financial tool. While term life insurance provides basic protection for a limited period, permanent life insurance with surrender value provides several benefits. In addition to offering protection of the required capital in the event of a key person's death or to finance a Buy-sell or shareholder agreement, the surrender value contributes to strengthening the financial balance sheet.

GENERAL OVERVIEW OF THE CONCEPT OF STRENGTHENING THE FINANCIAL BALANCE SHEET

The accounting treatment of life insurance is not part of the accounting standards for private corporations or companies. International Financial Reporting Standards (IFRS) do not propose any detailed orientation in terms of the accounting treatment of life insurance. The absence of specific standards impedes the uniform treatment of life insurance policies in Canadian companies and is an obstacle to the work of the accountants who handle their financial statements. Fortunately, by drawing inspiration from the practices published in other countries, we can see that certain practices are recommended for the presentation of life insurance in a company's financial statements.

The treatment of term life insurance from an accounting standpoint represents an expense in the company's income statement, which reduces its liquidity.

Permanent life insurance with surrender value record an insurance gain in the income statement starting when the increase in value is greater than the premium paid. The surrender value is posted in the current assets in the balance sheet, reduced by the fees that would be taxed in the event the contract is surrendered in the first years.

If it is a participating life insurance contract, the annual dividend paid in the cash account of the balance sheet must also be posted.

From a fiscal standpoint, it is important to enter the insurance expense in appendix 1 of the T2 corporation income tax return, in order to render this expense non-deductible for tax purposes, as determined by the Income Tax Act (ITA). If applicable, the insurance income must be posted as non-taxable income in the same appendix.



Balance sheet strengthening with iA PAR

iA PAR Wealth life insurance policy payable for 20 years for a 45-year old male, at the current dividend scale:

An initial face amount of

\$1,500,000

with maximum additional deposit option (ADO)

Total premiums and annual contributions paid

\$100,000

Total annual premium

\$56,647

Contributions to additional deposit option (ADO)

\$43,353



BALANCE SHEET STRENGTHENING | ANNUAL IMPACT OF THE SURRENDER VALUE INCREASE AND THE CUMULATIVE EFFECT ON THE BALANCE SHEET

Age	Total annual premiums	Contributions to the ADO	Total premiums and contributions	Total amount of life insurance	Annual surrender value increase	Insurance charge or insurance gain entered in the income statement	Total surrender value (shown or classified in the balance sheet)	Cummulative effect on the balance sheet
46	\$56,647	\$43,353	\$100,000	\$1,563,883	\$78,644	\$(21,356)	\$78,644	\$(21,356)
47	\$56,647	\$43,353	\$200,000	\$1,712,441	\$92,252	\$(7,748)	\$170,896	\$(29,104)
48	\$56,647	\$43,353	\$300,000	\$1,865,299	\$102,608	\$2,608	\$273,504	\$(26,496)
49	\$56,647	\$43,353	\$400,000	\$2,023,089	\$113,810	\$13,810	\$387,314	\$(12,686)
50	\$56,647	\$43,353	\$500,000	\$2,183,601	\$124,485	\$24,485	\$511,799	\$11,799
51	\$56,647	\$43,353	\$600,000	\$2,344,975	\$120,372	\$20,372	\$632,171	\$32,171
52	\$56,647	\$43,353	\$700,000	\$2,509,314	\$126,079	\$26,079	\$758,250	\$58,250
53	\$56,647	\$43,353	\$800,000	\$2,676,804	\$132,091	\$32,091	\$890,341	\$90,341
54	\$56,647	\$43,353	\$900,000	\$2,845,685	\$138,169	\$38,169	\$1,028,510	\$128,510
55	\$56,647	\$43,353	\$1,000,000	\$3,016,222	\$150,523	\$50,523	\$1,179,033	\$179,033
56	\$56,647	\$43,353	\$1,100,000	\$3,188,986	\$147,609	\$47,609	\$1,326,642	\$226,642
57	\$56,647	\$43,353	\$1,200,000	\$3,364,269	\$153,759	\$53,759	\$1,480,401	\$280,401
58	\$56,647	\$43,353	\$1,300,000	\$3,543,367	\$160,655	\$60,655	\$1,641,056	\$341,056
59	\$56,647	\$43,353	\$1,400,000	\$3,726,029	\$167,637	\$67,637	\$1,808,693	\$408,693
60	\$56,647	\$43,353	\$1,500,000	\$3,911,263	\$155,396	\$55,396	\$1,964,089	\$464,089
61	\$56,647	\$43,353	\$1,600,000	\$4,099,561	\$151,305	\$51,305	\$2,115,394	\$515,394
62	\$56,647	\$43,353	\$1,700,000	\$4,290,684	\$158,810	\$58,810	\$2,274,204	\$574,204
63	\$56,647	\$43,353	\$1,800,000	\$4,484,638	\$166,420	\$66,420	\$2,440,624	\$640,624
64	\$56,647	\$43,353	\$1,900,000	\$4,681,502	\$174,200	\$74,200	\$2,614,824	\$714,824
65	\$56,647	\$43,353	\$2,000,000	\$4,881,365	\$182,116	\$82,116	\$2,796,940	\$796,940
66	\$-	\$-	\$2,000,000	\$5,012,931	\$148,278	\$148,278	\$2,945,218	\$945,218
67	\$-	\$-	\$2,000,000	\$5,148,879	\$155,026	\$155,026	\$3,100,244	\$1,100,244
68	\$-	\$-	\$2,000,000	\$5,289,629	\$162,072	\$162,072	\$3,262,316	\$1,262,316
69	\$-	\$-	\$2,000,000	\$5,435,584	\$169,423	\$169,423	\$3,431,739	\$1,431,739
70	\$-	\$-	\$2,000,000	\$5,587,164	\$177,079	\$177,079	\$3,608,818	\$1,608,818
80	\$-	\$-	\$2,000,000	\$7,510,863	\$272,459	\$272,459	\$5,875,686	\$3,875,686
90	\$-	\$-	\$2,000,000	\$10,268,706	\$351,231	\$351,231	\$9,107,323	\$7,107,323
100	\$-	\$-	\$2,000,000	\$13,170,315			\$13,170,315	\$11,170,315

Accumulated surrender value in the first year

\$78,644

Expense posted in the income statement is equal to

\$21,356 (\$100,000- \$78,644)

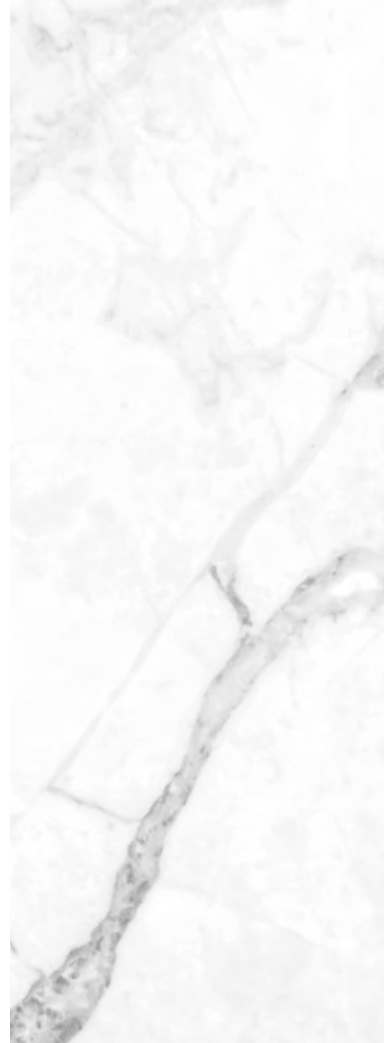
The surrender value will be carried as an asset in the balance sheet.

Using this example, we understand that the annual impact of the increase in the surrender value has a positive effect of \$2,608 on the company's income statement starting in the 3rd year. This is known as annual balance sheet strengthening. This means that adding the policy gain to the income statement increases the accounting profit with no consequences from a fiscal standpoint, since it is excluded from the company's taxable income. In addition, posting the surrender value in the balance sheet increases the company's assets.

We can also consider that the real impact on the financial statements corresponds to the difference between the total surrender value shown or classified in the balance sheet and the total premiums paid. In this case, the effect of the balance sheet strengthening also takes into account the amounts invested as premiums over time.

Thus, in this example, we see that the cumulative effect of the life insurance on the balance sheet is positive as of the 5th year (cumulative effect on the balance sheet = total cash value- premiums and contributions = \$511,799- \$500,000 = \$11,799)

Regardless of the approach we used to analyze the balance sheet strengthening with life insurance, we can see that iA PARWealth quickly produces a positive effect for the company.



BALANCE SHEET STRENGTHENING | EXAMPLE WITH A T100 POLICY FOR COMPARISON

Age	Total annual premiums	Insurance charge entered in the income statement	Cumulative effect on the balance sheet (total real cost of life insurance)	Surrender value	Amount of life insurance
46	\$17,010	\$(17,010)	\$(17,010)	\$0	\$1,500,000
47	\$17,010	\$(17,010)	\$(34,020)	\$0	\$1,500,000
48	\$17,010	\$(17,010)	\$(51,030)	\$0	\$1,500,000
49	\$17,010	\$(17,010)	\$(68,040)	\$0	\$1,500,000
50	\$17,010	\$(17,010)	\$(85,050)	\$0	\$1,500,000
51	\$17,010	\$(17,010)	\$(102,060)	\$0	\$1,500,000
52	\$17,010	\$(17,010)	\$(119,070)	\$0	\$1,500,000
53	\$17,010	\$(17,010)	\$(136,080)	\$0	\$1,500,000
54	\$17,010	\$(17,010)	\$(153,090)	\$0	\$1,500,000
55	\$17,010	\$(17,010)	\$(170,100)	\$0	\$1,500,000
56	\$17,010	\$(17,010)	\$(187,110)	\$0	\$1,500,000
57	\$17,010	\$(17,010)	\$(204,120)	\$0	\$1,500,000
58	\$17,010	\$(17,010)	\$(221,130)	\$0	\$1,500,000
59	\$17,010	\$(17,010)	\$(238,140)	\$0	\$1,500,000
60	\$17,010	\$(17,010)	\$(255,150)	\$0	\$1,500,000
61	\$17,010	\$(17,010)	\$(272,160)	\$0	\$1,500,000
62	\$17,010	\$(17,010)	\$(289,170)	\$0	\$1,500,000
63	\$17,010	\$(17,010)	\$(306,180)	\$0	\$1,500,000
64	\$17,010	\$(17,010)	\$(323,190)	\$0	\$1,500,000
65	\$17,010	\$(17,010)	\$(340,200)	\$0	\$1,500,000
66	\$17,010	\$(17,010)	\$(357,210)	\$0	\$1,500,000
67	\$17,010	\$(17,010)	\$(374,220)	\$0	\$1,500,000
68	\$17,010	\$(17,010)	\$(391,230)	\$0	\$1,500,000
69	\$17,010	\$(17,010)	\$(408,240)	\$0	\$1,500,000
70	\$17,010	\$(17,010)	\$(425,250)	\$0	\$1,500,000
80	\$17,010	\$(17,010)	\$(595,350)	\$0	\$1,500,000
90	\$17,010	\$(17,010)	\$(765,450)	\$0	\$1,500,000
100	\$17,010	\$(17,010)	\$(935,550)	\$0	\$1,500,000

When we compare the results with those of a T100 protection, we can see that in addition to the protection and benefits provided, iA PAR Wealth also gives company owners the possibility to present an improved balance sheet using life insurance.



TREATMENT AT DEATH

At death, the death benefit is paid to the company. This amount replaces the surrender value posted in the balance sheet. This operation translates into a mortality gain in the income statement. The mortality gain corresponds to the surplus death benefit over the surrender value and is not taxable for the company.

TAX EFFICIENCY FOR THE COMPANY

Tax-sheltered growth

The growth generated annually in the life insurance policy is not taxable. Compared to investments, this tax-sheltered growth allows the company to increase its net worth during the asset accumulation phase (snowball effect).

PROTECTING THE SMALL BUSINESS DEDUCTION

Life insurance policies are not subject to passive income rules. The money invested by a company in a life insurance policy is not subject to the rules governing passive income, so the company protects its small business deduction (SBD) and maintains its corporate tax rate.

In addition, the premiums for the policy are paid by the company with after-tax dollars, which is better for than if it had paid the premium from its personal funds.

iA LARGE CASE **SOLUTIONS**

The iA Large Case Solutions program offers a support service for high net worth clients who need more complex financial strategies in the areas of taxation, sales concepts and product optimization of individual insurance and savings.

Our team of experts offers customized, simple, high-performance solutions that enable advisors to meet the specific needs of affluent clients, professionals and business owners.



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