

# Increasing retirement income and maximizing your net estate values



You've worked hard all your life to accumulate savings to fund your retirement. Now you want to maximise your net retirement income and leave your capital intact for the next generation. Learn how a corporate insured annuity can help you achieve your goals.

Your company's investment portfolio includes interest-bearing investments such as term deposits, bonds, and/or bank accounts. Although they provide stable conservative returns, they are fully taxable as passive income inside the corporation. Is there another solution?

## Corporate Insured Annuity Solution

The concept combines the purchase of a life insurance policy from BMO Insurance and a non-prescribed life annuity from another carrier.

### STEP 1

Purchase a life insurance policy by your company from BMO Insurance.

### STEP 2

Purchase a life annuity from another carrier. The life annuity provides a guaranteed income for the remainder of your life.

Since tax is payable only on a portion of the income that is interest, the net return provided by the annuity may be greater than other guaranteed interest investments.

### STEP 3

Use a portion of the annuity income to pay for the premiums of the life insurance policy. For a single-pay universal life scenario, use the required single deposit to fund the insurance policy and purchase a life annuity with the balance of the capital invested.

Upon death, the proceeds (death benefit) are paid out directly to your corporation (the beneficiary) on a tax-free basis and will create a credit to the Capital Dividend Account (CDA). This amount can then be paid out tax-free to your estate.

## Is it Right for Me?

The corporate insured annuity solution is designed for people who are between the ages of 60 and 80, in good health, and looking for an alternative low-risk investment, offering a higher after-tax yield.

- **Increased after-tax corporate income:** can potentially provide more income than a traditional GIC or equivalent.
- **Estate maximization:** an amount equal to your initial investment is paid to your corporation, which may flow tax-free (CDA) to your estate upon death.
- **Lower taxable income:** the taxable income is generally lower than holding conventional investments inside your corporation. This means the corporation will pay less tax on the annuity income and maximize estate values due to the CDA credit.
- **Minimized investment risk:** a non-prescribed life annuity is fully guaranteed. No worry and stress about managing investments or outliving your income! This strategy may reduce the value of your shares of the corporation thus reducing your tax bill at death.



## Corporate Insured Annuity in Action

Mike (70) is enjoying his retirement after working and raising a family. As a wise investor, Mike worked hard to build a nest egg for the future and is ready to take advantage of these savings to fund his retirement income.

Almost all of his corporate investments are now in bonds and guaranteed investment certificates. Mike wants the best of both worlds to create a higher net retirement income while ensuring that his corporate investments have little or no risk.

With the corporate insured annuity solution, Mike is able to increase his retirement income using a single premium immediate annuity and a BMO Insurance universal life insurance policy.



Corporate Insured Annuity	Solution Using Term 100	Solution Using Universal Life	Taxable Investment earning 5%
<b>Principal Investment</b>	\$500,000	\$500,000	\$500,000
Portion of the principal used for annuity purchase	\$500,000	\$215,875 <sup>1</sup>	\$0
<b>Annual Income</b>	\$40,711	\$17,284	\$25,000
<b>Taxable Amount at Age 90</b>	\$9,968	\$4,288	\$25,000
<b>Tax Payable</b>	\$4,984	\$2,114	\$12,500
<b>Cash Flow</b>	\$35,727	\$15,170	\$12,500
<b>Term 100 Annual Premium</b>	\$21,614	N/A	\$0
<b>Universal Life Insurance Single Deposit (with side account)</b>	N/A	\$284,125	\$0
<b>Annual Net Cash Flow</b>	\$14,113	\$15,170	\$12,500
<b>CDA Credit</b>	\$363,641	\$488,407	\$0
<b>Net Estate Value at Age 90</b>	\$438,639	\$494,925	\$290,103
<b>Equivalent Pre-tax Return</b>	5.65%	6.07%	5.00%

Quote based on a Male 70 Non-smoker with a marginal tax rate of 50%, corporate tax rate of 50% and personal dividend tax rate 45%. Actual annuity income will depend on age, sex, insurability rating, current annuity rates and the amount invested. Source: Cannex (Non-Prescribed life annuity quotation based on rates as of October 24, 2023).

- Mike's lifetime income is significantly improved.
- Preferential tax treatment provides Mike with a very low and level amount of reportable income for tax purposes.
- With the corporate insured annuity solution using a Term 100 policy, Mike's annual net cash flow increased by 12.90% and his net estate values improved by 51.28%.
- With the corporate insured annuity solution using a universal life policy, Mike's annual net cash flow increased by 21.36% and the net estate values improved by 70.74%.



Typical GIC investments produce a smaller payout, and this income is fully taxable. You may be required to cash-in some of your capital investments to draw a higher income, which then leaves less behind for your beneficiaries.



## Let's connect

Your insurance advisor can help you learn more about how the corporate insured annuity solution can work for you.



### **BMO Life Assurance Company**

60 Yonge Street  
Toronto, ON M5E 1H5



1-877-742-5244



Learn more [bmoinsurance.com](https://www.bmoinsurance.com)



<sup>1</sup> Mike makes a single deposit (\$284,125) into a Wealth Dimensions Universal Life policy from BMO Insurance with a 30-year GIA at 3%. He then purchases a single premium income annuity for \$215,875 (the balance of the capital invested) with a different carrier. With this strategy, side account assumes after tax returns at their marginal tax rate. Source: The Wave 52.0.

Information contained in this document is for illustrative purposes and is subject to change without notice. The information in this publication is intended as a summary of our products and/or services. Please consult the appropriate policy contract for details on the terms, conditions, benefits, guarantees, exclusions and limitations. The actual policy issued governs. Each policyholder's financial circumstances are unique and they must obtain and rely upon independent tax, accounting, legal and other advice concerning the structure of their insurance, as they deem appropriate for their particular circumstances. BMO Life Assurance Company does not provide any such advice to the policyholder or to the insurance advisor.

Insurer: BMO Life Assurance Company