

Impact of 2017 tax changes to existing life insurance

SALES STRATEGIES

A thorough review of the client's needs determines the appropriate product to help them achieve lifetime financial security. Sales strategies have become integral in helping to position these products as an appropriate solution, and they'll continue to play this valuable role in the future. The following outlines how various sales strategies may be impacted by the new rules.

INDIVIDUAL/PERSONAL STRATEGIES

- Still effective
- Long-term value not as high but better than taxable investment

The changes to the exempt test will impact both Universal Life (UL) and Participating (Par) insurance products, but sales strategies using either product type will continue to be effective for clients in the target market. Long-term values may not be as high, but they'll still be a better value when compared to a taxable investment illustrated at a reasonable rate of return.

A change to the calculations may result in a higher Adjusted Cost Basis (ACB) for a longer period of time, making policy loans look more attractive.

We believe that strategies such as the **Individual Investment Shelter**, **Individual Asset Transfer**, and the **Asset Protection Plan** will continue to provide clients with tax-efficient solutions.

CORPORATE STRATEGIES

- Still effective
- Timing of CDA flows may change
- Long-term value not as high but better than taxable investment

As with personal strategies, corporate strategies using permanent life insurance like UL or Par will continue to provide clients with advantages over non-registered investments. They may not be as attractive as they are today when compared to alternate investments, but will still be an effective solution for many business owners.

Because the ACB will be higher for a longer period, the Capital Dividend Account (CDA) will experience a lower credit. This means less of the full death benefit will flow through the CDA to the estate if death occurs prior to life expectancy. The ACB will still reach zero near life expectancy.

Life insurance will continue to provide business owners with an excellent option for needs such as funding **Buy-Sell Agreements**, providing **Key Person Protection**, and protecting corporate assets from tax erosion through the **Corporate Investment Shelter** strategy.

CONTINUED ON REVERSE

INSURED ANNUITY STRATEGIES

- Lower after-tax prescribed annuity income
- Potentially higher level COI UL costs

Insured annuity strategies are potentially the most impacted by the tax changes.

Updated mortality tables will be used to calculate the taxable portion for prescribed annuities bought on or after January 1, 2017. A higher taxable portion will result in less after-tax income to pay for the insurance policy with an insured annuity strategy.

Insured annuities are commonly implemented using Level Cost of Insurance UL. The premiums may be higher, due to the need to incorporate changes to the Investment Income Tax (IIT).

BORROWING AND LEVERAGING STRATEGIES – CORPORATE/PERSONAL

- Lower long-term values may reduce available loan amounts
- Changes to NCPI may result in lower tax deductions

When a life insurance policy is assigned as collateral to secure a loan that's used for earning income, tax payers can often deduct the lesser of the premiums or the Net Cost of Pure Insurance (NCPI). Under the new rules, the lower NCPI will result in a lower deduction. Rated policies, with a rated NCPI, may help to raise the potential deduction.

With leveraging strategies, lower long-term cash values may reduce the total amount available for borrowing, given the need to stay within an acceptable percentage of the total policy cash value.

The exempt test changes may allow for higher cash value in the early years of a policy, which could positively impact strategies using front-end leveraging.

The **Corporate Retirement Strategy** and the **Personal Retirement Account** are two examples of leveraging strategies that will continue to provide clients with a tax-efficient way of generating income.

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