Participating whole life insurance has always been an effective estate planning tool but it also has additional merits as being an alternative asset class. The Individual Asset Transfer (IAT) is a financial strategy using exempt participating whole life insurance. The IAT strategy may assist in improving the return and/or reducing the risk of the fixed income portion of an investment portfolio. The IAT strategy demonstrates the additional merits of participating whole life insurance as an alternative asset class to use when looking to diversify a fixed income portfolio.

The IAT strategy may be appropriate for certain clients with significant assets in taxable fixed income investments. These clients want to maximize the value of their estate, while minimizing the tax burden associated with their taxable investments. Even though they do not need these fixed income assets today maintaining liquidity is important to them. The client purchases a participating life insurance policy and transfers assets from their non-registered fixed income investments to make payments to the policy. The cash value and the death benefit of the policy accumulate on a tax preferred basis over time. If access to cash is required in the future, the client collaterally assigns the policy to a lending institution or takes a policy loan. On death the death benefit is paid tax-free to the insured person’s beneficiaries.

INTRODUCTION

If you type “insurance as an asset class” in your favourite internet search engine, you may be surprised how many results you get. This strategy is attracting a lot of attention, specifically for those clients wishing to improve the return or reduce the risk of the fixed-income portion of their investment portfolio.
The IAT strategy may be suitable for clients with significant assets in taxable non-registered fixed income investments. They are looking to maximize the value of their estate while diversifying assets and reducing risk without sacrificing liquidity.

**TARGET MARKET**

The IAT strategy involves the transfer of taxable non-registered fixed income investments to a participating whole life insurance policy. It should be used with individuals who want to diversify their assets while reducing risk. The strategy demonstrates the potential liquidity available, through accessing the cash value in the policy if needed in the future through collaterally assigning the policy or taking a policy loan. It may be appropriate for those individuals that have excess assets not required to fund lifestyle or income needs. This strategy may not be suitable for clients with variable income and fewer assets.

Consider the following questions to help determine if the IAT strategy is right for clients:

**Does the client have a sufficient amount of income or excess assets?**

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**Is the client healthy?**

The IAT strategy uses life insurance, so clients must be reasonably healthy and able to qualify for coverage to take advantage of the benefits of life insurance and advantages of this strategy.

**Does the client have a long-term planning view?**

The IAT strategy is intended to be in place for the life of the insured person. A long-term view is essential to maximizing the benefits of this strategy.
Does the client want to maximize the value of their legacy?

This is an important consideration. For most clients the answer will be yes although their definition of legacy may differ. Ensure that maximizing the value of assets passed on after death is consistent with client’s goals and what they want to achieve.

**CHALLENGES**

**Tax challenges while living** – It’s not what you earn, it’s what you keep. Interest earned on non-registered fixed income assets may be subject to tax. Annual taxes paid reduce the overall net return and can substantially slow the growth of a client’s assets and estate value over time. Having too much taxable investment income may also result in other unintended consequences. For example, in retirement it may mean a reduction in Old Age Security benefits.

**Tax challenges at death** – At death, assets are deemed to be disposed of for their fair market value (FMV). When an asset is sold for more than its adjusted cost base, a capital gain is incurred. Currently, 50 per cent of the capital gain is subject to income taxes, which can significantly reduce the final estate value.

In addition to capital gains taxes payable on traditional non-registered investment assets, probate, legal fees and administrative costs may also apply, further reducing the amount available to beneficiaries.

**Risk / return challenges** – Portfolio risk is a function of the risk of each individual asset class. It is also a function of the correlation of the returns of each of these asset classes. Being too heavily weighted in one asset class, even a conservative one, may end up increasing overall portfolio risk.

**Liquidity challenges** – Many clients appreciate the comfort that comes from knowing they can access their investment portfolio at any time. They may be reluctant to transfer assets if they perceive access to the assets would be restricted.
An exempt life insurance policy such as Sun Par Protector or Sun Par Accumulator offers advantages that can help to reduce or eliminate some of the challenges that may occur during the life of, and after the death of, the insured person.

A life insurance policy’s cash value grows tax-preferred. This cash value may be accessed in the future, helping to satisfy the client’s liquidity concerns. Transferring funds from taxable investments to an exempt life insurance policy can help to reduce overall taxable income. Transferring these assets can assist with the client’s desire for greater diversification and may result in lower overall portfolio risk.

In addition, the death benefit can be paid tax-free to designated beneficiaries when the insured person dies. By designating a beneficiary, on death, policy proceeds can flow directly to them, bypassing the estate, resulting in reduced probate fees and other costs.

These benefits allow for an efficient transfer of assets to the named beneficiaries of the policy upon death of the insured person.

The IAT strategy demonstrates the benefits of transferring assets from a taxable fixed income investment to a tax-exempt participating whole life insurance policy. It compares the participating whole life policy cash value and death benefit to the asset values of the client’s fixed income portfolio.

1. An individual or a couple purchases a participating (par) whole life insurance policy. For couples, illustrating a joint-last-to-die policy may help to improve the effectiveness of the IAT strategy by reducing the premium commitment compared to a single life contract.

2. Premiums are paid by transferring assets from their non-registered fixed income portfolio to the insurance policy.

3. The cash value and death benefit accumulate within the life insurance policy on a tax-preferred basis. By transferring funds from taxable non-registered investments to a par policy, an individual can reduce their taxable income, potentially resulting in greater asset growth.

4. At some point in the future, if the client requires access to the cash value in the policy, the client can either take a policy loan or collaterally assign the policy to a lending institution.
5. Upon death of the insured person, or upon death of the second spouse for a joint last-to-die plan, the life insurance death benefit proceeds are paid directly to the named beneficiaries, tax-free. Any non-registered assets may form part of the estate, resulting in additional costs and ultimately reducing the amount payable to the named beneficiaries of the estate.

**THE BENEFITS OF PARTICIPATING WHOLE LIFE INSURANCE**

Participating whole life insurance is an attractive alternative asset class when compared against non-registered fixed income assets. With this strategy, benefits to the client’s estate are greatly enhanced and liquidity may be comparable to traditional non-registered fixed income investments.

Here is a summary of the benefits that participating whole life insurance can provide individuals looking to diversify their non-registered fixed income portfolio, enhance their estate value and maintain the peace of mind knowing that they can have access to cash in the future should they need it.

**Tax-preferred cash accumulation** – There is no tax payable on the growth of the policy’s cash value as long as it remains within the policy.

**Tax-free death benefit** – At death, the estate or beneficiary receives the death benefit tax-free. By avoiding settlement costs, a larger amount can be passed directly to beneficiaries compared to using taxable investments.
Liquidity – Cash value life insurance policies provide clients with additional flexibility. If the policy owner requires access to the accumulated funds within their policy, they have the option of:

- taking a policy loan,
- withdrawing cash value, or
- collaterally assigning the policy in exchange for a loan from a third party financial institution.

There may be tax consequences associated with a policy loan or cash value withdrawal.

Diversification opportunities – Participating policies have access to the participating account through dividends. The account consists of a diversified mix of bonds, real estate, equities and mortgages. As an additional asset class, participating whole life plans allow for diversification of a client’s existing asset base.

Potential creditor protection – For personally-owned policies, the accumulated cash value of the policy may be protected from the claims of the policy owner’s creditors during the policy owner’s life and after their death.

Protection of privacy – By naming a beneficiary, life insurance proceeds do not pass through the client’s estate but go directly to the person or organization named. The benefit is not part of the probate process and does not become a matter of public record. This helps clients keep their final wishes and the distribution of their assets private.

Stable growth – The combination of a long-term investment strategy, a large, well established par account and a prudent management philosophy contributes to strong, stable returns for participating policy owners. A stable stream of returns can help to reduce the variability of policy performance. Smoothing techniques help limit volatility of the dividend scale interest rate.

Guarantees – Participating whole life insurance plans come with guaranteed cash values that continue to increase over the life of the contract. In addition, there is a guaranteed death benefit provided the guaranteed premiums are paid.

Vesting of dividends – Once a dividend is paid to the policyholder, it cannot be taken away unless directed by them. This helps to reduce cash value variability and adds stability to the long-term values in the policy.
ILLUSTRATING IAT IN EOS

The IAT strategy demonstrates the benefits of transferring non-registered fixed income assets to a participating whole life insurance policy. This strategy is available on your Eos system with the following participating whole life insurance products:

- **Sun Par Protector**
- **Sun Par Accumulator**

You need Microsoft Excel installed on your system in order to operate the IAT strategy.

**Step 1: Select and illustrate either Sun Par Accumulator or Sun Par Protector on Eos**

After you and the client have determined the type and appropriate amount of participating whole life insurance, complete the Eos illustration.

- Include all excess payments where applicable (for example, Plus premium benefit)
- You must select either: Paid up additional insurance dividend option or Enhanced insurance dividend option
- Ensure premiums are made for the desired duration

**Step 2: Select the IAT strategy**

- From the left hand margin, select the ‘Concept’ icon. Select “Individual Asset Transfer”
- Would you like to export data only? ... Select ‘No’. This will launch the Excel program
- From the Excel toolbar, select the button titled “Import Sun Life...”. This will pull the required data from the life insurance illustration into the IAT strategy
- Once you have named the strategy, a Data Entry box with tabs will appear
Step 3: Complete the Data Entry tabs

- **Representative tab**: This tab contains advisor details including relevant contact information.

- **Investment Assumptions tab**: This tab allows you to input the client’s non-registered fixed income investment balance. The strategy always assumes that the premiums will be paid from the client’s non-registered fixed income investments.

  ![Investment Assumptions Tab](image)

  - **Investment balance** – Enter the client’s non-registered fixed income investment balance. It is important that the investment balance is sufficient to fund the premiums for the participating life insurance policy. For example if the premiums for the participating whole life insurance policy are $10,000 per year for 12 years (based on earliest offset at current -1 per cent) the minimum investment balance should be $120,000.

  - **Investment return** – Enter the anticipated investment rate of return for these assets.

  - **CSV Collateral Percentage** – This value represents the percentage of policy cash value that could be eligible to lend against, either through a policy loan or collateral loan. The IAT strategy takes into account the total asset value (life insurance and investment balance) for the purposes of accessing cash.

  - **Dividend scale** – Elect which dividend scale you would like the strategy to be run at. A best practice is to illustrate the strategy at the various dividend scale scenarios so clients can see the impact a change in dividend scale can have on policy values and the outcome of this strategy.

- **Tax Assumptions tab**

  - **Personal investment tax rate** – Enter the insured’s marginal tax rate. This should correspond with the marginal tax rate field entered on Eos.
It is important to note that the illustration assumes that the alternate investment is a non-registered fixed income investment, therefore all earnings are assumed to be interest and are taxed as interest income.

**THE IAT CLIENT REPORT**

The IAT client presentation is built on an Excel platform and contains five tabs each representing a different section of the presentation. It is designed to give clients a professional high level description of how the strategy works and, more importantly, a summary of the opportunity that exists for transferring taxable non-registered fixed-income assets to a participating life insurance policy under the assumptions the client and you select.

**Cover Page and Contents tabs**

Each Excel tab represents a different section of the presentation. The first two tabs, Cover Page and Contents, provide basic information about the advisor, client and details about the presentation.

**Summary tab**

The Summary tab provides details about how clients will benefit from using the IAT strategy, the challenges they face, how the strategy works, and a visual comparison of investment values and values at death for the IAT strategy and the Alternate Investment.
Summary Ledger tab

The summary ledger provides a year by year comparison of the portfolio balance for the Alternate Investment (the non-registered fixed-income investment) to a participating whole life insurance policy where premiums are paid from the Alternate Investment. Year by year projections summarizing the asset transfer to fund the par policy are shown as follows:

- Annual Transfer to Insurance
- Remaining Portfolio
- Insurance Collateral Cash Value
- Total Asset Value
- Policy Death Benefit
- Net Balance on Death

Detailed Analysis tab

Additional information can be found on this ledger including annual interest and taxes generated from the Alternate Investment (non-registered fixed-income investment). Total par policy cash value is also displayed.
IAT PLANNING CONSIDERATIONS

The IAT strategy is an excellent way to demonstrate how participating life insurance can help individuals increase the value of their estate while maintaining liquidity. The tax rules surrounding this type of strategy can be complicated. Advisors and clients should consider a number of factors prior to implementing the IAT strategy. Clients should understand there are many variables that contribute to the projection of any values in the report. Even a small change in the assumptions used in the strategy can have a significant impact in their effectiveness.

Transferring funds to the life insurance policy
Transferring funds from individually-owned investments such as stocks, mutual funds or fixed income investments to a life insurance policy may trigger capital gains, which could result in taxes owing. Clients should consult their tax advisor to ensure a tax-efficient transfer can be made where possible.

Policy performance
When comparing the growth of a life insurance policy to a taxable investment, policy performance is an important consideration. When using participating whole life, illustrate at alternate dividend scales to help clients understand the impact of a reduction in dividend scale on the cash values and death benefit of their life insurance plan.

Life insurance coverage type
For couples, illustrating a joint-last-to-die policy may help to improve the effectiveness of the IAT strategy by reducing the premium commitment compared to a single life contract.
MAKING IT EASY

Our goal is very simple – to make it as easy as possible for you to sell and service our products. By providing clients with a concrete summary of the issues that face them, you will be better positioned to help them structure an effective financial solution. That’s why we offer the following tools that you can use to explain the benefits of the IAT strategy.

IAT TOOLS

IAT illustrations: With Sun Life’s Eos software, you can create a detailed IAT client report based on the client’s actual financial situation. With a minimal amount of effort, you can clearly compare how permanent cash value life insurance can provide more favorable long term potential over taxable investments.

Client reports: Our Eos software produces a full-colour report with text and colour graphs for a powerful presentation of the problem and solution.

Sun Life Participating Account (810-3599)
With this booklet you and clients can take a closer look at the management and historical performance of the Sun Life Participating Account.

Participating whole life insurance facts and figures (810-3827)
This booklet provides detailed information on the asset mix of the Sun Life Par Account.

Client fact sheets: Participating life insurance as an asset class (810-3666) and individual asset transfer (810-3971)
This fact sheet explains to clients how participating life insurance can complement their asset portfolio and help them create a diversified, stable pool of assets without sacrificing long-term returns or cash accessibility.
We’re here to help

We’ve been a trusted and reliable company for over 145 years. As a leading international financial services organization, we continue to build on that strong foundation with a focus on market-leading products, expert advice and innovative solutions.

Our team of insurance and investment focused sales directors and advanced tax and estate planning specialists understand your needs and work with you to help you make the best decisions.