2017 TAX CHANGES
WHAT THEY MEAN TO YOU
BROUGHT TO YOU BY YOUR INSURANCE SALES TEAM
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CLIENT CONVERSATION STARTERS

CLIENT CONVERSATION STARTERS
Use these conversation starters to inform prospects and clients about the 2017 life insurance tax changes. Identify how it affects them and the opportunities available by purchasing or making changes now.
The current tax exempt rules for life insurance policies have been in effect since 1982. While only a few changes have been made to the rules over the past few decades, the products they apply to have evolved greatly. This has resulted in inconsistent tax treatment of life insurance products.

To help modernize the legislation, the federal Department of Finance has revised the life insurance exempt test and some of the related rules. These changes will come into effect January 1, 2017. Grandfathering rules will be in place for policies issued prior to that date.

**WHAT MAKES A POLICY TAX EXEMPT?**

Simply put, the exempt test distinguishes between a life insurance policy that’s primarily:

- focused on protection (an exempt policy, which receives tax-preferred treatment), or
- an investment accumulation vehicle (a non-exempt policy, with investment growth taxed annually).

Policies are reviewed on their anniversary date to determine if their projected values still comply with the limits.

**WHAT ARE THE KEY CHANGES?**

The assumptions used to determine if a policy is tax exempt have been updated or are now prescribed in the Income Tax Act and Regulations. Some of the key changes include:

- The revised benchmark policy (also known as the exempt test policy or ETP) used to determine if a policy is tax exempt, limits the cash value a policy can accumulate. The updated ETP typically results in more savings room in a policy in the early years, with a reduction in the later years.
- Changes to the 250% test, which is intended to prevent the build-up of unused exempt room in early years that could be used at a later point in time, should result in fewer 250% test failures.
- The 8% rule, which creates a new ETP when death benefit coverage increases by more than 8% annually, is being revised. The rule is applied at a policy level today, but will be done at a coverage basis under the new rules. This could result in less funding room for some product types.
- Changes to the calculation of the Net Cost of Pure Insurance (NCPI) include updated mortality tables, and a new calculation for determining the net amount at risk. This will generally result in a lower NCPI and potentially lower tax deductions.

- Updated calculations for determining the Adjusted Cost Basis (ACB) of a life insurance policy. Substandard premiums will now be included in the calculations, and in most cases, the ACB will be impacted by the lower NCPI. This will result in a higher ACB for some product types, and an extended period before the ACB reaches zero.

Term policies will be the least impacted, with a relatively minor impact to the ACB. Universal life policies will see the most change to exempt room, NCPI and ACB, bringing them more in line with traditional product types like participating insurance.

**GRANDFATHERING**

Grandfathering will be available for policies already in force. A policy will lose its grandfathered status and be subject to the new rules if:

- a policy is converted from one type of life insurance to another. A term policy that’s converted to a permanent policy after December 31, 2016 will lose grandfathering.

Sun Life Financial
coverage requiring medical underwriting is added to the policy. This includes things like increasing the coverage amount, adding a term life insurance benefit to a policy, or substituting a life insured under a policy.

There are certain events that won’t cause loss of grandfathering, even if they involve medical underwriting. A few examples include:

- Changing from smoker to non-smoker status.
- Reducing a rating.
- Transfers of ownership.

Maintaining grandfathering will be very important for policies issued prior to January 1, 2017. Policy owners who need to make changes to their policy that could cause loss of grandfathering should do so before the new rules take effect.

**THE BOTTOM LINE**

Regardless of the changes to the exempt test, the need for life insurance protection remains the key driver for any life insurance policy. The new rules will provide new opportunities, and existing policies already in place will be protected from losing their status so long as certain changes are avoided. Conduct a thorough review of clients’ needs to determine if it’s in their best interest to make any of these changes before 2017. For more information, contact your Sun Life Financial Sales Director.
Impact of 2017 tax changes on life insurance

Life insurance provides protection, but some policies also allow clients to accumulate savings on a tax-preferred basis. The Income Tax Act governs how much growth can accumulate within a life insurance policy, contains rules on how those savings are valued, and the tax implications associated with accessing them. The exempt test is used to distinguish between a life insurance policy that's primarily:

- focused on protection – an exempt policy, which receives tax-preferred treatment, or
- an investment accumulation vehicle – a non-exempt policy, with investment growth taxed annually.

The exempt test compares the savings component of the actual life insurance policy to the savings component of a theoretical benchmark policy (the exempt test policy – or ETP). This article takes a closer look at how tax changes will affect life insurance policies issued as of January 1, 2017.

There haven’t been many changes since the current Income Tax Act provisions related to life insurance were put in place in 1982. But since then, product development and innovation has led to the potential for inconsistent treatment of different product types. In particular, Universal Life (UL) insurance wasn’t fully considered when the existing rules were written. The new rules take the unique attributes of UL into account.

In the 2012 federal budget, the Department of Finance indicated it would introduce legislation to modernize the life insurance exempt test and related rules. After consultation with the industry and interested players, Bill C-43 received Royal Assent on December 16, 2014. An implementation period was provided, with the rules going into effect January 1, 2017. Grandfathering rules will be in place for policies issued prior to that date.

THE KEY CHANGES INCLUDE:

- a revised definition of the benchmark policy,
- prescribed assumptions when calculating the savings element, known as the Accumulating Fund (AF) of the exempt test policy,
- prescribed assumptions and changes to the reserve method when calculating the AF of the actual policy,
- revisions to the 8% rule and the 250% test,
- updated mortality tables for calculating the Net Cost of Pure Insurance (NCPI), and
- changes to the formula for the Adjusted Cost Basis (ACB) of a life insurance policy.

While changes are needed to accommodate these new rules, all product types, including UL, will continue to provide clients with tax-preferred protection and savings solutions. The following provides a review of the changes.

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1 Bill C-43 also included changes that impact the taxation of prescribed annuity contracts. This article is limited to changes specific to life insurance policies.

Life’s brighter under the sun
THE EXEMPT TEST POLICY

Every life insurance policy is compared to a hypothetical, benchmark policy called the exempt test policy (ETP), with the comparison against the actual policy occurring at each policy anniversary. As long as the savings component of the actual policy stays within the savings element of the ETP, it will remain exempt. The ETP is currently based on a 20-pay endowment policy at age 85. This means that a policy that would pay a lump sum at age 85 if the insured was still living, based on 20 premium payments. With the new legislation, the ETP will be based on an 8-pay endowment policy at age 90. This change may provide additional funding room in a policy’s early years, and a reduction in the later years.

THE FOLLOWING GRAPH DEMONSTRATES THE CHANGES.

THE ACCUMULATING FUND

The savings element of the ETP and the actual policy is measured by the Accumulating Fund (AF) in each policy. Historically, insurers used their own pricing or cash value assumptions in order to measure the AF of the ETP. The new legislation defines the assumptions used to calculate the AF for the ETP as follows:

- Interest rates will use a fixed assumption of 3.5%.
- Mortality will be based on the Canadian Institute of Actuaries (CIA) 1986-1992 table.

Currently, the AF of the actual policy is equal to the higher of the cash value of the policy, or an actuarially calculated reserve known as the 1.5 preliminary term reserve. For UL policies with variable premiums, the reserve component was not able to be determined, so insurers looked to the cash value of the policy to determine the AF instead. Surrender charges reduced the cash value allowing for a lower AF, and more deposit room available in the policy in the early years.

The new rules continue to have the AF of the actual policy as the higher of the cash value of the policy, or an actuarially calculated reserve. The new reserve method is called the Net Premium Reserve (NPR) and is based on the premium or cost of insurance pattern. The assumptions used to calculate the NPR for the AF for the actual policy are prescribed in the new rules. Instead of using pricing or cash value assumptions, the interest and mortality assumptions will be the same as those used to value the AF of the ETP.

Surrender charges will no longer be taken into account when comparing against the cash value. This significantly impacts the AF of UL policies, particularly so for Level Cost of Insurance (LCOI) UL policies.

The changes to the AF of the actual policy when compared to the ETP change the pattern of the funding room, with the potential for a reduction over the lifetime of the policy. This will be particularly significant with LCOI UL, due to the change in the reserve calculations. The impact to traditional types of insurance, such as participating insurance, will be much less severe.
THE 8% RULE

To help ensure the policy remains exempt, the death benefit can be increased by up to 8% annually. Sometimes, a policy election can be made for this to happen automatically if it’s in the policy owner’s best interest to do so. When the death benefit of a policy increases by more than this amount, a new ETP is established. This new ETP for the additional insurance amount is issued at the current date. This limits the amount of exempt room when compared against increasing the original ETP for the entire amount.

The 8% rule is currently applied at a policy level – looking at the entire death benefit amount under a particular policy. If any of the following apply, the 8% increase can be allocated to whichever coverage is necessary in order to maintain exempt status and avoid issuing a new ETP:

- Multiple lives are insured under the policy
- There’s a term rider
- A UL policy is designed to pay the face value plus a fund value

The rule will remain in 2017, but instead of using 8% of the full death benefit, it will apply at a life coverage level. If there are multiple lives under 1 policy, the 8% increase can only be applied in respect to each particular life.

If a policy pays the face plus the fund value at death, the fund value will be treated separately from the face value for the purposes of the 8% test.

It’s expected that this change will reduce the amount of exempt room available within certain policies.

THE 250% TEST

The 250% test prevents large, future deposits into the policy. Starting in the 10th policy year, the growth of the AF is limited over any 3-year period. It compares the AF of the policy to that on its anniversary date 3 years prior. If this exceeds 250%, it results in a failure.

When this occurs, there are typically 2 courses of action taken by the insurer to make sure the policy remains exempt. Funds can be withdrawn from the policy, or the ETP can be re-dated. If the ETP is re-dated, funding room may be significantly reduced. In practice, most insurers correct 250% test failures on significantly funded policies by withdrawing funds from the policy to ensure it remains within the limit. For policies that have been minimally funded, the insurer may simply re-date the ETP rather than requiring small amounts to be withdrawn.

The updated legislation adds an additional component to the 250% test. This change will be beneficial to some policy owners, and is the only change that will apply to both in-force and new policies when the new rules take effect. In addition to the policy’s AF exceeding 250% on its anniversary date 3 years prior, the policy must also have a material level of funding in order to fail the new test. The new, additional component of the test is as follows:

- For policies issued prior to 2017, the AF of the actual policy must be more than 3/20 of the AF of the ETPs associated with that policy.
- For policies issued on or after January 1, 2017, the AF of the actual policy must be more than 3/8 of the AF of the ETPs associated with that policy.

It’s anticipated that the additional step will result in fewer 250% test failures for policy owners who aren’t maximizing funding. Minimal funding can sometimes result in failures based on the current rules.

CALCULATING THE NET COST OF PURE INSURANCE

The Net Cost of Pure Insurance (NCPI) provides a measure of the annual cost associated with the mortality risk for a life insured in a particular year for tax purposes. It generally increases each year in conjunction with the mortality factors and is calculated by multiplying a mortality factor by the net amount at risk under the coverage. A number of factors used in this calculation will be changing.

- Mortality tables - On January 1, 2017, the mortality tables used will be updated to the Canadian Institute of Actuaries (CIA) 1986-1992 from the CIA 1969-1975 mortality tables. The new table reflects the improvement of Canadians’ longevity. It also has been extended, providing factors until age 90. The legislation provides a prescribed method of extrapolating beyond this point. The previous tables only went to age 70, leaving insurers to determine their own method of extending the factors.
- Calculating risk - The legislation also introduced a new method of calculating the net amount at risk for the purposes of calculating the NCPI. Currently, insurers look at the death benefit, minus the AF or the cash surrender value of the policy (depending on the method previously used by the insurance company). It will now be determined as the difference between the death benefit and an actuarial calculation referred to as the Net Premium Reserve (NPR). This change results in a lower net amount of risk for NCPI than before.
- Substandard ratings - After the changes take effect, the mortality factors used will also consider substandard ratings when calculating the NCPI.

Combined, the revised calculations will generally result in a lower NCPI
The NCPI of a life insurance policy is an important factor in determining the deductibility of life insurance premiums for tax purposes in certain situations. Section 20[1][e.2] of the Income Tax Act allows for the lesser of: the premium; or the NCPI amount for the year to be deducted when the life insurance policy has been collaterally assigned as security for a loan, provided certain conditions are met. Life insurance strategies involving leveraging may experience a decrease in the deductible amount available to the client for income tax purposes.

THE ADJUSTED COST BASIS OF A LIFE INSURANCE POLICY

The Adjusted Cost Basis (ACB) of a policy is a critical component in calculating the taxable policy gain that arises from certain transactions. For example, policy owners are able to access policy loans up to the ACB of the policy on a tax-free basis. Surrenders of life insurance policies trigger taxable gains by the amount of which the cash surrender value exceeds the ACB. Corporate beneficiaries of life insurance policies may be able to credit an amount equal to the death benefit of the policy, less the ACB, to their notional Capital Dividend Account (CDA), which allows tax-free capital dividends to be paid to shareholders.

The formula for calculating the ACB of a life insurance policy is complex, but can be generalized by referring to the sum of the premiums paid less the NCPI. The formula also contains several other variables that are being revised in a number of ways. For example, the current formula only includes the standard premium, excluding additional amounts paid for substandard ratings. The updated formula will alter this, with the additional premium amount being included in the calculations.

The changes to the NCPI factors as described above will also have a significant impact on the ACB. A lower NCPI results in a higher ACB for a longer period time.

It's expected that the ACB of LCOI UL policies will see the most significant impact due to these changes. Based on very limited testing, it's reasonable to expect the ACB of an LCOI UL policy to extend out – that is, not grind down to zero – for an additional 7 to 17 years, and reaching a taxable policy gain position 4 to 13 years later. More traditional life insurance products will see less of an impact. Participating policies can expect to see the ACB extend out by another 2 to 3 years, with the policy reaching a taxable policy gain position 1 to 3 years later.

The ACB formula is also being revised to address multi-life policies. Currently, there's no adjustment to the ACB when a life insurance policy pays out the fund value at the first death on a policy insuring more than 1 life. Under the new rules, the ACB will be reduced. When an insured life dies, only the fund value that would have been paid out tax-free had the policy been a single life policy will be received on a tax-free basis. Excess amounts will be treated as a partial withdrawal, with a taxable gain being calculated accordingly.

For personally owned policies, the higher ACB may lessen the taxable gain associated with certain transactions as described above. For corporately owned policies, who are also the beneficiary of the death benefit, the changes to the ACB may impact the amount of CDA credits available.

While the majority of the other tax changes described above will only impact permanent life insurance policies, the revisions to NCPI and ACB rules will also affect term policies. This would generally only affect corporately-owned policies, as it could have a minor impact on the amount
of a death benefit creating a credit to the CDA.

Substandard ratings will result in a higher NCPI factor, but this will typically be more than offset for ACB purposes by the inclusion of substandard premiums in the revised formula. While achieving a higher NCPI for collateral loan deduction purposes, clients with substandard ratings shouldn’t expect to see a lower ACB.

GRANDFATHERING OF LIFE INSURANCE POLICIES ISSUED PRIOR TO JANUARY 1, 2017

Given the long-term planning that life insurance addresses, grandfathering is a critical aspect when changes are made. The new rules will offer grandfathering protection to policies issued before January 1, 2017. Loss of grandfathering occurs when:

- A policy issued prior to January 1, 2017 is converted to another type of policy on or after this date, or
- Coverage that requires medical underwriting is added to the policy on after January 1, 2017.

Therefore, term policies issued prior to 2017 will be subject to the new rules if converted to a permanent policy on or after January 1, 2017. Any medically underwritten event that increases the insurance amount or the net amount at risk under the policy will cause the loss of grandfathering.

The following are a few examples:
- An increase or additional life insurance coverage on or after January 1, 2017.
- Addition of a term insurance benefit to a policy.
- Substitution of a life insured under a policy.

Certain exceptions have also been included in the legislation. The following are examples of events that aren’t expected to cause a policy to lose grandfathering after 2017:
- Changing from smoker to non-smoker status
- Medical underwriting to reduce a rating
- Reinstatements of a policy
- Addition of a non-life insurance rider to a policy, like a disability waiver
- Switching dividend options
- Transfers of ownership

The triggers deeming a policy to be issued after 2016 and subject to the new rules differ from the grandfathering triggers for policies issued prior to December 2, 1982. It’s important to keep these distinctions in mind when dealing with long-standing policies issued prior to that date.

THE BOTTOM LINE

The new rules in 2017 will impact the amount of money that can accumulate within an exempt life insurance policy on a tax-preferred basis. The most significant impact will be to LCOI UL, bringing UL more in line with other product types.

Regardless of the changes to the exempt test, the need for life insurance protection remains the key driver for any life insurance policy. The new rules will provide new opportunities, and existing policies already in place will be protected from losing their status, if certain changes are avoided. Conduct a thorough review of clients’ needs to determine if it’s in their best interest to make any changes before 2017. It’s important to recognize that all types of permanent life insurance, including UL, will continue to offer clients significant advantages over alternative, taxable investments, even with the changes taking place in 2017.
Impact of 2017 tax changes to existing life insurance

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/PERSOAL 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.
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.
2017 Individual Life Insurance tax changes

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WHAT IS GRANDFATHERING?


The new tax rules for life insurance policies will generally apply to policies issued on or after January 1, 2017 (post-2016). Policies issued before that date (pre-2017) will be exempt from the rules in the revised legislation, in other words grandfathered.

**Tip** - Given the long-term planning objectives that life insurance addresses, understanding and maintaining this grandfathering status is critical.

Life insurance products are developed according to the tax treatment that applies to them when they are created. When legislation changes, it’s important that existing life insurance policies continue to operate consistently with clients’ expectations. The death benefit and associated savings room illustrated with pre-2017 policies will likely form part of clients’ comprehensive financial plans that could span many decades.

Grandfathering is intended to address this need, and is often offered when legislative changes are introduced. Typically, the government doesn’t want to impact policy owners who purchased policies with long-term planning objectives in mind. However, there are certain exceptions to this — primarily involving aggressive tax-avoidance strategies. But grandfathering can be lost and clients need to be aware of the causes and how to avoid them. It may be in clients’ best interest to make any changes well before January 1, 2017.

This guide focuses on maintaining grandfathering for policies issued before 2017. When the new rules come into effect on January 1, 2017, insurers will redesign their life insurance products to fit within the new legislative framework, potentially providing new opportunities previously unavailable. Clients purchasing policies after 2016 can be assured that they’ll continue to have their choice of excellent protection options and tax-preferred saving features.

WHAT POLICY CHANGES WILL CAUSE POLICIES TO LOSE GRANDFATHERING?

There are a number of policy changes clients can make that will cause their policies to lose grandfathering. If any of the changes below are being considered, it’s in clients’ best interests to make these changes well before January 1, 2017 to maintain their policy’s pre-2017 tax regime.

As a general rule, anything that increases the amount of insurance coverage and requires medical underwriting on a pre-2017 policy will cause that policy to lose grandfathering and be subject to the post-2016 tax rules. If a coverage is added to an in-force policy the entire policy is subject to the new tax rules, not just the additional coverage and grandfathering is lost.

Some life insurance products give clients the flexibility to make changes after the policy is issued. The following is a list of changes that, if made after 2016, will cause clients’ policy to lose its current tax status or grandfathering:

- Anything that requires medical underwriting to increase the amount of life insurance coverage under the policy, such as:
  - adding an additional coverage or increasing the existing coverage on a universal life (UL) or term policy, where medical underwriting is required.
  - adding an insured person on a UL or term policy, where medical underwriting is required.
  - substituting an insured person on a UL policy, where medical underwriting is required.
  - changing the death benefit option on a UL policy, where the future net amount at risk increases and medical underwriting is required. For example, changing from a level death benefit to a face plus fund death benefit while maintaining the same base insurance amount.
  - adding a term benefit to a policy that requires medical underwriting. While some people may be under the impression that only the term benefit would be subject to the new tax rules, the addition of this benefit to a pre-2017 policy will cause the entire policy to lose grandfathering.
  - adding a spousal or other insured term benefit.
  - adding a child term benefit, if medical underwriting is required.
  - adding or re-starting plus premium benefit on a participating (Par) life insurance policy, where medical underwriting is required.
- If a client purchases a policy after 2016 with a guaranteed insurability benefit, and then exercises an option to increase the coverage on a separate pre-2017 policy, exercising this option causes the pre-2017 policy to lose its grandfathered status. In this case, even though the increase on the pre-2017 policy didn’t require underwriting, the guaranteed insurability benefit used to obtain this option was medically underwritten post-2016.
- Term to term replacements on benefits that require medical underwriting will cause the entire policy to lose
grandfathering, even if they maintain the same face amount. For example, a client has a pre-2017 UL policy with a term 10 benefit and wants to change it to a term 20 benefit for the same face amount. Medical underwriting is required for the new term 20 benefit even though there's no increase in face amount. This transaction causes the full UL policy to lose grandfathering and the 2017 rules apply.

**CONVERSIONS**

Life insurance conversions will also cause a policy to lose grandfathering. The legislation states the new rules apply to policies converted into “another type of life insurance” on or after the implementation date. The legislative wording of “another type of life insurance” may extend the definition beyond what is normally considered a term conversion.

Grandfathering will be lost to a pre-2017 policy in the following situations:

- A term policy converting to a new policy - If under the term contract, a term policy is converted to another type of life insurance post-2016, the resulting policy loses grandfathering and is issued under the post-2016 rules.
- A term policy converting to add additional coverage to a pre-2017 UL policy - Since term policy conversions lose grandfathering, if clients convert a term policy or term benefit (rider) into a UL policy issued before 2017 in order to add an additional coverage to that UL policy, the entire pre-2017 UL policy will lose grandfathering.
- A term policy converting to add an additional coverage to a post-2016 policy - The policy to which the coverage is being added will already be under the new rules, and the new rules will also apply to the new coverage resulting from the term conversion.

In addition to the above situations where the loss of grandfathering on conversion is quite clear, there are a few scenarios that aren’t clearly defined in the legislation. The following policy transactions could potentially be considered conversions to “another type of life insurance” and may lose grandfathering:

- Joint last-to-die or Joint first-to-die policy changes to a single life policy - If a new policy is issued as a result of this transaction, the new policy may be issued under the 2017 tax rules.
- Joint first-to-die policy changing to a Joint last-to-die policy - If a new policy is issued as a result of this transaction, the Joint last-to-die policy may be issued under the 2017 tax rules.
- Partial conversions - It’s uncertain if converting pre-2017 UL policy term benefit to a permanent policy would cause the original pre-2017 UL policy to lose grandfathering. The new rules apply to the policy resulting from the term benefit conversion, but Sun Life believes the original UL policy should remain grandfathered.
- Changing to reduced paid-up insurance - It’s uncertain if changing a permanent life insurance policy to a reduced paid-up life insurance policy would retain its grandfathered status, or if it could be classified as a conversion into “another type of life insurance.”

- Term 10 policy to a term 20 policy, without medical underwriting - Sun Life believes this would be classified as a conversion, causing the loss of grandfathering and the new rules would apply.

**WHAT POLICY CHANGES WON’T CAUSE POLICIES TO LOSE GRANDFATHERING?**

There are some changes clients can make to policies issued before 2017 that won’t cause the policy to lose grandfathering. These changes include:

- Changing ownership - While this change continues to be a factor in determining the rules applying to policies issued before December 2, 1982, it won’t affect the tax rules for policies issued after December 2, 1982 and before January 1, 2017. The ability to change ownership without the loss of grandfathering is important to a number of clients, particularly parents who purchase life insurance on their children and plan to transfer the ownership to them when they become adults.

- Exercising guaranteed insurability option - If clients have a policy with a guaranteed insurability benefit that was purchased and medically underwritten before January 1, 2017, they can continue to exercise the option at any point in time without losing grandfathering. Even though there will be an increase in coverage under the policy, it’s allowed since the guaranteed insurability benefit was medically underwritten pre-2017.

- Smoking status changes - Policies won’t lose grandfathering when clients undergo medical underwriting to change their smoking status. In addition, policies won’t lose grandfathering if clients undergo medical underwriting to have a rating change.

- Addition of waivers and benefits - Clients will continue to be able to add non-life insurance benefits such as total disability waiver, accidental death benefit, and in some cases child term benefit, without losing grandfathering. Some child term benefits allow clients to add the benefit before children are born. Since there’s no medical underwriting required, there’s no loss of grandfathering.

- Reinstating lapsed policies - If clients’ pre-2017 policies lapse on or after January 1, 2017 and they apply to reinstate a policy by undergoing medical underwriting, the reinstated policy won’t lose grandfathering. With a reinstatement, the policy is put back in place as if it had never lapsed and continues to follow the pre-2017 tax rules. It’s important to note that the reinstatement must be for the policy as it was pre-2017, without any changes in the coverage. If clients apply to increase coverage when they apply to reinstate, the entire policy loses grandfathering.

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1 While transfers of ownership will not cause the loss of grandfathering in these circumstances, it will continue to be a taxable disposition of the policy. A taxable gain may be reported to the original policy owner upon the transfer, unless a specific rollover provision in the Income Tax Act (Canada) applies.
Switching dividend options - Clients can continue to switch dividend options on a policy where medical underwriting is required without losing grandfathering. For example, if clients choose to switch their dividend option from cash to paid-up additional insurance and undergo medical underwriting to do so, the policy won’t lose grandfathering. Medical underwriting is required as the insurance coverage will increase, but because dividends are being used to purchase the increase in coverage, the policy will be protected from moving to the new rules.

Retaining coverage after withdrawals - If clients have a pre-2017 UL policy with a level death benefit and make a withdrawal that increases the net amount at risk; clients can undergo medical underwriting after 2016 to maintain the coverage at the original insurance without losing grandfathering.

Reducing the death benefit - Decreasing the death benefit on any pre-2017 life insurance policy after 2016 won’t cause the policy to lose grandfathering.

Overfunding UL - Clients can continue or start overfunding their UL policies without losing grandfathering. The funding may cause annual increases in their death benefit to a maximum of 8% per year. These increases don’t require medical underwriting.

To summarize, clients can make any contractual changes they would like to their pre-2017 policies in the post-2016 world without losing grandfathering, provided changes don’t require medical underwriting or are outlined above.

IMPACT OF THE LOSS OF GRANDFATHERING

UNIVERSAL LIFE (UL)

Universal life insurance policies provide one of the most flexible options for permanent life insurance available today. When clients purchase these policies, they’re provided with protection, maximum tax-preferred savings, a variety of structures for paying the costs of insurance and a number of investment options to help maximize their return under the policy.

UL policies that lose grandfathering will be most impacted by the changes in the exempt test and related rules coming into effect on January 1, 2017. When the current rules were written and put into place in 1982, UL was relatively new to the Canadian marketplace, and the product type wasn’t taken into account. Insurance companies were left to interpret the rules designed for more traditional types of life insurance, and apply them to UL based on those interpretations.

The one positive change achieved through the loss of grandfathering has already been extended to existing policy owners in the new legislation. The Department of Finance allowed for changes to the 250% rule to be extended to policies issued before January 1, 2017. This will likely result in fewer failures for minimum-funded policies. Existing policies will have access to this positive feature without losing grandfathering.

But overall the loss of grandfathering for UL policies will be mostly negative. Face plus fund with level cost of insurance policies will experience the most impact, and will no longer perform as originally illustrated.

If a UL policy loses grandfathering, the maximum funding room available will be reduced. This could result in transferring funds out of the policy to the side account to ensure the policy remains exempt. These transfers are a taxable disposition, with a taxable gain reported to the policy owner. When additional room opens up in the future, funds are moved back into the policy. These deposits are once again subject to provincial premium tax. The net result is several layers of unnecessary taxation to the policy owner due to the loss of grandfathering.

The following graph shows the impact of the loss of grandfathering in this situation.

10 PAY UL WITH MAX PREMIUM FOR 10 YEARS

LOSS OF GRANDFATHERING AT YEAR 10

The 2017 rules for calculating the net cost of pure insurance (NCPI) and the adjusted cost basis (ACB) apply to UL policies that lose grandfathering. With the changes to the NCPI factors, the revised calculations will generally result in a lower NCPI amount.

The NCPI of a life insurance policy is an important factor in determining the deductibility of life insurance premiums for tax purposes in certain situations. Life insurance strategies that involve leveraging may experience a decrease in the deductible amount available to clients for income tax purposes.

The changes to the formula used for calculating the ACB of a policy combined with the NCPI changes described above will also have a significant impact on the ACB. A lower NCPI results in a higher ACB for a longer period of time. While the exact impact will depend on when a policy loses grandfathering, applying the new ACB rules to an existing policy will cause the ACB to extend out — that is, not grind down to zero — for a longer period of time. For corporate beneficiaries, this will result in a lower Capital Dividend Account (CDA) credit being available to them.
When clients purchased UL policies, they may have insured multiple lives under one policy. The loss of grandfathering for multi-life policies will have a number of negative consequences. Policies subjected to the new rules will be tested at a life coverage level, rather than at the policy level. The result will be a reduction in the total funding room available within the policy.

In addition, multi-life policies currently allow for the payout of the full policy fund upon each death. With the loss of grandfathering, policies will only be able to pay the fund value that would have been associated with that life on a tax-free basis. Anything above this will report a taxable gain.

If any changes are needed to a multi-life policy that could jeopardize grandfathering, clients should be making them well before 2017 to avoid losing this valuable protection.

PARTICIPATING LIFE INSURANCE

Certain benefits have been included in the legislation that will still allow for policy changes to occur without losing grandfathering. Medical underwriting to change dividend options won’t cause the policy to lose grandfathering. This will provide continued flexibility to clients.

Par policies offer cash surrender values that are guaranteed in the contract and can’t be altered by the insurer. If a policy loses grandfathering, these guaranteed cash surrender values could cause the policy to become non-exempt. The new rules offer a different exempt room pattern, while pre-2017 policies have been designed to work within the current tax rules. In many instances, the change in the exempt test policy line will result in a failure. There will be no recourse to change the policy back to an exempt policy, since the guaranteed cash values are specified by the contract. The insurer won’t be able to make policy changes to prevent this from happening.

The following example illustrates how losing grandfathering could result in the guaranteed cash surrender values to cause the policy to fail the exempt test:

SUN PAR PROTECTOR – AGE 40
COMPARE OF CURRENT GUARANTEED CASH SURRENDER VALUES AGAINST 2017 EXEMPT LIMIT DURATION 20+

*An exempt test policy (ETP) is a hypothetical benchmark that is set up at issue alongside the actual policy to measure the saving room in the policy. The higher ETP the more savings room there is in the real policy.
If these policies lose their grandfathering, the new rules for calculating the NCPI and the ACB will apply as described above. The lower NCPI will generally provide a lower deduction for collaterally assigned policies, and the higher ACB will result in a lower CDA credit for corporate beneficiaries for a period of time.

**NCPI IMPACT - LOSS OF GRANDFATHERING IN YEAR 10**
PAR, MALE, NON-SMOKER, AGE 40

![NCPI Graph](image1)

**ACB IMPACT - LOSS OF GRANDFATHERING IN YEAR 10**
PAR, MALE, NON-SMOKER, AGE 40

![ACB Graph](image2)

**PERMANENT WHOLE LIFE INSURANCE**

Similar to the situations described above, the guaranteed cash surrender values associated with permanent whole life insurance policies were developed using the current tax rules, and designed to stay within the current exempt test limits. The loss of grandfathering will result in a new pattern for exempt test rules, and the guaranteed cash values may not stay within these limits. Since these values are contractually guaranteed, there would be no recourse available in these situations. There's a risk that the policy could become non-exempt.

**TERM LIFE INSURANCE**

Term life insurance policies will experience the least impact if grandfathering is lost. The main reason why a term policy would lose grandfathering is if it's converted to another type of life insurance, such as permanent insurance. The new policy will be subject to the new rules. Clients looking to convert their policy must do so before January 1, 2017 if they want the current tax rules to apply.

Term policies will also lose grandfathering if coverage requiring medical underwriting is added to the policy on or after January 1, 2017, or if there's a conversion to a different term length. An example of this is a term 10 to term 20 conversion. The impact to the converted policy will be limited given the lack of savings component associated with term policies. The new policy will fall under the 2017 rules for calculating the NCPI and ACB. For corporate beneficiaries, this may result in a lower CDA credit for a period of time. For policies that are collaterally assigned and eligible for the corresponding deduction, the deduction may be reduced due to the lower NCPI factor.

**ACB IMPACT - LOSS OF GRANDFATHERING IN YEAR 10**
TERM 10 POLICY, MALE, NON-SMOKER, AGE 40

![ACB Graph](image3)
WHY IS IT BETTER TO MAINTAIN A POLICY’S TAX-EXEMPT STATUS?

The tax-exempt status of life insurance policies is an extremely valuable feature, and can be jeopardized by the inadvertent loss of grandfathering. It’s important to be fully aware of this risk before making any policy changes post 2016, and clients should generally avoid any policy transactions that would cause this to occur.

Policies that lose their tax-exempt status will become subject to accrual taxation, based on the excess of the accumulating fund over the ACB of the policy at each anniversary date. This means the annual investment earnings within the policy will be taxable each year to the policy owner. At death, any additional accrued income earned between the previous anniversary or reporting date and the date of death will be reported for tax purposes.

Maintaining the tax-exempt status of a life insurance policy is a critical component to ensure the policy continues to meet the client’s original expectations and planning objectives.

Because of how integral and valuable the tax-exempt status is to a life insurance policy, Sun Life may decline to make policy changes to Par life, UL and permanent whole life policies that result in a loss of grandfathering and causes a policy to become non-exempt. If the requested change is contractually permitted, and the client still wishes to continue with the transaction, we may ask them to acknowledge the impact in writing before continuing with their request.

ACTIONS TO TAKE IN 2016

As you’ve seen, it’s in the clients’ best interest to maintain their policies’ pre-2017 tax status in the post-2016 world. Many policy contracts allow clients to make changes at any time. However, in 2016, it’s important to ensure any medically underwritten changes are done to avoid the loss of grandfathering well before January 1, 2017.

If you’re looking for opportunities to reach out to new or existing clients in 2016, here are some ideas.

Existing clients

- If clients’ term plans include converting term to permanent in the future, they should do it today so they can access the pre-2017 tax rules.
- If clients have a UL policy that offers the opportunity to add or increase coverages or add lives and they were considering doing so in the future, make sure they do this in 2016.
- If clients were considering an increase in coverage by adding a term benefit on themselves, a spouse or another insured, make sure they do this in 2016 so their entire policy maintains its grandfathered status.
- If clients have put off adding plus premium benefit to their Par whole life policy and they’re allowed to do this after issue, make sure they add it in 2016.
- Now’s the time for clients of young families to add a child term benefit.

New clients

- Clients should purchase a UL policy today if they’re looking to take advantage of maximum funding.
- Business clients who are looking to maximize the CDA credit on the insured person’s death should have their policy issued before 2017.
THE BRIGHT SIDE OF 2017

The tax changes taking effect on January 1, 2017, provide you with opportunities for sales in 2016.

- Reach out to existing clients who were considering making some changes.
- Approach clients who would benefit from the coverage today while taking advantage of the current tax rules.
- Increase the sense of urgency with respect to putting coverage in place for those clients who have been considering life insurance for a while.

The brighter side of 2017 is that products will be enhanced to incorporate the new tax changes. While there may be some losses, there are a number of gains. For example, the new exempt rules allow for more funding up front, which may be appealing to clients who want to pre-fund their policies.

The tax changes provide opportunities for new and enhanced products.

The products we offer today and what we’ll offer in 2017 provide clients with sound value for their investment.

The tax changes have provided an opportunity to create a sense of urgency for those clients that were putting off the inevitable.

SUMMARY OF POTENTIAL IMPLICATIONS FROM LOSS OF GRANDFATHERING ON PERMANENT INSURANCE PRODUCTS

<table>
<thead>
<tr>
<th>Personal</th>
<th>Corporate</th>
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</thead>
<tbody>
<tr>
<td>• Potential for the policy to become non-exempt</td>
<td>• Potential for the policy to become non-exempt</td>
</tr>
<tr>
<td>• Loss of tax-preferred funding room</td>
<td>• Loss of tax-preferred funding room</td>
</tr>
<tr>
<td>• Reduction in NCPI factors, lowering amounts available for deductions</td>
<td>• Reduction in NCPI factors, lowering amounts available for deductions for eligible collaterally assigned policies</td>
</tr>
<tr>
<td>for eligible collaterally assigned policies</td>
<td>• Increase to ACB, resulting in a potentially lower CDA credit upon death of insured</td>
</tr>
<tr>
<td>• For multi-life policies, losing out on the ability to pay out the full</td>
<td>• For multi-life policies, losing out on the ability to pay out the full fund value on each death without tax consequences</td>
</tr>
<tr>
<td>fund value on each death without tax consequences</td>
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</table>
Check your opportunities for 2016

The upcoming changes to the life insurance exempt test and related rules will create new product opportunities in 2017. But they’ll also limit some of the benefits available with products designed to meet the current rules.

Clients who already have life insurance policies will want to ensure they keep their grandfathered status. Changes that could impact grandfathering need to be done before January 1, 2017 or that protection could be lost.

Here are a few things for both existing and new clients to consider in 2016.

**CLIENTS WITH EXISTING POLICIES**

- Maintaining grandfathering is the top priority
- Make changes before 2017
- For details on grandfathering, see the Advisor guide to Grandfathering on our 2017 life insurance tax changes web page.

**Term conversions.** If a client plans to convert from term to permanent in the future, recommend they do it today so they can have access to the pre-2017 tax rules.

**Increase permanent protection.** If clients have expressed interest in increasing their insurance coverage, or have multiple lives insured under their universal life policy, contact those clients, discuss their options, and implement the changes to their universal life policy well before 2017.

**Add term benefits.** If clients are looking at increasing their coverage by adding a term benefit either on themselves, a spouse or another insured, make sure they do this in 2016 so their entire policy keeps its grandfathered status.

**Sun Par and the Plus premium benefit.** If clients have put off adding Plus premium benefit to their participating whole life policy and they’re allowed to do this after issue, make sure they add it in 2016.

**Cover additional needs of corporate clients.** Increase coverage to account for increased business values and key person protection. If necessary, and a policy allows for it, substitute lives on multi-life policies.

**Protect young families with the Child term benefit (CTB).** Identify clients with young families and talk with them about adding the CTB to their existing policy – now’s the time.
CLIENTS CONSIDERING THE PURCHASE OF A NEW POLICY

- The insurance need should always be the motivating factor
- Certain strategies may be more effective if the policy is issued before 2017

Purchase a universal life policy and maximize tax-preferred funding. Clients should purchase a Face plus Fund, Level Cost of Insurance (COI) universal life policy today if they are looking to take advantage of maximum funding.

Capital Dividend Account (CDA) credits. Business clients that want to maximize the Capital Dividend Account (CDA) credit upon death of the insured should have their policy issued before 2017.

Leverage the value of life insurance. The 2017 tax changes impact the Net Cost of Pure Insurance (NCPI). Clients using leveraging strategies may want to consider purchasing their policy now so they can be grandfathered under the pre-2017 rules and potentially achieve higher deductions.

Insured annuities. The increasing taxable portion of income from non-registered prescribed annuities, combined with Investment Income Tax (IIT) changes for Level COI UL, may result in this strategy being less effective if not implemented before 2017.

For more information, read Sun Life Financial’s Advisor guide to Grandfathering and 2016 life insurance opportunities - Case studies on our 2017 life insurance tax changes web page.
2016 life insurance opportunities

CASE STUDY 1 – CORPORATE CDA CREDIT

Joe Smith is a 49-year-old sole shareholder of XYZ Inc., a successful bobsled manufacturing company. The business generates an impressive amount of after-tax income each year, but due to the nature of the industry, cash flow varies from month to month.

Joe knows that he needs key person protection to ensure that his business can successfully pass to the next generation and continue to provide for his family. He also wants to make sure they can access that money from the business in the most tax efficient way possible. His health is good today, but he knows that could change at any point.

Joe meets with his advisor, and they determine that he has a life insurance need of $5 million. Joe’s advisor tells him that permanent insurance is best in this situation, since he needs the insurance to stay in place for life to cover his legacy planning needs.

They discuss potential options for coverage. Joe likes the idea of participating insurance, but is concerned about what will happen if his cash flow is tight and he can’t make the required premium payments. His advisor tells him about Universal life insurance, which will offer Joe a more flexible payment structure, which is important to him.

In doing some of his own research, Joe has learned that there are changes coming to life insurance legislation in 2017. His advisor explained to him that while the 2017 life insurance tax changes may create new opportunities for product enhancement and development, they’ll also change some of the benefits that are available with the current tax rules.

Part of the new legislation changes the way that the Adjusted Cost Basis (ACB) of a life insurance policy is calculated. The ACB calculation is complicated, but in general terms premium payments are added to a policy’s ACB, causing the ACB to rise. But another factor, the net cost of pure insurance (NCPI), is deducted from ACB. The ACB of a policy generally grows during its early years, reaches a peak, and then grinds down to zero at some point in the future. This grind down results from the NCPI growing each year as the insured person ages, and ultimately becomes a larger amount than the premium payments. The ACB calculations for policies issued starting in 2017 will be impacted by changes to the way in which NCPI is calculated.

Briefly, the NCPI calculation will use more recent mortality information. The result will be a lower figure for NCPI than is currently used, which may delay the peak for ACB, increase the height of that peak and delay the period of time before ACB grinds down to zero.

Joe wonders how this change will impact his planning, assuming all other things remain the same. The ACB of a corporate-owned policy is very important in determining how much of the total death benefit can be paid tax-free to a company’s shareholders. Briefly, if a corporation owns a life insurance policy, and the insured dies, the corporation receives the death benefit tax-free. But whether it can pay all or part of the death benefit tax-free to its shareholders depends on its capital dividend account (CDA). The CDA tracks tax-free items the company has received, which it can pay to its shareholders by declaring a capital dividend. Shareholders don’t pay tax on capital dividends. But for life insurance policy death benefits, only the death benefit minus the policy’s ACB at death can be posted to the company’s CDA. The lower the ACB, the higher the CDA credit, and the better result for Joe’s successor shareholders.

Illustrations based on a $5 million Face plus Fund, Level COI Universal Life policy for a 49-year-old male non-smoker, funded at $140,000 per year for 15 years with as assumed interest rate of 4%, with COI rates in effect as of February 1, 2016.
Joe’s advisor knows the products could change in 2017, so it’s impossible to really know how they will look in the future, but still wonders how the ACB would change if everything else remained the same. Since the ACB will impact the CDA credit, Joe would prefer a product that allows for the lowest ACB that grinds down to zero in the shortest time possible.

Using the current ACB rules, the ACB hits its peak of $1,679,000 at age 64 when he makes his final deposit to the policy, and grinds down to zero by age 76. When he looks at the same policy with the new rules applied, the ACB hits its peak of $1,853,000 once again at age 64, but doesn’t grind down to zero until age 86.

Since the CDA credit is calculated by subtracting the ACB of the policy from the total death benefit, Joe knows that the CDA will also be impacted by this change.

It becomes clear to Joe that by having his policy issued before January 1, 2017, he may be able to obtain a higher CDA credit than if he were to wait until the new rules come into effect. With the current rules, his policy illustration shows that his company could receive a CDA credit for the total death benefit by age 76. If he were to take that same policy and apply the new 2017 rules, he wouldn’t be able to achieve that full CDA credit until age 86, an additional 10 years later.

Joe considers the following when coming to his decision: A Universal Life policy provides Joe with more premium flexibility, since his cash flow may vary over his planned payment period of 15 years.

- The current rules allow for more exempt room to accumulate in a Face plus Fund, Level COI Universal Life policy over the lifetime of the policy than the new rules will allow for. This provides Joe with additional flexibility to increase his deposits in the future if cash flow allows.

- Changes to the way that the Investment Income Tax (IIT) is calculated for Level COI UL policies may result in higher cost of insurance for these types of policies beginning in 2017.

- The current rules for calculating the ACB of a policy may allow for higher CDA credit for a longer period of time.

Joe decides to act today, and get his insurance in place before the new tax changes take effect on January 1, 2017. By acting now, he can also help to ensure that coverage is in place right away, since he can’t predict what will happen in the coming year, and his health could change at any point in time.
CASE STUDY 2 – MAXIMIZING A UL POLICY

Julie, 57, and Steve, 54, have led a comfortable life. They’ve managed to maximize their registered retirement savings plan (RRSP) and tax-free savings account (TFSA) contributions, and have built up enough non-registered savings to make them feel comfortable about their future. They have two university-aged children though, and while they’re sure that they’ll be successful, they want to do everything they can to help keep them on that same path.

Steve’s father recently passed away, and left him and Julie an inheritance of $1 million. Steve and Julie want to make the most of this, and since they’ve already secured their own financial future, they know this is the perfect opportunity to help the next generation. Leaving a legacy to their own two children is important to them, just as Steve’s father did for them.

After consulting with their financial advisor, it’s clear that a life insurance policy is a great way to provide a tax-preferred savings vehicle while also offering a tax-free death benefit that will provide their children with a meaningful inheritance. They decide that they don’t want to allocate the entire $1 million to the policy, but would prefer to fund it with $50,000 over 15 years. They would also like to have the option to increase their contributions to the policy if they choose to do so in the future.

Since Steve and Julie have spent a considerable part of their lives being very involved with managing their own finances and investment portfolios, they’re both savvy investors and like to have a great deal of control over the management of their investments. While they appreciate the stability and solid performance history that a Participating policy can provide them with, they have a strong preference for universal life because of their focus on the markets.

Since their primary concern is leaving a legacy for their children, they choose a joint last-to-die policy, which will pay a death benefit when the second spouse dies. Based on their desired funding of $50,000 a year for the next 10 years, they decide to apply for a Face plus Fund, Level COI Universal Life policy with an initial death benefit of $1 million.²

If Steve and Julie purchase a policy based on the current rules, their planned funding pattern still leaves them with a large amount of exempt room within their policy. If they decide to increase their deposits in the future using an additional portion of their inheritance, helping to increase the tax-free legacy that can be left to their children even more, that option is available.

² Illustrations based on a joint last-to-die $1 million Face plus Fund, Level COI Universal Life policy for a 54-year-old male non-smoker and a 57 year old female non-smoker, funded at $50,000 per year for 10 years with as assumed interest rate of 4%, with COI rates in effect as of February 1, 2016.
Things change dramatically for Steven and Julie if they apply the new 2017 tax rules to the same policy. The new rules incorporate an actuarial reserve, referred to as the Net Premium Reserve (NPR), when determining available exempt room within the policy. This new NPR factor takes up a substantial portion of the exempt room within Level COI Face plus Fund UL policies, and their planned funding of $50,000 over 15 years will no longer fit within the exempt limits. This also means they have no opportunity to make additional deposits if they wanted to do so.

For Steve and Julie, they decide that the availability of additional funding room within their policy by having it issued before 2017 is important to them, as it provides them with more flexibility to make additional deposits if and when they decide to do so.

**INSURED ANNUITIES**

Insured annuities, sometimes called back-to-backs, offer clients the potential to increase their after-tax income stream by purchasing a prescribed annuity that receives preferential tax treatment, and replenishing the capital used to purchase that annuity through an insurance policy.

Each level payment from a prescribed annuity has a taxable portion, calculated using mortality tables prescribed in the Income Tax Act and Regulations. Prescribed annuities purchased on or after January 1, 2017 will use updated mortality tables to calculate the taxable portion, which will result in a higher taxable amount. A higher taxable portion will result in less after-tax income.

Consider an example where an individual has $500,000 invested in a GIC paying 3% annual interest. They'd like to take this lump sum and implement an insured annuity strategy. They would first purchase a Level COI Universal Life policy with a $500,000 death benefit, paying the first monthly premium of $1,311. They would then use the remaining $498,689 to purchase a prescribed annuity contract that pays a level amount of income each month for the rest of their life. Because of the preferred taxation that the prescribed annuity receives, this may generate more income than they would have originally been able to achieve by staying with the original GIC. When they die, the $500,000 death benefit will replenish their estate.

**LEVERAGING STRATEGIES & NCPI**

With the changes to the NCPI factors, the revised calculations will generally result in a lower NCPI amount for life insurance policies issued after 2016. The NCPI of a life insurance policy is an important factor in determining the deductibility of life insurance premiums for tax purposes in certain situations. If clients have assigned their life insurance policy as collateral for a loan from a financial institution, and meet specific conditions found in the Income Tax Act, they may be entitled to claim a deduction the lesser of the premium paid or the NCPI.

Life insurance strategies involving leveraging may experience a decrease in the deductible amount available to the client for income tax purposes. Clients with rated policies may see a higher NCPI, but this will probably be offset by a higher ACB and reduced funding room as highlighted in the accompanying case studies.
The following chart shows the amount of after-tax income that could be generated using this strategy, based on the current tax treatment for prescribed annuities versus the tax treatment that will be given to them starting in 2017. This comparison doesn’t take potential changes to annuity or cost of insurance rates into effect.

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<th>Insured Annuity – 2017 Tax Rules</th>
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<td>$500,000</td>
<td>$500,000</td>
<td>$500,000</td>
</tr>
</tbody>
</table>

The insured annuity strategy still provides a benefit over the GIC, but if done after 2017, that benefit won’t be as attractive as it is under today’s rules. Based on current rates, the client is left with an after-tax income if $14,421.93 with the insured annuity strategy, versus $13,571.57 if the new 2017 tax rules were applied. That’s a 6% decrease in after-tax income from the strategy.

It’s important to note that this example uses current rates, since we can’t predict what annuity or cost of insurance rates will be in 2017. If changes to the IIT calculations result in higher cost of insurance for the universal life policy, this will further reduce the disposable income available if implementing this strategy after 2016.
Purchasing a life annuity with non-registered money has always had many benefits, but with tax changes coming January 1, 2017, there’s even more incentive to buy now.

Two of the most powerful benefits of a life annuity are lifetime guaranteed income unaffected by the market or interest rates and the highest level of guaranteed income available. Beyond these benefits, income from a life annuity purchased with non-registered money may qualify for preferential tax treatment, called prescribed taxation. Upcoming tax changes, however, will increase the taxable portion of each payment and reduce the after-tax income you receive, so it’s important to act now.

HOW PRESCRIBED TAXATION WORKS

After the life insurance company calculates the income for an eligible annuity purchased with non-registered money, it must calculate the taxable portion of each income payment, using a formula specified by the Income Tax Act (ITA). The formula takes into account the:

- Premium used to purchase the annuity,
- Amount of each annuity payment, and
- Number of payments you’re expected to receive (dependent on life expectancy, determined using tables specified by the ITA).

The taxable portion remains the same for every payment and generally, the older you are when you buy the annuity, the lower the taxable amount. For some, no tax is payable.

Continued on reverse.
WHAT’S CHANGING?

After January 1, 2017, the formula is changing to use updated life expectancy tables. Current tables use life expectancy data from 1971; the new tables reflect significantly improved life expectancies. The updated tables won’t affect the total amount of an annuity income payment, but it will affect your net income because of higher taxable portions for annuities (single and joint life) purchased on or after January 1, 2017.

IMPACT OF THE CHANGE

The table below shows the potential impact of the change by comparing identical annuities, where the taxable portion is calculated using the existing and new life expectancy tables:

<table>
<thead>
<tr>
<th>Age at purchase</th>
<th>Annual income</th>
<th>Annual taxable portion – existing</th>
<th>Annual taxable portion – new</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Single life: male</td>
<td></td>
</tr>
<tr>
<td>65</td>
<td>$6,004.93</td>
<td>$510.42</td>
<td>$1,078.82</td>
</tr>
<tr>
<td>70</td>
<td>$6,884.68</td>
<td>$348.73</td>
<td>$1,002.33</td>
</tr>
<tr>
<td>75</td>
<td>$7,726.16</td>
<td>$33.85</td>
<td>$733.15</td>
</tr>
<tr>
<td>80</td>
<td>$8,670.51</td>
<td>$0.00</td>
<td>$540.43</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Single life: female</td>
<td></td>
</tr>
<tr>
<td>65</td>
<td>$5,426.35</td>
<td>$595.43</td>
<td>$1,001.57</td>
</tr>
<tr>
<td>70</td>
<td>$6,241.54</td>
<td>$359.19</td>
<td>$922.39</td>
</tr>
<tr>
<td>75</td>
<td>$7,099.58</td>
<td>$0.00</td>
<td>$606.07</td>
</tr>
<tr>
<td>80</td>
<td>$8,066.32</td>
<td>$0.00</td>
<td>$314.38</td>
</tr>
</tbody>
</table>

$100,000 premium; 10-year guaranteed period; purchase date July 1, 2015; income starts August 1, 2015. For illustration purposes only. Different annuities will result in taxable portions that may not vary from old to new in the same proportion.

Annuities purchased on or after January 1, 2017, will use the new life expectancy table to calculate the taxable portion of each payment, but annuities purchased before January 1, 2017, will still use the old tables, even if annuity payments won’t begin until after January 1, 2017. This “grandfathering” provision is a good reason for you to purchase your annuity before January 1, 2017.

If you’re in or approaching retirement and have non-registered assets you plan to use to generate retirement income, then a prescribed annuity can provide a very tax-efficient income option. The upcoming January 1, 2017 tax changes, combined with the grandfathering provision, mean 2016 is the best time to purchase a prescribed annuity.

Speak to your advisor to learn more.

1 A life annuity must meet certain criteria to qualify for prescribed taxation. Most Sun Life Payout Annuities sold to individuals qualify. Ask your advisor for details.
2 To qualify for grandfathering, an annuity purchased before 2017 must have rates that were fixed and determined before January 1, 2017. The annuity must also meet all other conditions to qualify for prescribed tax treatment before January 1, 2017.
PRESCRIBED ANNUITIES, TAX CHANGES, AND THE BENEFITS OF ANNUITIZING BEFORE JANUARY 1, 2017

Upcoming government changes to prescribed annuity taxation will provide significant incentives for clients in or near retirement to consider annuitizing assets before January 1, 2017.

The formula used to calculate the taxable portion of a prescribed annuity* payment is changing Jan. 1, 2017. The formula, specified by the Income Tax Act, currently uses a mortality table published in 1971. On Jan. 1, 2017 it will be replaced by an updated table. The change will not affect the gross amount of a client’s annuity payment, but:

- there will be a higher taxable portion for annuities (single and joint life annuities) purchased on or after Jan 1, 2017, and
- the age at purchase that results in a taxable portion of $0 will be older.

Prescribed annuities purchased on or after Jan. 1, 2017 will use the new mortality table to calculate the taxable portion, but annuities purchased before Jan. 1, 2017 will still use the old 1971 mortality tables, even if annuity payments won’t begin until after Jan. 1, 2017. The key requirement is that the annuity rates for a client’s annuity be “fixed and determined” before Jan. 1, 2017. This generally means that a client’s annuity income has to have been set by that date, even if it won’t start until after.

This grandfathering provision provides a significant tax reason for clients in or near retirement to buy a non-registered payout annuity before Jan. 1, 2017.

The table below shows the potential impact of the change by comparing identical annuities where the taxable portion is calculated using the existing and new mortality tables.

<table>
<thead>
<tr>
<th>Age at purchase</th>
<th>Annual income</th>
<th>Annual taxable portion - existing</th>
<th>Annual taxable portion - new</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single life: male</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>65</td>
<td>$6,005</td>
<td>$510</td>
<td>$1,079</td>
</tr>
<tr>
<td>70</td>
<td>$6,885</td>
<td>$349</td>
<td>$1,002</td>
</tr>
<tr>
<td>75</td>
<td>$7,726</td>
<td>$34</td>
<td>$733</td>
</tr>
<tr>
<td>80</td>
<td>$8,671</td>
<td>$0</td>
<td>$540</td>
</tr>
<tr>
<td>Single life: female</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>65</td>
<td>$5,426</td>
<td>$595</td>
<td>$1,002</td>
</tr>
<tr>
<td>70</td>
<td>$6,242</td>
<td>$359</td>
<td>$922</td>
</tr>
<tr>
<td>75</td>
<td>$7,100</td>
<td>$0</td>
<td>$606</td>
</tr>
<tr>
<td>80</td>
<td>$8,066</td>
<td>$0</td>
<td>$314</td>
</tr>
</tbody>
</table>

$100,000 premium; 10-year guaranteed period; purchase date July 1, 2015; income starts August 1, 2015. For illustration purposes only. Different annuities will result in taxable portions that may not vary from old to new in the same proportion.

WHO MIGHT BE INTERESTED? CLIENTS:

- age 60+ looking for a high level of guaranteed lifetime income
- interested in minimizing their taxable income in retirement
- seeking to take advantage of an attractive tax reduction strategy before its benefit is lessened by new legislation

*An annuity purchased with non-registered assets that qualifies for prescribed tax treatment.
TERM CONVERSIONS

What you need to know

ACT NOW!
With important tax changes coming in 2017, now’s the time to talk to your clients about converting their term insurance to a permanent plan, allowing them to:

- Have more funding room in the permanent plan
- Lock in existing costs to avoid future increases, and
- If they’re business owners, use their capital dividend account for greater tax efficiencies.

TERM INSURANCE PROVIDES TEMPORARY LIFE INSURANCE PROTECTION FOR SHORT- AND LONG-TERM NEEDS. IT ALSO PROVIDES THE FLEXIBILITY TO CONVERT TO PERMANENT LIFE INSURANCE TO MEET FUTURE NEEDS.

HAVING TERM INSURANCE IN PLACE TO COVER MORTGAGE DEBT OR INCOME REPLACEMENT IS IMPORTANT. BUT NEEDS CAN CHANGE OVER TIME. A PERMANENT LIFE INSURANCE PLAN PROVIDES LIFETIME COVERAGE WITH THE SECURITY OF GUARANTEED COSTS. SOME PERMANENT PLANS HAVE OPTIONS FOR SAVINGS AND TAX EFFICIENCIES WHICH PROVIDE FOR GROWING ESTATE AND BUSINESS NEEDS.

LET’S LOOK AT THE COST OVER TIME OF RENEWING A TERM PLAN COMPARED TO CONVERTING TO A PERMANENT PLAN.

FROM TERM TO PERM
Michael, a 40 year-old male non-smoker, purchased a $600,000 10-year term policy ten years ago. His initial annual premium was $551 and renews this year with a new annual premium of $2,993. Michael’s now 50 years old and he has some health issues. He’s faced with the decision of renewing at the higher cost, or converting his policy to a permanent plan. The minimum cost of the permanent insurance is $8,118, but if he pays more now, he may be able to stop paying costs later on and still have coverage for his lifetime.

<table>
<thead>
<tr>
<th>Date</th>
<th>Age</th>
<th>Term annual cost</th>
<th>SunUniversalLife annual payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>RENEWAL 2016</td>
<td>50</td>
<td>$2,993</td>
<td>$9,500</td>
</tr>
<tr>
<td>RENEWAL 2026</td>
<td>60</td>
<td>$7,121</td>
<td>$9,500</td>
</tr>
<tr>
<td>RENEWAL 2036</td>
<td>70</td>
<td>$21,533</td>
<td>$9,500</td>
</tr>
<tr>
<td>TOTAL ACCUMULATED PREMIUMS TO AGE 80</td>
<td></td>
<td>$316,470</td>
<td>$285,000</td>
</tr>
<tr>
<td>EXpiry DATE¹</td>
<td>80</td>
<td>None</td>
<td></td>
</tr>
</tbody>
</table>

¹Assumes a 3.25% rate of return using bond/equity portfolio. Payments made until age 80.

ACT NOW!
With important tax changes coming in 2017, now’s the time to talk to your clients about converting their term insurance to a permanent plan, allowing them to:

- Have more funding room in the permanent plan
- Lock in existing costs to avoid future increases, and
- If they’re business owners, use their capital dividend account for greater tax efficiencies.

The chart illustrates the cost of renewing a term plan versus converting to a permanent plan over time.

Life’s brighter under the sun
ADMINISTRATIVE RULES

Term insurance is convertible to permanent life insurance without evidence of insurability, subject to age and product minimums. Partial conversions may be permitted if within product minimums. This table shows the conversion options:

<table>
<thead>
<tr>
<th>Product</th>
<th>Minimum face amount</th>
<th>Issue ages</th>
</tr>
</thead>
<tbody>
<tr>
<td>SUN PAR PROTECTOR</td>
<td>$50,000</td>
<td>0-80 Life pay</td>
</tr>
<tr>
<td></td>
<td></td>
<td>0-65 20-pay</td>
</tr>
<tr>
<td></td>
<td></td>
<td>0-44 Pay to 65</td>
</tr>
<tr>
<td>SUN PAR ACCUMULATOR</td>
<td>$250,000</td>
<td>18-80 Life pay</td>
</tr>
<tr>
<td></td>
<td></td>
<td>18-65 20-pay</td>
</tr>
<tr>
<td>SUNUNIVERSALLIFE²</td>
<td>$100,000</td>
<td>0-64 Yearly renewable term, cost of insurance</td>
</tr>
<tr>
<td>SUNUNIVERSALLIFE MAX</td>
<td></td>
<td>18-80 Level cost of insurance</td>
</tr>
<tr>
<td>SUN LIMITED PAY</td>
<td>$25,000</td>
<td>0-75 10-pay</td>
</tr>
<tr>
<td></td>
<td></td>
<td>0-70 15-pay</td>
</tr>
<tr>
<td></td>
<td></td>
<td>0-65 20-pay</td>
</tr>
<tr>
<td></td>
<td></td>
<td>0-44 Pay to 65</td>
</tr>
</tbody>
</table>

²Sun UL/Sun UL MAX, indexed death benefit not permitted: Face amounts of $50,000-$99,999 are available for term conversions only, and only when converting the entire amount of the originating plan. Partial conversions of less than $100,000 aren’t permitted.

Converting to participating (Par) plans with Paid-up additional insurance or Enhanced insurance is allowed without providing evidence of insurability, subject to the maximum insurance amounts. The original policy being converted must also have a face amount within these maximums, regardless of the amount that’s being converted. If the maximums are exceeded, or Plus premium is added when converting, limited underwriting is required.

CONVERT TO A LONGER TERM LENGTH

Depending on the client’s age and original product purchased, they have up to five years to convert their T10 policy to a T20 or T30. By purchasing a T10 and converting to a T30 at year five, they’ll have 35 years of term coverage without having to submit medical evidence or experience a large jump in renewal premiums.

SunTerm 10 plans issued before February 2, 2015 can be converted to SunTerm 20 only. SunTerm 10 and SunTerm 15 plans issued on or after February 2, 2015 can be converted to SunTerm 20 or SunTerm 30. Year 5 conversions aren’t allowed for any other term series. Conversion is subject to age limits and must be done before the 5th policy anniversary.

<table>
<thead>
<tr>
<th>Conversion age or single equivalent age</th>
<th>Maximum insurance amounts</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Sun Par Protector</td>
</tr>
<tr>
<td>0-18</td>
<td>$1,000,000</td>
</tr>
<tr>
<td>19-34</td>
<td>$3,500,000</td>
</tr>
<tr>
<td>35-44</td>
<td>$5,000,000</td>
</tr>
<tr>
<td>45-54</td>
<td>$7,500,000</td>
</tr>
<tr>
<td>55+</td>
<td>$10,000,000</td>
</tr>
</tbody>
</table>
CONVERSION DETAILS

In all cases, the contract wording overrides any of these administrative rules:

<table>
<thead>
<tr>
<th>JOINT PLANS</th>
<th>Joint first-to-die policies may be converted to one of the following:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>§ One policy that insures the same insured persons.</td>
</tr>
<tr>
<td></td>
<td>§ A separate life insurance policy on each insured person. The application for each policy must be submitted at the same time and for the same amount. The total coverage for insured person can’t exceed 50% of the original insurance amount.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>DISABILITY</th>
<th>Coverage isn’t convertible while the insured person is disabled and premiums are being waived. See contract for details.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>§ If premiums are being waived due to disability, the coverage may be converted on the final conversion date. Premiums for the converted coverage are waived for the duration of the disability. See contract for details.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>ELIGIBILITY</th>
<th>Coverage can be converted to any permanent life insurance policy offered by Sun Life Financial at that time.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>§ Conversions allowed for Sun Life branded term products only.</td>
</tr>
<tr>
<td></td>
<td>§ Conversions for products branded as Clarica or SunSpectrum aren’t allowed as they are exclusive to the Sun Life Career Sales Force (CSF) channel.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>COMMISSIONS</th>
<th>Conversions are allowed for Sun Life branded policies by an advisor who hasn’t yet become the agent of record.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>§ Full commissions on the new policy are paid to the converting advisor.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>MISCELLANEOUS</th>
<th>Attained age and rates in effect when converting apply.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>§ No additional evidence of insurability is required at conversion unless the amount of life insurance is being increased.</td>
</tr>
<tr>
<td></td>
<td>§ Conversion amounts less than the minimum amount are allowed for Sun Lifetime Alternative plans only.</td>
</tr>
</tbody>
</table>

Term conversion checklist:

- Signed illustration
- Application for conversion E260
- Initial premium/payments must be submitted for payment method chosen
- Pre-authorized cheque (PAC) information, if applicable
- Original contract, if available

Permanent insurance offers tax-preferred savings opportunities, giving clients choice and flexibility. Talk to your term clients about the benefits of converting to permanent insurance today!

CONTACT YOUR REGIONAL SALES DIRECTOR OR YOUR SALES SUPPORT TEAM AT SST@SUNLIFE.COM FOR MORE DETAILS.
CLIENT CONVERSATION STARTERS

Use these conversation starters to inform prospects and clients about the 2017 life insurance tax changes. Identify how it affects them and the opportunities available by purchasing or making changes now.

- Sample phone script for corporate clients
- Sample email script for corporate clients
- Sample phone script for individual clients
- Sample email script for individual clients

Sample phone script for corporate clients

- Hello (client name here), this is (Advisor name).
- I know that you’re busy, and I want to respect your time – is this a convenient time for you to speak for a couple of minutes?
- As a successful business owner you understand the importance of good tax planning. I’m calling to talk to you about important tax changes coming in January 2017 that will affect life insurance policies, especially for business owners.
- Are you aware of the upcoming tax changes affecting life insurance policies? And if so, what action have you taken to make sure that you are taking advantage of the current tax rules?

KEY BENEFITS OF CORPORATE-OWNED LIFE INSURANCE

- Did you know that having corporately owned life insurance can provide key benefits such as:
  - Tax-preferred investment accumulation
  - A tax-efficient source of cash for future investment, business or income purposes
  - Tax-free cash flow to beneficiaries through the corporation’s Capital Dividend Account
  - Potential tax savings on premiums paid by corporations for corporately-owned life insurance

HASN’T TAKEN ANY ACTION

- These tax changes might have a negative impact on your financial plans and you should consider having a thorough review of your needs. I can help you to determine if it’s in your best interests to make changes before the end of 2016.
- Let me give you a couple of examples, if you wait until 2017 to purchase life insurance:
  - The death benefit paid tax-free through your corporation’s Capital Dividend Account may be reduced and it may take longer to become fully tax-free for your beneficiaries.
  - The tax-deferred investment room in a permanent life insurance policy may be less, depending upon the plan type, and
  - The potential deductibility of life insurance premiums paid by your company may be reduced, depending upon the plan type.
- If you have time over the next few weeks, we can review your plans before the new legislation comes into effect. We’ll help you determine if it’s in your best interest to make any necessary changes.
- With that in mind, what time is convenient for you to meet and discuss?

NOT INTERESTED

- I completely understand. However, I believe your business would benefit from having additional information to help you make an informed decision in light of these changes.

Life’s brighter under the sun
Sample phone script for individual clients

• Hello (client name here), this is (Advisor name).
• I know that you’re busy, and I want to respect your time – is this a convenient time for you to speak for a couple of minutes?
• Are you aware of the tax changes to life insurance coming into effect January 1, 2017? And if so, what action have you taken to make sure that you are taking advantage of the current tax rules?
• It’s important that we review your plan to determine if it’s in your best interest to make any changes now.

KEY BENEFITS OF HAVING PERMANENT LIFE INSURANCE INCLUDE

• Tax-preferred investment accumulation,
• A tax-efficient source of cash for future investment, business or income purposes, and
• Passing your estate to your beneficiaries in the most tax efficient way.

KEY TAX CHANGES TO LIFE INSURANCE

• Let me give you an example of some of the changes that may impact your decision today:
  • The policy funding room may be less, depending on the plan type,
  • The premium rate you’re charged for a permanent plan may increase, and
  • If you’re considering a prescribed annuity for income or to fund a permanent plan, you’ll pay higher taxes on the income.

HASN’T TAKEN ANY ACTION

• These tax changes might have a negative impact on your financial plans and you should consider having a thorough review of your needs. I can help you to determine if it’s in your best interests to make changes before the end of 2016.
• If you have time over the next few weeks, we can review your plans before the new legislation comes into effect. We’ll help you determine if it’s in your best interest to make any necessary changes.
• With that in mind, what time is convenient for you to meet and discuss?

NOT INTERESTED

• I completely understand. However, I believe you would benefit from having additional information to help you make an informed decision in light of these changes.

Sample email script for corporate clients

EMAIL SUBJECT: TODAY’S TAX OPPORTUNITIES MAY AFFECT YOUR BUSINESS TOMORROW

Dear [insert client name],

On January 1, 2017 there are some important tax changes coming into effect that could affect the financial plans of your business.

I’d like to arrange a meeting with you to review these tax changes and see what opportunities we can take advantage of today. For example, if you convert a term life insurance policy or purchase a new life insurance policy before January 1, 2017, the new policy will have the benefits of the current tax rules. This will allow you to:

1. Have more room to put additional funds into your permanent plan on a tax-preferred basis.
2. Possibly flow more of the life insurance death benefit through your company’s Capital Dividend Account to the beneficiaries to your estate on a tax free basis.
3. Potentially deduct a larger portion of the life insurance premiums your company pays, and
4. Take advantage of today’s pricing on permanent life insurance products.

It’s important we review your financial plans together to determine whether it’s in your best interest to make any changes.

I’ll be in touch in a few days to see how I can help with your financial plans. If you have any questions, please call me at xxx-xxx-xxxx, or reply to this email.

Sincerely,

[Advisor name, company, address, phone #s]

I’ll continue to send you emails about your insurance and investment needs. Please let me know if you’d like to opt-out of receiving informational emails like this one.
Sample email script for individual clients

EMAIL SUBJECT: TODAY’S TAX OPPORTUNITIES MAY AFFECT YOU TOMORROW

Dear [insert client name],

I’d like to let you know about some important tax changes coming into effect January 1, 2017. These changes affect life insurance policies and prescribed annuities. Here are a couple of examples of how they could impact your financial plans:

1. Less funding room and potential higher costs for universal life policies.
2. Higher taxes payable on prescribed annuities.

I’d like to arrange a meeting to see what opportunities we can take advantage of today. For example, if you convert a term life insurance policy, purchase a prescribed annuity or a new permanent policy today, you could have:

- more funding room in your permanent plan,
- lock in existing costs in case of future increases, and
- lower taxes on income from the annuity.

It’s important we review your financial plans together – well before the end of the year – to determine if it’s in your best interest to make any changes.

I’ll be in touch in a few days to see how I can help with your financial plans. If you have any questions, please call me at xxx-xxx-xxxx or reply to this email.

Sincerely,

[Advisor name, company, address, phone #s]

I’ll continue to send you emails about your insurance and investment needs. Please let me know if you’d like to opt-out of receiving informational emails like this one.