CORPORATE-OWNED LIFE INSURANCE

2017 Life Insurance Tax Changes Series

Federally legislated changes to the current tax rules begin January 1, 2017 and will impact the amount of money that can accumulate within an exempt life insurance policy on a tax-preferred basis. Here's a look at how changes to the Adjusted Cost Basis (ACB) of a life insurance policy and to the Net Cost of Pure Insurance (NCPI) will impact corporate-owned policies where the corporation is the beneficiary of the death benefit.

Corporate-owned policies today

1. Corporate-owned life insurance policy

2. The death benefit is paid to the corporation tax-free

3. A credit is added to the Capital Dividend Account
CDA credit = Death benefit - ACB of policy

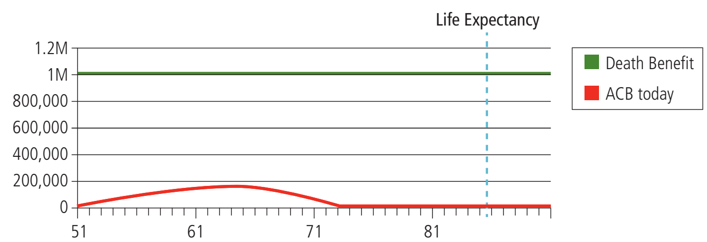
4. Balance in the CDA is paid as a tax-free capital dividend to shareholder(s)

Comparing the death benefit to the ACB for Manulife UL

The complex formula to calculate the ACB of a policy can be generalized as:

ACB = Total premiums paid - Total NCPI*

*Annual NCPI = mortality rate for the life insured X the net amount at risk under the coverage



Male, 50 years old, HealthStyle 3, $1Million, Level Death Benefit, Manulife UL, Level COI, pay life, annual minimum premium, illustrated at 2% interest. For illustration purposes only.

Corporate-owned policies as of January 1, 2017

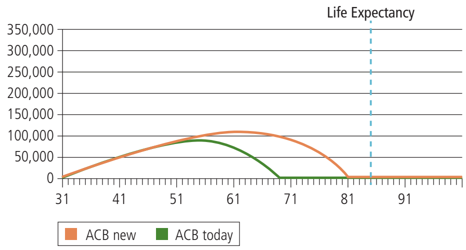
The 2017 changes to the taxation of life insurance policies will reduce the NCPI (an important factor in the determination of the Adjusted Cost Basis of a policy):

- A newer mortality table reflecting the improvement in Canadians' longevity will be used to calculate the NCPI, generally resulting in lower NCPI rates
- A new method of calculating the net amount at risk will be introduced, resulting in a lower net amount of risk for NCPI

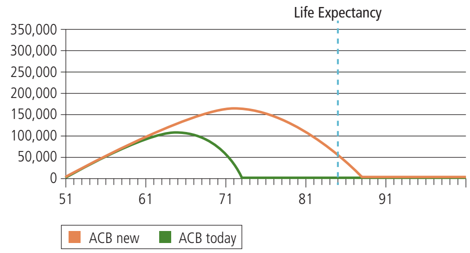
What does it mean?

The impact of a lower NCPI will be different for different issue ages:

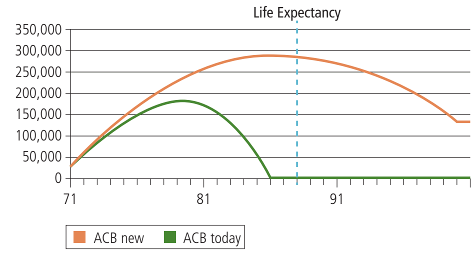
Male, 30 years old*



Male, 50 years old*



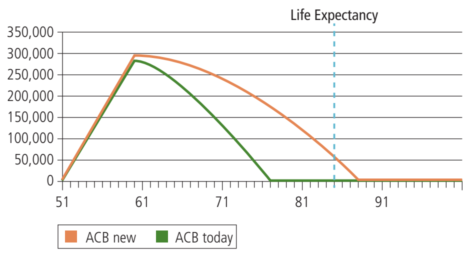
Male, 70 years old*



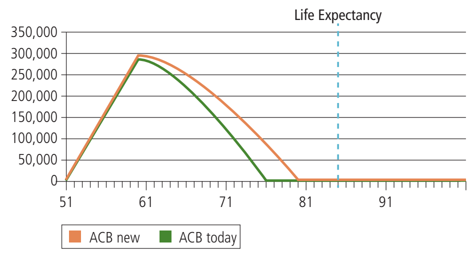
* HealthStyle 3, $1Million, Level Death Benefit, Manulife UL, Level COI, pay life, annual minimum premium, illustrated at 2% interest. For illustration purposes only.

The impact of a lower NCPI will be different for different cost or premium structures:

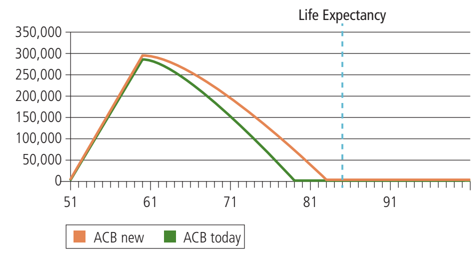
Illustrated at 2 per cent interest, 10-year Cost of Insurance*



Illustrated at 2.7 per cent interest, YRT-to-85 Cost of Insurance*



Illustrated at 4 per cent interest, Level Cost of Insurance*



* Male, 50 years old, HealthStyle 3, $1Million, Level Death Benefit, Universal Life, $31,852/year for 10 years. For illustration purposes only.

The result?

- The changes to the NCPI factors will cause the ACB of a policy to be higher for a longer period of time.
- Level Cost of Insurance (LCOI) Universal Life (UL) products will see the most significant impact
- Less impact with other Cost of Insurance (COI) product options
- Less impact on Whole Life and Term products

Regardless of the new tax rules, life insurance policies can continue to deliver valuable insurance protection and tax-effective cash accumulation. Although the changes taking place in 2017 are important, their impact may not be material to most clients.

Prepare now

1 **Get informed and look for new opportunities to provide value to your clients**

Visit Manulife's 2017 Insurance Tax Education Centre on Repsource regularly at **www.repsource.ca/2017taxchanges** for new articles in this series and other materials to help you build your tax knowledge.

2 **Get in touch**

Perform a detailed review of your clients' current life insurance and estate-planning needs today to determine if it's in their best interest to make any policy changes or consider new options before 2017. This process can take some time; starting early sets your business and your clients up for success.

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