# How the Corporate Insured Retirement Program works with Shareholder Borrowing

## Your situation

As a small business owner, a significant part of your wealth may be tied up in your company. Even though you have maximized contributions to your RRSP or pension plan, you would like more flexibility and choice regarding your retirement lifestyle. In addition, you and your corporation need permanent life insurance protection. You are looking for a financial planning strategy that will address both your current need for insurance and your future need for flexibility when you retire.

## An option to consider – the Corporate Insured Retirement Program with Shareholder Borrowing

With this financial planning strategy, your corporation deposits funds into a permanent life insurance policy in excess of the amount required to cover the insurance and other policy costs. In the future, your corporation assigns the policy to Manulife Bank as collateral for a personal loan to you. By having your corporation purchase the life insurance policy and use it in this manner, you address your needs for permanent life insurance protection today and flexibility at retirement.

## How does the Insured Retirement Program work?

Your corporation purchases a life insurance policy on your life and is named as beneficiary of the policy. The corporation deposits amounts into the policy, creating significant cash values. At a point in the future, the policy is assigned to Manulife Bank as collateral security for your personal bank loan, which is structured as a line of credit. You use the borrowed funds to create the retirement lifestyle you desire.

If you use the borrowed funds for investment purposes, the interest on the bank loan may be deductible against your taxable income.

If the strategy assumes the interest expense is fully deductible from your taxable income, then each year you pay the interest expense on the line of credit and claim the interest expense as a tax deduction from your current income. The tax savings that result from the deduction help offset the interest expense that you pay each year. At the end of each year, you borrow an additional amount equal to the interest paid in the year less the tax savings realized from the deductions. This amount is used to invest in a business or property that produces income. The result of this process is that your line of credit balance will increase each year.

When you die, your estate provides other assets as collateral for the bank loan. This allows the bank to release the life insurance policy that has been serving as collateral for the loan and your company receives the policy's tax-free death benefit. The excess of the death benefit over the adjusted cost basis of the policy is credited to your corporation's capital dividend account. Your corporation uses the proceeds to pay a dividend to your estate. The dividend is a tax-free capital dividend up to the amount available in the corporation's capital dividend account, with any excess paid as a taxable dividend. Your estate uses the funds it receives to repay the outstanding loan balance and distributes the excess as directed in your will.

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