

Questions and Answers for Canadian Life Insurance Tax Changes

Q: Why is the Government introducing this new legislation?

A: This is the first time since 1982 that the legislation has been revised. Since that time, life insurance has changed significantly and, as a result, there are inconsistencies in the tax treatment of some insurance products. The changes to the legislation reflect the fact that people are living longer and ensure greater consistency between the tax treatments of different insurance products.

Q: How do I know if the new rules will affect my personal estate/financial planning program?

A: If you currently own an individual Canadian life insurance policy or are or could be considering purchasing one as part of your overall planning then you should continue reading this document.

Q: What's changing under the new legislation?

A: The most significant changes introduced by the legislation are revisions to the underlying assumptions used in the exempt test. All life insurance policies are tested annually against a test policy to determine if it has remained focused on protection (exempt) or has become too focused on investment accumulation (non-exempt). Changes to the test policy under the new legislation include a revised prescribed interest-rate assumption and an updated life expectancy table that must be used by all insurers. Additionally, the method to determine the maximum savings allowed in the policy will be adjusted.

Q: How are the rules governing life insurance policies changing?

Starting January 1, 2017, new rules will be applied to the taxation of Canadian life insurance policies. Some of the changes introduced by the new legislation include revisions to the underlying assumptions used in the policy exempt test and will result in:

- A reduction in the maximum premium deposits permitted.
- Duration of Longer minimum "quick-pay" premium payment periods will be longer.
- Lower permissible maximum cash value accumulations

Q: What's not changing under the new legislation?

A: It's important to note that the purpose of permanent insurance has not changed and that the many benefits that permanent insurance offers still exist. These include tax-free death benefits and tax-advantaged accumulation to help you build, protect and transfer your wealth. Even

under the new rules, life insurance remains a great planning tool and, for incorporated clients, is still the most tax efficient way to take money out of a corporation and give it to beneficiaries

Q: I already have a life insurance policy. Will I be affected by these changes?

A: Generally, policies issued before January 1, 2017 will be grandfathered and remain subject to the old taxation regulations. This means that nothing will change with regard to your existing insurance policy. However, if you make changes to your existing policy after January 1, 2017, the policy may lose its grandfathered status. Some of the changes that will result in a loss of grandfathered status include:

- Adding insurance coverage that requires medical underwriting, such as increasing a face amount or adding a term life rider.
- Converting a term life rider to permanent life coverage on the same policy.
- Converting a term life rider to a new permanent policy will result in the new policy issued under the new rules.
- Converting a term policy to a permanent policy (even without medical evidence)

Changes that will not affect grandfathered status include changing from smoker to non-smoker status, reducing an underwriting rating, or transferring policy ownership.

If you are considering changes to your existing insurance policy, please contact your Doctors of BC Insurance Advisor to discuss your overall estate/financial planning and insurance needs to make sure you understand the implications of the new tax regulations and what's most beneficial for your individual situation. They can help answer any questions and determine how to ensure you have the right insurance coverage in place, build value for your beneficiaries and maximize the tax effectiveness of your policy.

Q: I'm considering buying a life insurance policy. How will these changes affect me?

A: It may be in your best interest to do so before the changes come into effect January 1, 2017. Please contact your Doctors of BC Insurance Advisor or MD Insurance Consultant to discuss your overall estate/financial planning and insurance needs to make sure you understand the implications of the new tax regulations and what's most beneficial for your individual situation. They can help answer any questions and determine how to ensure you have the right insurance coverage in place, build value for your beneficiaries and maximize the tax effectiveness of your policy

Q: What is a tax-exempt life insurance policy?

A: Insurance legislation under the income tax act allows you to make deposits into tax-exempt life insurance policies, within policy limits, in excess of the actual cost of insurance. The investments held in a tax-exempt policy can grow on a tax-advantaged basis (the growth is not subject to annual taxation). Although there are some limitations, this enables you to potentially build a substantial amount of cash value within your insurance policy

Q: What if I'm considering making changes to my existing life insurance policy?

A: Generally, policies issued before January 1, 2017 will be grandfathered and remain subject to the taxation regulations that were in effect when they were issued. This means that nothing will change with regard to your existing insurance policy. However, if you make changes to your existing policy after January 1, 2017, the policy may lose its grandfathered status. Some of the changes that will result in a loss of grandfathered status include:

- Adding insurance coverage that requires medical underwriting, such as increasing a face amount or adding a term life rider.
- Converting a term life rider to permanent life coverage on the same policy.
- Converting a term life rider to a new permanent policy will result in the policy issued under the new rules

Changes that will not affect grandfathered status include changing from smoker to non-smoker status, reducing an underwriting rating, or transferring policy ownership.

If you are considering changes to your existing insurance policy or buying a new one, please contact your Doctors of BC Insurance Advisor to discuss your overall estate/financial planning and insurance needs to make sure you understand the implications of the new tax regulations and what's most beneficial for your individual situation. They can help answer any questions and determine how to ensure you have the right insurance coverage in place, build value for your beneficiaries and maximize the tax effectiveness of your policy.

Q: Is permanent insurance still a good product?

A: It's important to note that the purpose of permanent insurance has not changed and that the many benefits that permanent insurance offers will still exist after January 1, 2017. Even under the new rules, life insurance remains a great planning tool and, for incorporated clients, is still the most tax efficient way to take money out of a corporation and give it to beneficiaries.

How Do I speak with a Doctors of BC Insurance Advisor?

Doctors of BC Insurance Advisors are non-commissioned to provide you with unbiased, complimentary advice. To book an appointment, please email insurance@doctorsofbc.ca or call 1-800-665-2262 ext. 7914.