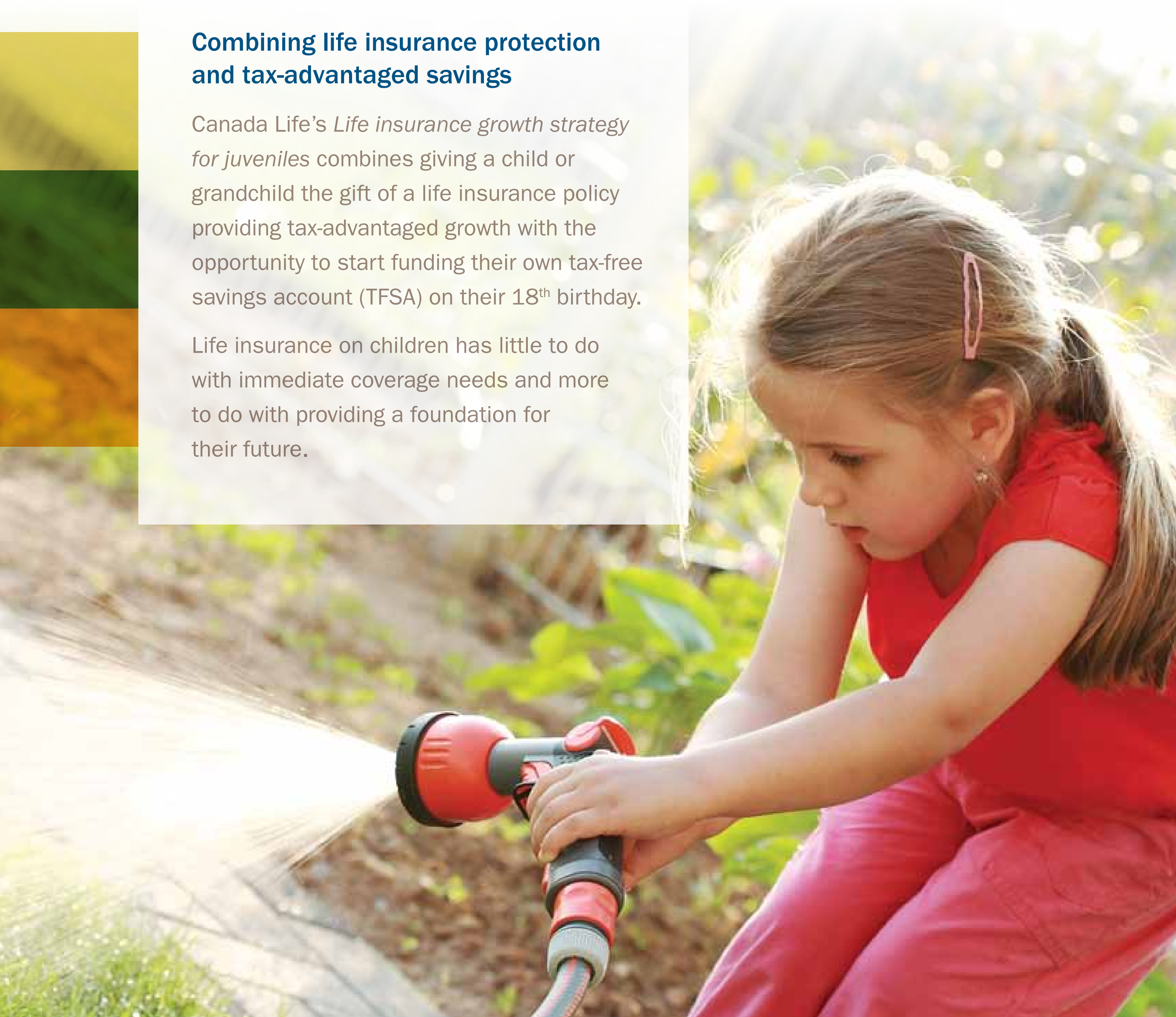
Life insurance growth strategy for juveniles

Combining life insurance protection and tax-advantaged savings

Canada Life's *Life insurance growth strategy for juveniles* combines giving a child or grandchild the gift of a life insurance policy providing tax-advantaged growth with the opportunity to start funding their own tax-free savings account (TFSA) on their 18th birthday.

Life insurance on children has little to do with immediate coverage needs and more to do with providing a foundation for their future.



Canada Life's solution – the *Life insurance growth strategy for juveniles*

Permanent life insurance is a valuable part of a financial plan. In addition to providing security and protection through the life insurance component, Canada Life's permanent life insurance products can provide an additional source of funds for education, a first home or car, business start-up or supplemental retirement income.

It provides permanent life insurance coverage with the opportunity to build tax-advantaged cash value. There is no income tax payable on the growth while it remains in the policy (within certain legislative limits) and the death benefit is paid to the named beneficiaries tax-free upon death.

Current tax laws allow for the transfer of ownership of the policy between the policyholder and the insured child (or grandchild) without tax implications, regardless of who is paying premiums and how much cash value is in the plan at the time of transfer.

Life insurance growth strategy for juveniles – How it works

The *Life insurance growth strategy for juveniles* involves purchasing a permanent life insurance solution on the life of a child or grandchild and paying the premiums until that child's 18th birthday. At that time, ownership of the policy is transferred to the child or grandchild, premiums cease and cash values can be withdrawn* and used by the child or grandchild to fund a TFSA in their name.

Tax-free savings account

TFSAs offer tax-free growth and withdrawals that are also tax free. Because a person must be at least 18 to own a TFSA, this limits the ability for parents to accumulate funds for the benefit of their children unless they use their own TFSA (and their own contribution room) for this purpose.

The following chart compares the *Life insurance growth strategy for juveniles* with a more conventional approach to saving for a child's future.

	Life insurance growth strategy Start with life insurance, then add a TFSA	**Conventional approach** Start with fixed-income investments, then switch to TFSA
1	Buy permanent cash value life insurance for child now.	Start a fixed-income investment portfolio for child now.
2	Transfer ownership of the life insurance policy to child at age 18.	Transfer the investments to child at age 18.
3	Child starts a TFSA at age 19.	Child starts a TFSA at age 19.
4	From the cash value in the life insurance policy, transfer the maximum allowed into the TFSA, until all accessible cash value is transferred.*	From the fixed-income investments, transfer the maximum allowable each year into the TFSA, until all assets are transferred.
5	Child has a well-funded TFSA, plus permanent life insurance.**	Child has a well-funded TFSA.

* Withdrawals from policy cash value are taxed at the child's marginal tax rate assumed to be 20 per cent throughout. After- tax withdrawals of $5,000 start at age 18 and continue for 15 years in this example.

** Assumes limited pay COI

Life insurance compared with conventional approach

	Life insurance		Traditional approach	
Age	After-tax cash surrender value + TFSA	Total estate value including TFSA	After-tax alternate + TFSA	Total estate value including TFSA
19	$104,332	$658,291	$114,779	$114,799
25	$124,282	$537,840	$133,255	$133,255
35	$167,737	$574,093	$173,871	$173,871
50	$267,018	$653,189	$262, 189	$262, 189
70	$505,112	**$841,166**	$473,542	$473,542

More than $367,000 in estate value or $31,000 in additional cash value using life insurance

This example is based on single-life coverage for a female standard risk age 0. It uses Canada Life *Millennium universal life insurance* with 10-year, limited-pay cost of insurance. Rates as of July l, 2010. The initial death benefit is $420,000, with scheduled annual premiums of $5,000 from year one to 18. Coverage amount requires financial and medical underwriting. Ownership transfers to the insured at age 18. Policy values are at end of year.

The life insurance policy example used is not complete without the Canada Life illustration including the cover page, reduced example and product features pages all having the same date.

Life insurance

- *Millennium universal life insurance* with 10-year, limited-pay cost of insurance
- Female, age 0, non-smoker, standard risk, insured
- Male, age 35, initial owner of the policy
- Live in Saskatchewan
- $420,000 initial life insurance coverage amount
- 20-per-cent marginal tax rate
- The annual cost of the Millennium 10-Pay COI coverage is $1,408
- In years 11 to 18 the full $5,000 goes into the universal life insurance interest option.
- $5,000 annual premium to year 18
- 10-year guaranteed interest option at three per cent

By acting now and using the *Life insurance growth strategy for juveniles* from Canada Life you can set your child or grandchild on strong financial footing.

NOTES:

Start with fixed-income investments, then switch to TFSA (column information) – based on $5,000 contributions to a fixed-income investment portfolio for 18 years. Growth is taxed at parent's rate of 40 per cent, until child takes ownership at age 18, when growth outside the TFSA is taxed at 20 per cent. This assumes no fees for TFSA investing. Estate values do not consider probate or other distribution fees.

Growth rates – The universal life insurance total account value, TFSA and non-life insurance investments all grow at three per cent annually in this example.

Taxes – The information provided is based on current tax legislation and interpretations for Canadian residents and is accurate to the best of our knowledge as of the date of publication. Future changes to tax legislation and interpretations may affect this information. This information is general in nature and is not intended to be legal or tax advice. For specific situations, you should consult the appropriate legal, accounting or tax expert.

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Canada Life has received strong ratings on our claims-paying ability and financial strength from the major rating agencies.*

*as rated by A.M. Best Company, Dominion Bond Rating Service, Fitch Ratings, Moody's Investors Service and Standard & Poor's Corporation at time of publication. For the most up-to-date rating information, see the Canada Life website at www.canadalife.com.

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