



# Rethinking life insurance as an asset class

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# Introduction

Since the first edition of *Life insurance as an asset class* was published by Sun Life in 2012 and the subsequent update in 2017 this groundbreaking white paper has profoundly shaped the conversation around permanent life insurance in Canada. The white paper challenged advisors to reimagine how they positioned life insurance: not merely as a risk protection tool, but as a sophisticated wealth accumulation and preservation strategy alongside traditional asset classes.

In the years following its publication, participating whole life insurance (Par insurance) experienced a resurgence in the Canadian marketplace.

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Par insurance's unique characteristics—stable returns, tax-advantaged growth and strong collateral value—resonated with advisors and high net worth Clients alike.

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By framing Par insurance within the familiar language of asset allocation and portfolio diversification, the white paper helped facilitate meaningful Client conversations and elevate the role of life insurance in comprehensive wealth planning.

Over a decade later, the Canadian financial landscape has evolved. Interest rates have moved through historic lows and recent increases. Tax regulations have been refined. New product designs have emerged. And most importantly, advisors are increasingly sophisticated in how they structure and fund permanent life insurance policies to maximize their wealth accumulation potential. Following the original white paper on Par insurance, a natural question emerges: what about other permanent life insurance?

This updated edition builds on the foundation established in 2012, expanding the asset class framework beyond Par insurance to encompass the full spectrum of permanent life insurance, with particular attention to Universal Life (UL) insurance. This refresh aims to deepen the conversation around how different permanent life insurance structures can serve distinct roles within a diversified wealth strategy.

We build on the core thesis, that permanent life insurance possesses the essential characteristics of an asset class and examine how both Par and UL insurance compare across key dimensions: leveraging capacity, liquidity access, regulatory framework and portfolio impact.

Through updated case studies and current market data, we explore how permanent life insurance can complement traditional investments in achieving Client goals ranging from capital preservation to estate maximization.

This white paper is offered in the same spirit as the original: to provide advisors with a rigorous, evidence-based framework for evaluating permanent life insurance as a wealth accumulation tool. While the products and market conditions have evolved, the fundamental opportunity remains—to help Clients build more resilient, tax-efficient portfolios by thoughtfully incorporating permanent life insurance alongside their traditional investments.



## What is an asset class?

An asset class represents a group of investments that exhibit similar fundamental characteristics and respond to market forces in comparable ways. Traditional asset classes, including equities, fixed income, cash, real estate and alternative investments, each possesses distinct risk-return profiles, liquidity characteristics and regulatory frameworks that shape their roles within diversified portfolios.

Investors and portfolio managers evaluate asset classes based on several dimensions: the ability to measure returns objectively, suitability for long-term holding, mechanisms for accessing capital when needed and the regulatory

environment. These characteristics help us assess how different asset classes contribute to overall portfolio objectives, whether it is growth, income, preservation or some combination thereof.

Understanding these dimensions provides the framework for evaluating whether permanent life insurance merits consideration alongside traditional asset classes in comprehensive wealth planning strategies.

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## Is permanent life insurance an asset class?

The question of whether permanent life insurance qualifies as an asset class is not merely academic. It has profound implications for how advisors position these products and how Clients integrate them into their wealth strategies.

Permanent life insurance demonstrates all the essential characteristics that define an asset class. Like equities or bonds, permanent life insurance generates measurable returns through cash value accumulation. Like real estate and fixed income securities, they can be held as long-term investments and provide liquidity through various mechanisms including loans, collateral assignments and withdrawals. And like all recognized asset classes, they operate within a comprehensive regulatory framework designed to ensure stability and protect Clients.

What distinguishes permanent life insurance from traditional asset classes is its unique dual nature. While traditional asset classes serve a single primary function—stocks provide growth, bonds deliver income, real estate offers both—permanent life insurance simultaneously provides mortality protection and wealth accumulation. This characteristic creates opportunities for sophisticated planning strategies that leverage both dimensions.

When structured and funded appropriately, permanent life insurance can function as a tax-advantaged wealth accumulation vehicle. The death benefit provides estate liquidity and legacy planning, while the cash value component offers growth potential, portfolio diversification and access to capital. This is all within a tax-preferred structure that can enhance after-tax returns relative to comparable investments held in taxable accounts.



## Insurance needs: A critical prerequisite

Before considering permanent life insurance as an investment vehicle, Clients must first establish a legitimate insurance need. This prerequisite distinguishes insurance from pure investment products and represents both a constraint and an opportunity.

The constraint is obvious: permanent life insurance is not appropriate for everyone, regardless of investment attributes. Clients must genuinely need life insurance for estate planning, business succession, wealth transfer or related purposes. Attempting to utilize permanent life insurance purely for investment purposes, absent an underlying insurance need, risks regulatory scrutiny and potential policy redesignation.

The opportunity lies in recognizing that for Clients who do need permanent life insurance, which includes most high net worth individuals and business owners, the investment component can add substantial value beyond mortality protection. Rather than viewing the insurance need as a burden, sophisticated advisors recognize it as the qualifying criterion that unlocks access to a uniquely tax-advantaged wealth accumulation strategy.

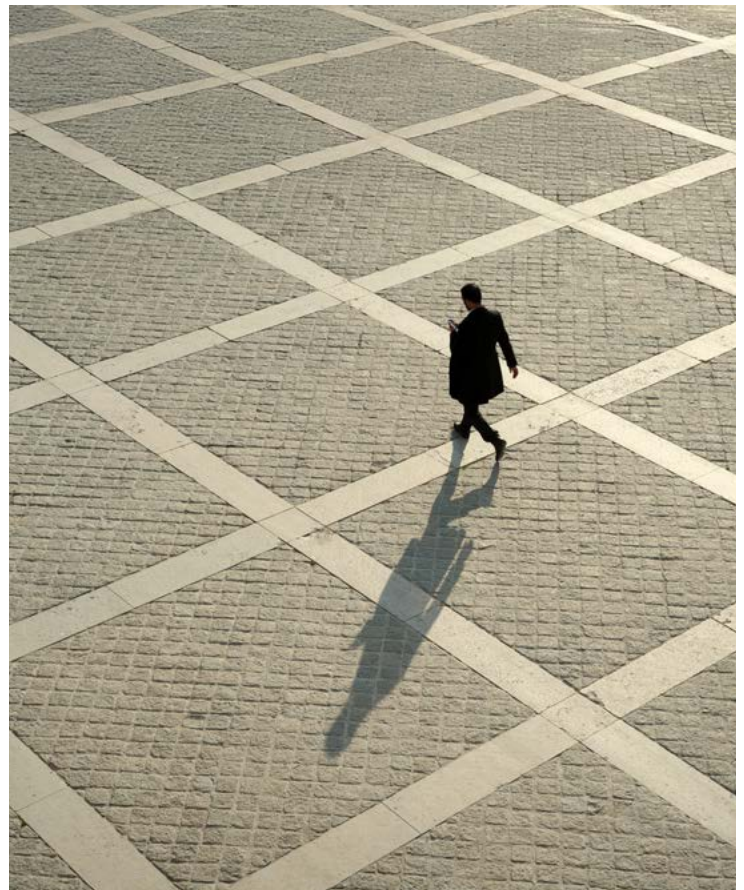
## Types of permanent life insurance

The permanent life insurance market encompasses several distinct product structures, each with unique characteristics that influence their role within a diversified wealth strategy. Understanding these differences enables advisors to match product design to Client objectives.

## Participating whole life insurance

Par insurance represents the traditional cornerstone of permanent life insurance planning. A Par insurance policy provides guaranteed lifetime coverage supported by three key guarantees: premium amounts, minimum cash values and death benefit. These guarantees remain in force provided the policyowner maintains the required premium payments.

Premiums flow into the insurer's participating account, where they join the pooled investments supporting all participating policies. This participating account functions as a distinct investment portfolio managed with a singular focus: delivering quality, stable returns over the long-term to support benefit payments that may not occur for decades.



## The Par dividend mechanism

Beyond the guarantees, Par insurance receives Par dividends that reflect the participating account's actual performance relative to the conservative assumptions embedded in the guaranteed values.

Par dividend performance stems from multiple experience factors: investment returns, mortality experience, expense management and policy persistency. They are all measured against the conservative assumptions underlying the guarantees. Over time, investment returns typically exert the greatest influence on dividend levels, making the quality and stability of the participating account's investment portfolio paramount.

The participating account's mandate shapes its investment approach fundamentally. Knowing that death benefit obligations may extend decades into the future, insurers manage participating accounts with an emphasis on stability, quality and long-term value creation rather than short-term performance maximization.

Par dividends, while not guaranteed, have demonstrated remarkable consistency across economic cycles<sup>1</sup>, driven by the participating account's diversified investment strategy and the smoothing mechanisms insurers employ.

## Stability: The defining characteristic

The stability of participating account returns surpasses virtually every other asset class. Consider the 25-year standard deviation data:

	Sun life Par Account dividend scale interest rate	Government of Canada 10-year bonds	S&P/TSX total return	Five-year GIC	Consumer Price Index
25-year standard deviation	0.82%	1.40%	15.85%	1.09%	1.29%

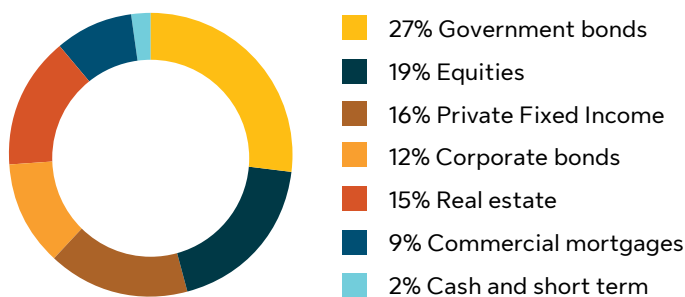
Source: Sun Life 25-year averages at year-end 2024

**This extraordinary stability is derived from two fundamental strategies employed by life insurers:**

### Strategy 1 - Diversification

The participating account invests across a broad spectrum of asset classes extending well beyond the traditional equity-bond allocation. Cash, public fixed income, public equities and real estate form the foundation, but the portfolio also encompasses private fixed income, private equity and commercial mortgages. These asset classes are generally inaccessible to retail investors but offer attractive risk-adjusted returns with low correlation to public markets.

Participating account asset mix



<sup>1</sup> Sun Life Par Insurance has declared Par dividend every year since 1877. More information can be found at <https://suncentral.sunlife.ca/en/products/life/participating-insurance/>

## World-class investment expertise through SLC Management

The strength of Sun Life's participating account reflects not only diversification but also the caliber of investment management behind it. Sun Life's institutional asset management arm, SLC Management, encompasses a collection of specialized global investment firms, each a leader in its domain.<sup>2</sup>

**BentallGreenOak** provides institutional-quality real estate investment expertise across global markets, with deep specialization in office, industrial, multi-residential and retail properties.

**InfraRed Capital Partners** brings over 30 years of infrastructure investment experience, focusing on essential assets including renewable energy, data centers and core infrastructure.

**Crescent Capital Group** contributes nearly three decades of alternative credit expertise, specializing in private credit, mezzanine debt and middle market direct lending.

Together, these specialized firms<sup>3</sup>, combined with Sun Life's own investment teams, contribute to an investment platform of substantial breadth and depth. This structure enables the participating account to access institutional-quality opportunities across asset classes that are unavailable to individual investors or smaller institutional portfolios. The participating account benefits from this world-class investment infrastructure, leveraging specialized expertise to deliver the stable, quality returns that have characterized Par dividend performance for decades.

### Strategy 2 - Smoothing mechanisms

Participating account investment returns undergo deliberate smoothing before flowing through to Par dividend declarations. For bonds held to maturity, the typical approach, interest rate fluctuations have no impact on returns. When bonds are sold before maturity, realized gains or losses are amortized over the remaining original

term, preventing short-term market movements from creating volatility in Par dividends. Similar smoothing techniques apply to equities and real estate, where realized gains or losses are typically amortized over approximately seven years.

**This stability has led to Par insurance being characterized as a "fixed-income complement" or even an "estate bond", where it provides permanent coverage with bond-like stability but often superior long-term returns and unique tax advantages.**

### Valuing Par insurance: Understanding cash value

Every asset owner confronts a fundamental question: "What is it worth?" For Par insurance, the answer lies in the cash value—the amount available to the policyowner during their lifetime.

The death benefit pays only upon the insured's death. The cash value, however, accumulates over time and may be accessed while the insured lives. Understanding the distinction proves essential: the death benefit provides estate value and legacy planning; the cash value provides living benefits and portfolio diversification.

### Leveraging Par insurance

Among permanent life insurance's most valuable yet underappreciated attributes are its capacity to support leverage in practical, powerful ways. The Canadian marketplace has evolved sophisticated mechanisms enabling policyowners to access their policy's cash values while maintaining the full death benefit and continued growth potential.

A Par insurance policy's cash value can typically be pledged to third-party lenders to establish collateral lines of credit, commonly supporting loan-to-value ratios approaching 90% of the policy's cash value, subject to lender underwriting and policy design characteristics. Additionally, most insurers offer policy loans directly, with borrowing capacity often reaching essentially 100% of the cash value.

<sup>2</sup> Source: SLC Management website ([www.slcmangement.com](http://www.slcmangement.com)), "Our Companies" section, accessed January 2026. SLC Management total AUM of \$304 billion as of September 30,

<sup>3</sup> BentallGreenOak completed merger in 2019; InfraRed Capital Partners majority acquisition completed in 2020; Crescent Capital Group majority acquisition completed in 2021.

These exceptional loan-to-value ratios reflect lenders' confidence in Par insurance's fundamental stability and the minimal margin call risk. Unlike equity portfolios, which are subject to market volatility and consequent margin requirements, Par insurance's cash values demonstrate predictable, stable growth that creates reliable collateral.

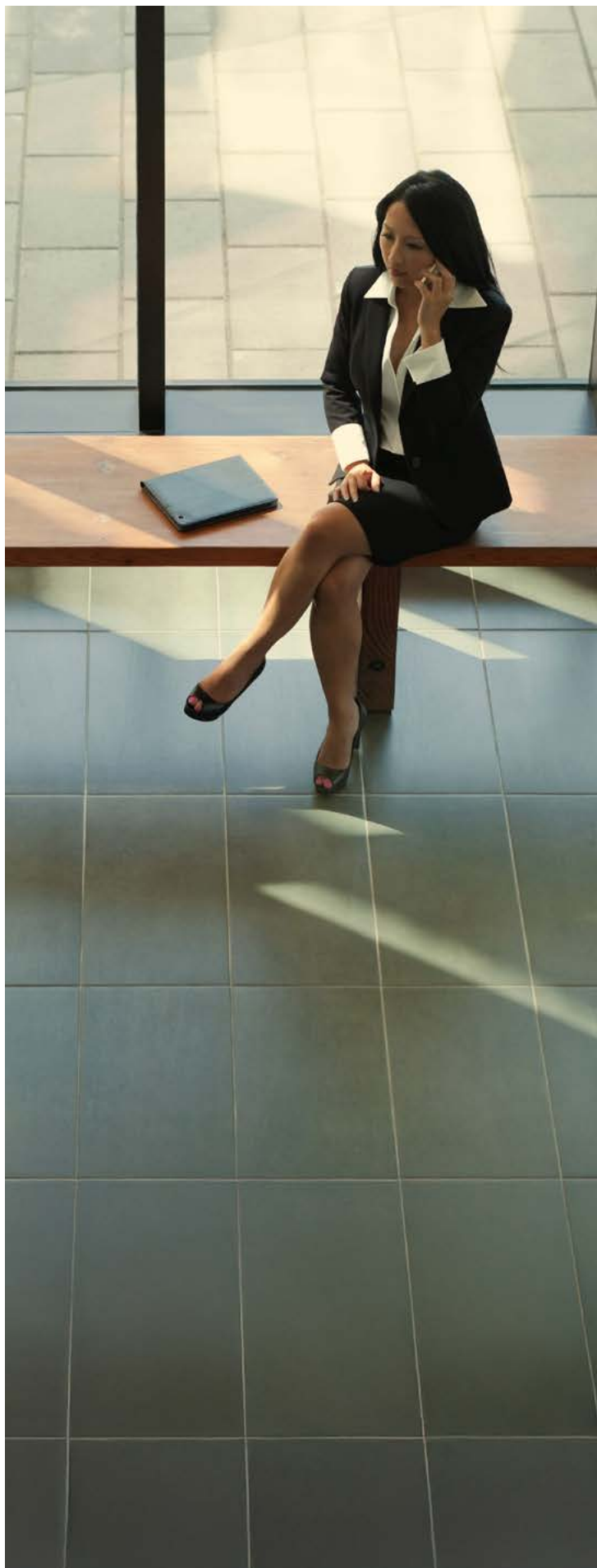
This observation should not obscure the important considerations surrounding leverage. While Par insurance can provide high, stable borrowing capacity, policyowners must remain comfortable with ongoing interest costs and must manage loans thoughtfully to preserve the policy's long-term integrity. Poorly managed leverage can compromise even the most robust policy over time.

### **Withdrawals from Par insurance**

Leveraging represents only one pathway to liquidity. Direct withdrawals from cash value provide an alternative, though one that requires careful consideration of the trade-offs involved.

For Par insurance, withdrawals occur through partial surrender—effectively reducing insurance coverage to release the corresponding cash value. This mechanism creates an immediate exchange: cash today for reduced death benefit tomorrow. The reduction in death benefit typically exceeds the cash received dollar-for-dollar, meaning \$1 withdrawn may reduce the death benefit by more than \$1.

Tax implications require equal attention. Depending on the policy's adjusted cost basis and the withdrawal method, all or a portion of the withdrawal may trigger a taxable policy gain, reducing the net cash received below the gross withdrawal amount. Sophisticated planning evaluates these tax consequences carefully before executing withdrawals. Universal Life (UL)





## Universal Life (UL)

UL insurance offers a different permanent life insurance structure characterized by greater transparency and flexibility compared to Par insurance. While both provide permanent coverage and tax-advantaged cash value accumulation, they achieve these objectives through fundamentally different mechanisms.

### Transparency and control

UL policies clearly separate insurance charges from the investment component, creating contractual transparency that enables policyowners to track precisely how their deposits flow through the policy. The “ins and outs” of the policy—deposits, premium taxes, cost of insurance charges, administrative fees, surrender charges, market value adjustments and investment credits—appear explicitly on policy statements, making the mechanics visible rather than opaque.

This transparency extends to investment control. Policyowners typically select from a menu of investment accounts, with cash value returns tied directly to the performance of their chosen options. Whether fixed interest accounts, index-linked options, or fund-based allocations, the crediting mechanism follows defined rules rather than discretionary dividend declarations.

This design makes UL particularly appealing to Clients who value understanding and controlling the specific mechanics of their policy’s operation. Where Par insurance requires trusting the insurer’s long-term management of the participating account, UL enables policyowners to make ongoing allocation decisions and track results with precision.

### The chameleon of permanent life insurance

**If Par insurance functions as an “estate bond”, then UL is a chameleon, capable of mimicking different asset characteristics based on the investment accounts selected.**

A UL policy funded with diversified, smoothed-return accounts behaves remarkably Par-like, delivering stable, predictable growth. Alternatively, a UL policy allocated to market-sensitive equity accounts functions more like “estate equity”, accepting greater volatility in exchange for higher potential returns.

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**Many policies blend multiple account types, creating hybrid profiles positioned anywhere along the spectrum from bond-like stability to equity-like growth.**

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This flexibility represents both an opportunity and a responsibility. The opportunity lies in customizing the policy’s investment characteristics to align with the Client’s risk tolerance, time horizon and overall portfolio strategy. The responsibility involves recognizing that investment outcomes follow directly from allocation decisions, and the policy performs as well or as poorly as the selected investment accounts.

## UL investment accounts: Demystifying the investment options

UL investment accounts are not mysterious proprietary funds operating behind closed doors. Most UL policies offer a menu of recognizable investment account options, typically linked to retail mutual fund mandates or established market indices, with crediting rates tied directly to the underlying fund's performance net of management fees.

The transparency extends to costs. The crediting rate reflects the fund's performance after deducting both the fund manager's management expense ratio (MER) and any UL investment account management fee. Notably, some insurers, including Sun Life's SunUniversalLife II product, offer managed accounts with 0.00% UL management fees, meaning policyowners pay the same MER they would by investing in the retail mutual fund directly.

This parity prompts an important question: if the MER is identical, why would a policyowner choose the UL investment account over the retail fund? The answer lies entirely in tax treatment.

Consider a non-registered investment account generating a 10% post-MER return. For an investor in the top tax bracket, annual taxation of distributions and realized gains can reduce the after-tax return to approximately 5% to 7.5%,<sup>4</sup> depending on whether returns manifest as interest, dividends<sup>5</sup> UL policy, that same 10% return compounds on a tax-preferred basis with zero annual tax drag, a meaningful advantage that accumulates powerfully over multi-decade timeframes.

An additional advantage of UL investment accounts is the flexibility to switch between different investment options without triggering any tax disposition.<sup>6</sup> Unlike non-registered investment accounts where rebalancing or changing investment funds can create taxable capital gains or losses, policyowners can reallocate their UL fund value across different investment accounts without

tax consequences, from conservative fixed income to aggressive equity allocations, or any combination thereof. This ability to adjust investment strategy in response to changing market conditions, risk tolerance or financial objectives without incurring disposition costs represents a valuable form of tax-efficient portfolio flexibility unavailable in traditional taxable investment accounts.

## Leveraging UL insurance

UL's leveraging capacity operates differently depending on whether the policyowner uses a third-party lender or the insurer's policy loan provision.

For third-party collateral loans, the available loan-to-value ratio depends significantly on the policy's investment allocation and the resulting volatility characteristics. UL policies allocated to stable, Par-like smoothed accounts often support loan-to-value ratios of 90% to 100%, like Par insurance. Conversely, policies with aggressive equity or index-linked allocations may qualify for lower ratios, reflecting the lender's assessment of increased volatility and potential margin risk.

For policy loans provided directly by the insurer, the structure varies by company. For example, Sun Life's policy loan provision offers a loan-to-value ratio of 75% of the cash value, regardless of the underlying investment allocation. This standardized approach reflects the insurer's policy loan structure rather than market-driven collateral assessments. Other insurers may offer different policy loan ratios.

This distinction creates important planning considerations. Clients who prioritize maximum borrowing capacity through third-party lenders may structure their UL policies with more conservative allocations to support higher loan-to-value ratios. Those comfortable with their insurer's policy loan ratio or with lower third-party borrowing capacity in exchange for higher growth potential may pursue more aggressive allocations. The optimal approach depends on the Client's specific objectives and how the policy fits within their broader financial strategy.

<sup>4</sup>At the time of writing, the top Ontario tax bracket refers to combined top marginal rates of approximately 53.53% (interest/regular income), 39.34% (eligible dividends), 47.74% (non-eligible dividends), and 26.76% (capital gains, assuming the 50% inclusion rate).

<sup>5</sup>Insurance companies will ensure an insurance policy is qualified as an "exempt policy" for income-tax purposes under the Income Tax Act and Income Tax Regulation (s.306). While the policy remains exempt and stays within the prescribed limits, the investment build-up inside the policy fund accumulates on a tax-preferred basis.

<sup>6</sup>Sun Life SunUniversalLife II Advisor Guide, "Managed accounts" section (pp. 25-28). Policyowners can transfer funds between investment accounts within their UL policy without triggering taxable dispositions.

## Withdrawals from UL Insurance

UL policies handle withdrawals differently than Par insurance, reflecting the different underlying structures. Withdrawals typically come directly from the policy's investment accounts, reducing the cash value dollar-for-dollar.

In most UL designs, the death benefit decreases in parallel with the withdrawal—a \$1 withdrawal reduces death benefit by approximately \$1, unlike the greater-than-dollar-for-dollar reduction common in Par insurance. This difference stems from the distinct policy mechanics rather than representing an inherent advantage or disadvantage.

Tax consequences remain a critical consideration.

Withdrawals may trigger taxable policy gains if they exceed the policy's adjusted cost basis, requiring the same careful tax planning essential for Par insurance withdrawals.

## Corporately owned life insurance

For business owners, corporately owned permanent life insurance transcends its insurance function to serve as a strategic financial asset on the corporate balance sheet. Understanding how permanent life insurance operates in the corporate context reveals planning opportunities often unavailable to individual policyowners.



# Capital dividend account (CDA)

The Capital Dividend Account (CDA) mechanism represents one of permanent life insurance's most powerful corporate planning advantages. In a Canadian Controlled Private Corporation (CCPC) context, this feature can fundamentally alter the tax efficiency of moving wealth from the corporation to shareholders.

Investment portfolios held within a CCPC face ongoing annual taxation on interest income, dividends and realized capital gains. Distributing accumulated corporate wealth to shareholders typically occurs through taxable dividends, creating a second layer of taxation that meaningfully reduces the amount ultimately reaching the shareholder's hands.

Permanent life insurance changes this dynamic profoundly. When the insured dies, the death benefit flows to the corporate beneficiary tax-free. The portion of the death benefit exceeding the policy's adjusted cost basis can be credited to the corporation's CDA, creating a pool of funds eligible for distribution to shareholders as tax-free capital dividends.

This mechanism enables wealth to pass from corporation to shareholder completely tax-free rather than through taxable dividends. For substantial death benefits, the tax savings can reach into the hundreds of thousands or even millions of dollars, representing a dramatic improvement in estate efficiency.

The portion of the death benefit not eligible for CDA credit, typically an amount approximating the policy's adjusted cost basis, remains subject to taxation upon distribution, generally as taxable dividends. Nonetheless, the tax-free treatment of the CDA-eligible portion represents a significant advantage unavailable through conventional investment vehicles.

# Bolstering the balance sheet

Beyond the CDA benefits realized at death, corporately owned permanent life insurance influences the corporate balance sheet during the insured's lifetime in ways that can enhance the company's financial position and potentially its value.

The cash value of a corporately owned policy constitutes a corporate asset that should be reflected appropriately on the balance sheet. In the policy's early years, the cash value may lag behind premiums paid, creating a temporary balance sheet drag. However, as the policy matures and cash value grows, the balance sheet story evolves favorably.

With permanent policies that accumulate cash value, including both Par and UL, the policy eventually becomes value-generating as cash value growth begins outpacing premiums. This transition point varies based on policy design, funding levels and investment returns, but the trajectory typically favors long-term policyowners who maintain consistent funding.

For businesses contemplating succession or sale, this balance sheet impact merits consideration. A mature, well-funded permanent policy represents a genuine corporate asset that contributes to enterprise value, not merely an expense or contingent liability.

## Putting everything together – A portfolio view

The preceding analysis has examined permanent life insurance across multiple dimensions: stability, returns, leveraging capacity, liquidity access and tax efficiency. Now we synthesize these characteristics into an integrated portfolio perspective, demonstrating how permanent life insurance functions within a comprehensive estate strategy.

## High net worth business owners

Consider a healthy, non-smoking high net worth business owners couple, ages 55 and 50, who have accumulated a \$3,000,000 diversified investment portfolio in their private corporation. Their allocation mirrors the global HNWI asset mix reported in Capgemini<sup>7</sup> balanced between capital protection and return potential:

- Cash and cash equivalents: \$780,000 (26%)
- Fixed income: \$540,000 (18%)
- Public equities: \$660,000 (22%)
- Real estate: \$570,000 (19%)
- Alternative investments: \$450,000 (15%)

This couple seeks to achieve three interrelated objectives:

- Maximizing the estate value transferred to their children
- Maintaining a robust portfolio capable of weathering significant market downturns
- Ensuring adequate liquidity for unexpected needs or opportunities

Traditional portfolio management addresses these goals through diversification, rebalancing and prudent risk management. Introducing permanent life insurance into the portfolio creates additional pathways to achieve all three objectives simultaneously.

## The insurance strategy

The couple implements a strategy incorporating two joint last-to-die permanent life insurance policies:

- A Par insurance policy<sup>8</sup> with \$50,000 annual premiums for 10 years, funded by reallocating from cash equivalents and fixed income
- A UL policy<sup>9</sup> with \$50,000 annual premiums for 10 years, allocating 20% to a UL smoothed account and 80% to a UL equity account

This structure reallocates \$1 million of the portfolio (\$100,000 annually for 10 years) from traditional assets into permanent life insurance, enabling us to compare portfolio outcomes with and without the insurance component.



<sup>7</sup> Capgemini Research Institute, World Wealth Report 2025, Figure 4 ("HNWI asset allocation reflects strategic balance between capital protection and high-return opportunity"), Global High Net Worth Insight Survey, June 2025.

<sup>8</sup> Sun Life Par Protector II policy, life pay with maximum plus premium, joint-last-to-die with premiums to second death, offset starting in year 11, starting coverage \$940,796, current -1% scenario.

<sup>9</sup> Sun ULII policy, insurance + fund, level Cost of Insurance, joint-last-to-die with COI to second death, assume 20% smoothed account rate of return 3.5%, 80% equity account 6.5%, solved for minimum coverage, starting coverage \$1,593,941.

## GOAL #1

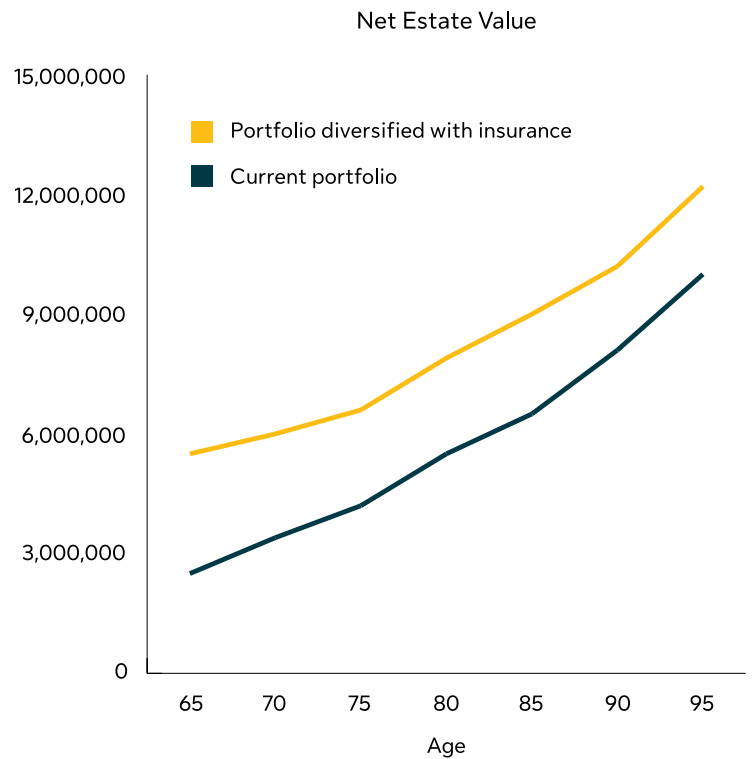
# Maximize estate value

The insurance strategy delivers its most compelling advantage in estate value—the ultimate measure of wealth transfer success.

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Portfolio projections reveal the insurance-enhanced approach consistently outperforms the traditional portfolio in net estate value transferred to the next generation.

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## GOAL #2

# Capital preservation

Wealth preservation ranks among the primary objectives for high-net-worth individuals, particularly during periods of economic uncertainty. Capgemini’s research reveals that 67% of HNW individuals prioritize wealth preservation as a critical objective<sup>10</sup>, directly influencing their portfolio positioning strategies.

When comparing portfolios, the question transcends simple return maximization. “Which portfolio earns more?” becomes less relevant than “Which portfolio demonstrates superior resilience?” Standard deviation provides a straightforward measure of this robustness, quantifying how much portfolio values fluctuate around average returns.

Portfolio volatility derives from two sources: the inherent volatility of individual asset classes and the correlation between assets. Correlation measures whether assets tend to move in tandem, where higher correlation reduces diversification benefits because assets are more likely to decline simultaneously during market stress.

By incorporating Par insurance or Par-like smoothed UL accounts, the couple introduces a component that behaves fundamentally differently from traditional assets. With exceptionally low correlation to equities, bonds, and real estate, permanent life insurance can materially reduce overall portfolio volatility while maintaining or enhancing expected returns.

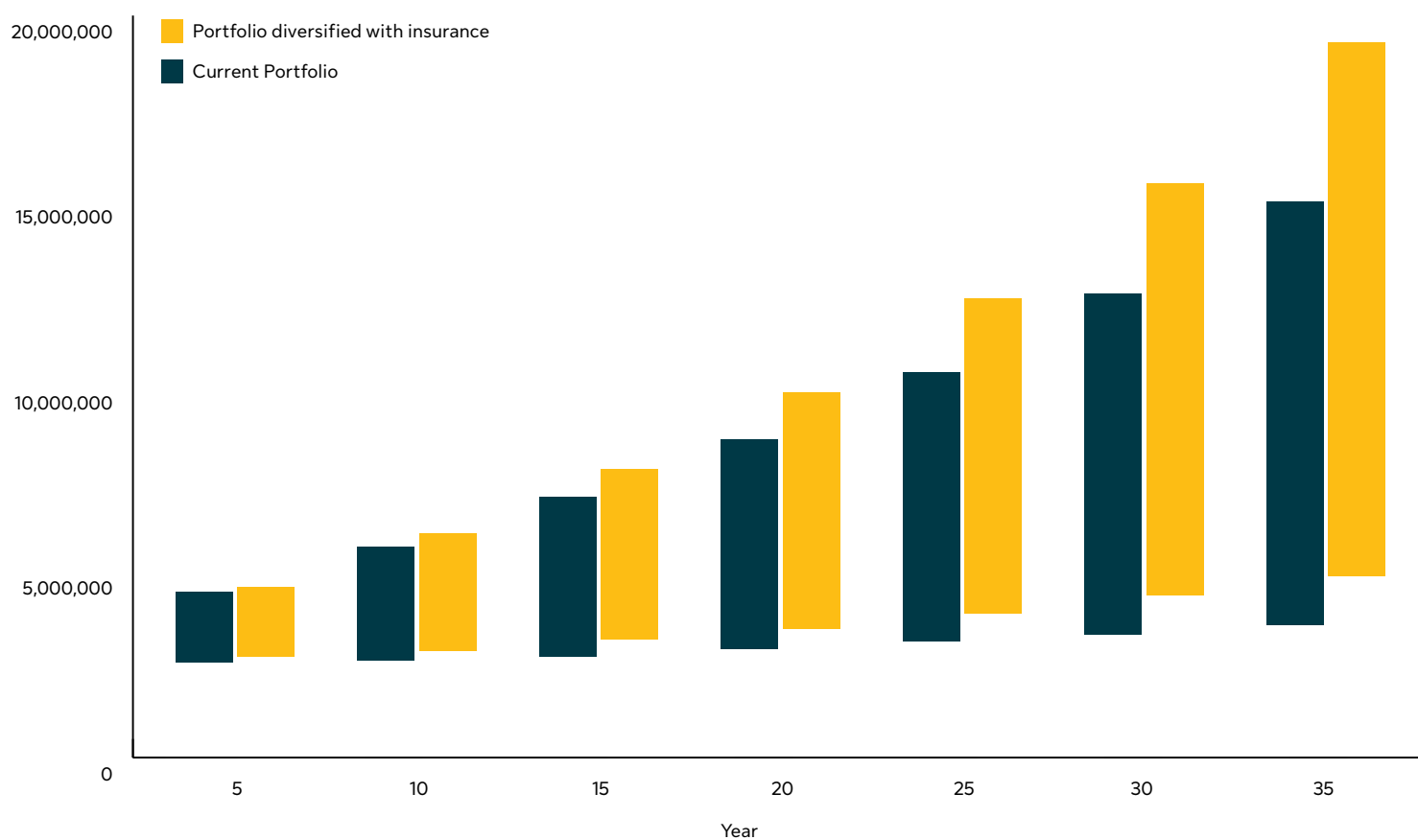
<sup>10</sup> Capgemini Research Institute for Financial Services Analysis, World Wealth Report 2023 – Unlock growth in wealth management, Executive Summary (p.4).

The quantitative impact proves meaningful. The portfolio incorporating insurance demonstrates lower volatility (7.35% vs 7.01%), while also delivering a meaningful improvement in expected returns, higher annual rate of return over the course of 35 years (2.86% vs 3.68%). The risk-return trade-off favors the insurance-integrated portfolio, delivering better returns with reduced volatility.

	Current Portfolio	Portfolio diversified with insurance
Internal rate of return in year 35 (Male age 90, Female age 85)	2.86%	3.68%
Standard Deviation	7.35%	7.01%

The lower standard deviation means the insurance-enhanced portfolio experiences less extreme swings in value, providing more consistent growth even during market downturns. The chart below illustrates this benefit over time. The chart shows the projected range of portfolio values over 35 years, with the bars representing the range where portfolio values are expected to fall 90% of the time.<sup>11</sup> Notably, the lower end of the portfolio with insurance is consistently higher than the current portfolio across all time periods, demonstrating greater resilience during adverse market conditions.

Portfolio value range with 90% probability



Detailed assumptions regarding standard deviations and correlation coefficients for all asset classes are included in Appendix A.

<sup>11</sup>This represents a 90% confidence interval, with the range spanning from the 5th percentile (poor outcome) to the 95th percentile (favourable outcome)

# Liquidity

With \$780,000 in cash equivalents, this couple enjoys substantial liquidity under normal circumstances. However, true financial resilience extends beyond current liquidity to encompass future access to capital when needs arise or opportunities emerge.

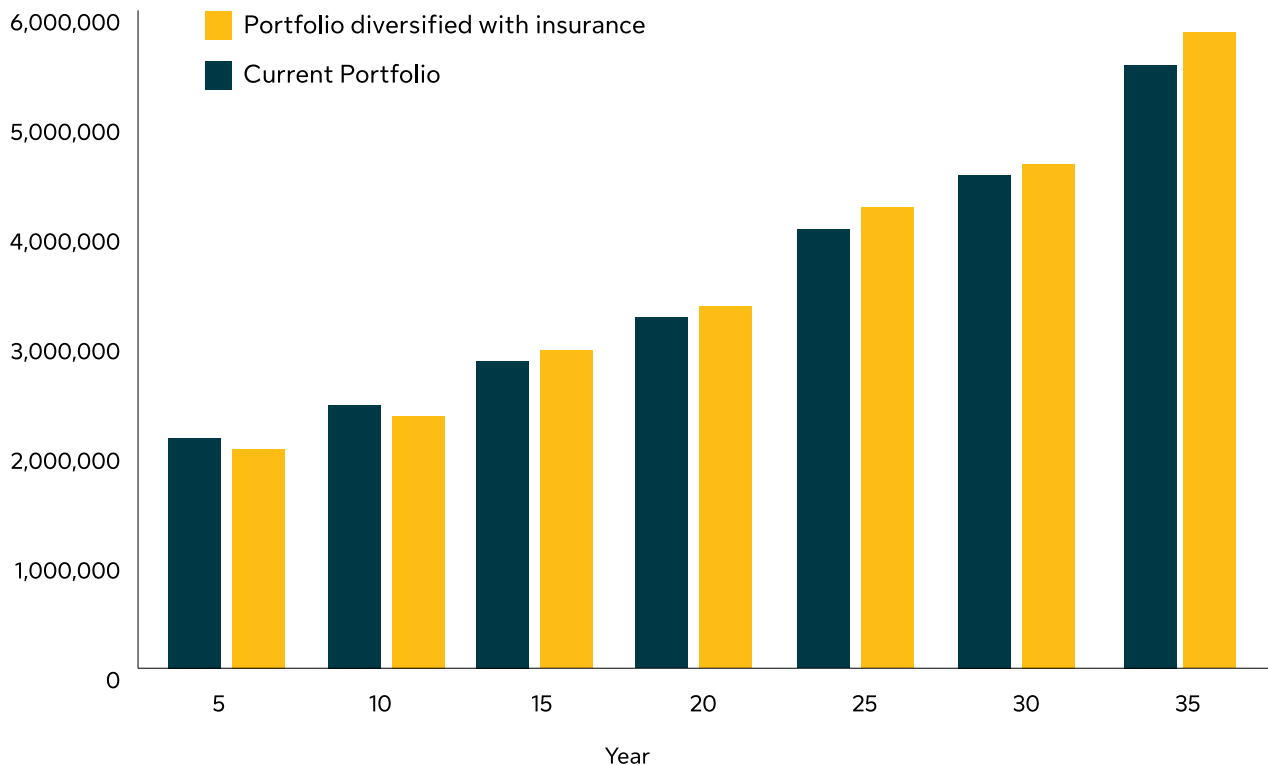
Borrowing against portfolio assets represents an efficient method to access capital without liquidating positions, provided the Client can comfortably service the loan. To evaluate how permanent life insurance affects liquidity capacity, we must establish loan-to-value assumptions for each asset class:

- Cash and cash equivalents: 100% Current portfolio Portfolio diversified with insurance
- Fixed income: 90%
- Public equity: 50%
- Real estate (REIT): 65%
- Alternative investments: 0% (highly variable based on specific holdings)
- Par insurance: 90%
- UL insurance: 75%

These assumptions reflect typical lending practices, though actual ratios vary based on lender policies, account size, and relationship characteristics.

A common concern among Clients contemplating permanent life insurance centers on liquidity reduction. The perception is that allocating capital to insurance inevitably diminishes access to funds. Comparing collateral value reveals a more nuanced reality.

Collateral Value



In the early years, the portfolio with insurance demonstrates slightly lower total collateral value compared to the no-insurance portfolio, reflecting the lag between premiums paid and cash values accumulated. However, this gap narrows steadily. From year 15 to year 20, the borrowing capacities converge essentially to parity. Over the longer term, extending to year 35 and beyond, the portfolio incorporating insurance edges ahead, ultimately delivering higher total collateral value.

This pattern demonstrates a crucial insight: adding permanent life insurance does not automatically sacrifice liquidity. When liquidity is measured as lenders measure it, through collateral value and borrowing capacity, Clients can maintain nearly equivalent access to capital even while building substantial permanent life insurance coverage and death benefits.

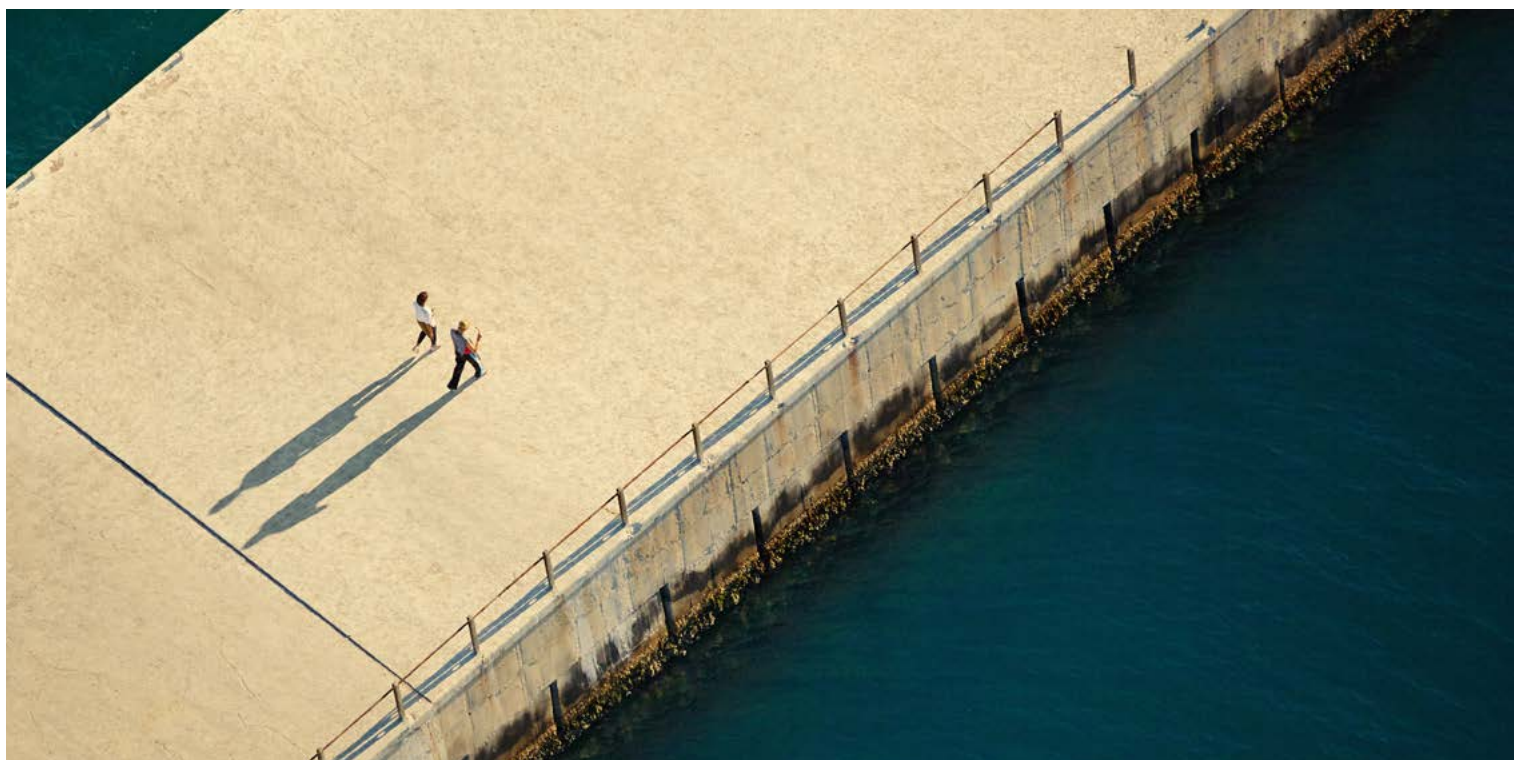
## **Built-in liquidity features**

Beyond serving as collateral for loans, certain permanent life insurance policies incorporate features providing direct access to funds under specific circumstances. Sun Life's UL policy offers particularly valuable built-in liquidity through its disability access provision.

If the insured becomes disabled, ill or injured as defined in the policy, and the disability continues through a waiting period (potentially as short as 30 days), the policyowner may withdraw funds from the UL account tax-free under current tax rules. This feature effectively transforms the UL fund into a "long-term care backstop," providing financial resources precisely when unexpected health events create urgent needs.

For joint last-to-die policies such as those in this case study, the early death benefit option provides additional flexibility. Upon the first death, the surviving policyowner can access up to 100% of the fund value tax-free to address immediate financial needs arising from the loss of the first spouse.

These features extend beyond theoretical benefits to provide practical financial resilience during life's most challenging moments, precisely when access to capital matters most.



# Conclusion

Over a decade after the original Life insurance as an asset class white paper influenced how Canadian advisors positioned participating whole life insurance, the fundamental thesis continues to hold relevance: permanent life insurance, when structured and funded appropriately, merits serious consideration as a distinct asset class within diversified wealth strategies.

This updated analysis extends the framework beyond Par insurance to encompass UL, demonstrating that different permanent life insurance structures can serve different roles within comprehensive portfolio strategies.

Par insurance functions as a “fixed income complement”, delivering bond-like stability with superior tax efficiency. UL acts as a chameleon, capable of mimicking characteristics from stable accumulation to equity-like growth depending on account allocation.

The case study analysis reveals three compelling dimensions of value:

**Estate maximization.** Tax savings accumulated across multiple fronts—investment income tax, terminal tax, and the leverage effect of tax-free death benefits—combined to deliver meaningfully higher net wealth transfer to the next generation.

**Capital preservation.** By incorporating insurance with low correlation to traditional market assets, portfolios achieve measurably lower volatility while maintaining or enhancing expected returns. The insurance-enhanced portfolio demonstrates lower standard deviation while delivering higher expected annual returns, a rare combination that represents genuine improvement in the risk-return trade-off.

**Liquidity resilience.** Far from sacrificing liquidity, the insurance-integrated approach maintains essentially equivalent collateral value and borrowing capacity over the long-term. Built-in features such as disability access provisions and early death benefits provide direct liquidity precisely when life events create urgent needs.

These benefits accrue to families who need permanent life insurance regardless of investment characteristics. The critical insight is recognizing that the insurance need, rather than representing a constraint, actually unlocks access to a uniquely tax-advantaged wealth accumulation structure unavailable through conventional investment vehicles.

## The prerequisite remains paramount

This analysis should not obscure the fundamental prerequisite: permanent life insurance makes sense only for Clients with legitimate insurance needs. Estate planning, business succession, wealth equalization among heirs, charitable giving strategies, or other permanent life insurance needs must drive the decision. The investment characteristics, while meaningful, represent enhancements rather than justifications.

For advisors, the opportunity lies in recognizing when Clients who already need permanent life insurance could benefit from understanding how different insurance structures contribute to broader portfolio objectives. Positioning insurance purely as a risk protection tool leaves substantial value unexplored. Conversely, positioning insurance primarily as an investment vehicle risks regulatory concerns and potential policy redesignation.

The sophisticated middle ground recognizes both dimensions: insurance provides essential mortality protection while simultaneously serving as a tax-efficient component of a diversified wealth strategy.

# Looking forward

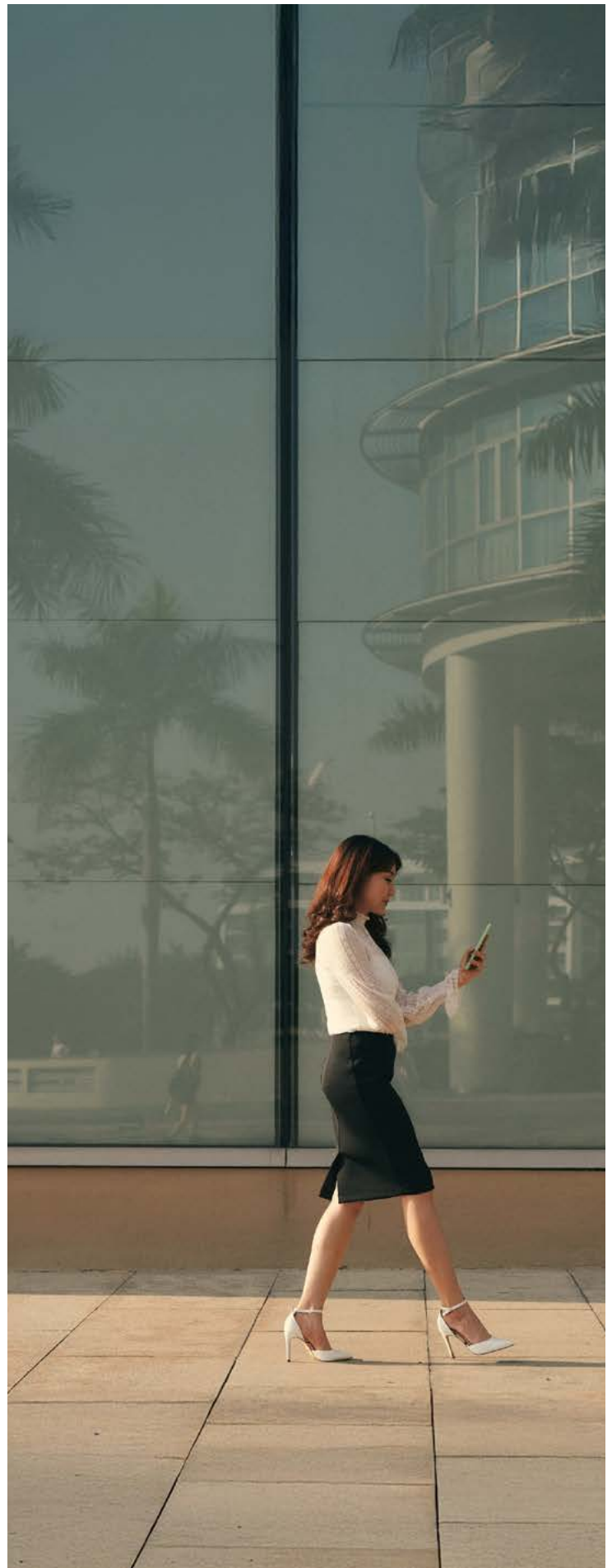
The Canadian financial landscape continues to evolve. Tax rates fluctuate. Investment returns cycle through periods of growth and contraction. Product designs incorporate new features and options. Yet, the fundamental advantages of permanent life insurance persist across changing environments: tax-deferred accumulation, tax-free death benefits, exceptional collateral value, and regulatory stability.

As advisors become increasingly sophisticated in structuring and funding permanent policies, the conversation evolves from “Should we consider insurance?” to “How do we optimize insurance within the broader wealth strategy?”

For high-net-worth Clients working with advisors who understand both the insurance and investment dimensions, permanent life insurance offers a rare opportunity: the ability to meet insurance needs while simultaneously enhancing portfolio resilience, maintaining liquidity access, and maximizing estate value transferred to the next generation.

The question facing advisors and Clients is no longer whether permanent life insurance can function as an asset class. The evidence supports an affirmative answer. The relevant question now becomes: For Clients who need permanent life insurance, how do we structure and fund policies to capture the full range of benefits this unique asset class provides?”

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## Asset Assumptions

The expected return, volatility, and correlations used for all asset classes in the case study reference the Sun Life Global Investments Institutional's 2025 Capital Market Assumptions & Key Market Themes report<sup>12</sup>. The tax treatment for each asset class is also outlined below.

Asset class	Reference Asset class	Expected returns (%)	Expected volatility (%)	Tax treatment
Cash and cash equivalent	Cash	2.75	0.69	Income
Fixed income	Canadian bonds	3.75	5.07	Income
Public equities	Canadian equity	6.02	13.63	2% dividend yield, remaining are unrealized capital gains with a 20% annual turnover rate
Real estate	Global developed REITs	7.19	15.72	3.5% income, remaining are unrealized capital gains with a 20% annual turnover rate
Alternative investments	Commodities	5.15	21.06	Unrealized capital gains with a 20% annual turnover rate

Correlations	Cash and cash equivalent	Fixed income	Public equity	Real estate	Alternative investments	Participating account	UL smoothed account
Cash and cash equivalent	1.00						
Fixed income	0.14	1.00					
Public equities	-0.05	0.18	1.00				
Real estate	-0.06	0.37	0.69	1.00			
Alternative investments	-0.11	-0.45	0.52	0.15	1.00		
Participating account	-0.32	-0.05	-0.03	0.11	-0.11	1.00	
UL smoothed account	0.44	0.13	-0.02	0.03	-0.13	0.401	1.00

<sup>12</sup> <https://www.slginstitutional.com/en/news-and-insights/insights/capital-market-assumptions/>



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