



rethink.

## Liquidity without the loan

A joint last-to-die policy makes good sense for many couples because it can be more affordable and more suitable than a single life policy. And since many couples' assets are eligible for tax-free rollovers at the first death, the terminal tax bill usually hits at the second death. A joint last-to-die policy therefore provides the money to help pay the terminal tax bill precisely when that money is needed.

Tax planning, however, is only one need that a joint last-to-die policy can help address. When a double-income household suddenly becomes a single-income household, a well-thought-out life insurance strategy with the right policy can help the surviving spouse preserve their standard of living without forcing them to draw down on assets meant for longer-term needs, like retirement.

A joint last-to-die Sun Universal Life (UL) policy with the early death benefit (EDB) helps address this need. The EDB lets the policy owner unlock a portion – up to 100% – of the policy's fund value at the first death tax-free, while the policy stays in force to pay a death benefit at the second death.

In contrast, with a par whole life joint last-to-die policy, the surviving spouse will have to borrow against the policy at the first death to access its cash values. Depending on when the second death occurs, the outstanding loan balance and accumulated loan interest could significantly erode the death benefit payable at the second death.

To see how this works, let's consider a double-income family. Kevin (male non-smoker, age 37) and Stephanie (female non-smoker, age 35) are married with a ten-year-old son, George.

Among other options, Kevin and Stephanie can choose between two life insurance policies:

1. Sun UL II: joint last-to-die, cost-to-first-death, insurance amount + policy fund, YRT85, paying \$20,000 in annual premiums for 10 years.
2. Sun Par Protector: joint last-to-die, cost-to-last death, paid-up additions (PUA), with the same premium payments.

Product	Sun UL II JLTD Cost-to-first-death	Sun Par Protector II JLTD Cost-to-last-death
<b>Starting face amount</b>	\$1,674,324	\$607,886
<b>Dividend scale/interest rate</b>	4.00%	Current minus 0.5%
<b>Initial premium/payment</b>	\$20,000	\$20,000
<b>Number of payments</b>	10	10
<b>EDB/loan* @ 1st death in year 20</b>	\$292,160	\$292,160
<b>Net to estate @ 2nd death in year 45</b>	\$1,674,324	\$1,004,993
<b>IRR @ 2nd death</b>	7.25%	6.34%

\*Loan interest rate = 5%

For the Sun UL policy, when the first death occurs in policy year 20, the surviving spouse can withdraw up to 100% of the UL fund value, \$292,160, as a tax-free EDB. Since the UL policy is cost-to-first-death, the cost of insurance (COI) charges stop after the first death occurs and the UL policy becomes a paid-up policy. The face amount, \$1,674,324, is paid out when the second death occurs.

For the Sun Par Protector policy, when the first death occurs in policy year 20, the surviving spouse takes out a loan of \$292,160 with a 5% interest rate. The loan interest and balance accumulate to a sizable \$989,357 in policy year 45. This reduces the death benefit payable at the second death to \$1,004,993.

## Why cost-to-first-death for UL EDB?

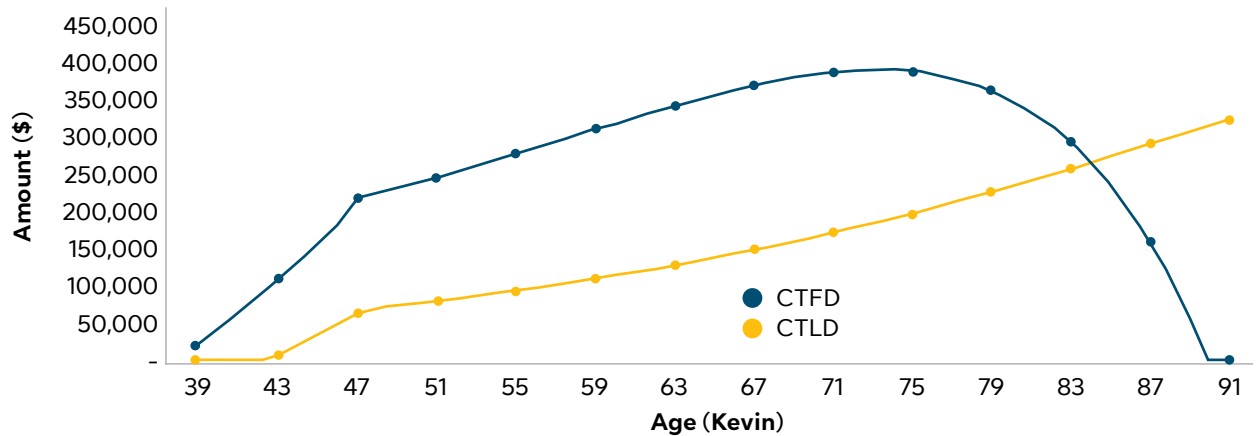
Compared to cost-to-last-death, the cost-to-first-death option means higher COI charges and slower fund growth. However, for Clients who want to take advantage of the EDB on their UL policy, selecting cost-to-first death will allow the surviving spouse to access 100% of the policy fund value without having to calculate how much to leave in the fund to cover future COI charges. For them, the benefit from a significant payout if one of them dies early may outweigh the higher COI charges and slower fund growth.

On the other hand, if Kevin and Stephanie select Sun UL II cost-to-last-death, when withdrawing the EDB, the amount the survivor can withdraw is determined after ensuring that the remaining fund value, growing at 4%, can cover all future COI charges.

The graph below compares the amount of money available at the first death using the cost-to-first-death EDB vs the cost-to-last-death EDB. In most years, there's more money available under the cost-to-first-death EDB than with the cost-to-last-death EDB. The crossover point occurs when Kevin is 85 years old.

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## CTFD vs. CTLD available funds to withdraw



### Things to note:

1. The UL EDB option is available only on **joint last-to-die** coverage with the **insurance + fund** death benefit option selected.
2. A **separate** EDB payout allocation in percentage terms, and with separate beneficiary designations, can be selected for each insured person.
3. The EDB option isn't allowed if either insured has a rating of 250% or greater.
4. No surrender charges or market value adjustments (MVA) apply to the EDB payout.
5. The service account does not form part of the payout.

Contact your Sun Life sales representative to obtain the UL EDB tool to see how to access early liquidity without paying for loan interest.

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