

Savvy Term – Sun Permanent Life with Term rider and Return of Premium on Death (ROPD)

Purpose

The purpose of this tool is to demonstrate the value of *Savvy Term* – Sun Permanent Life with Term rider and Return of Premium on Death (ROPD). This product is slightly more expensive than standard term policies, but the tool can show that the additional cost is justified by calculating the pre-tax rate of return needed on the premium difference to match the ROPD benefit plus insurance coverage.

Building *Savvy Term*

➤ **Set the Sun Permanent Life basic coverage to the minimum of \$25,000.**

When comparing *Savvy Term* to a standard term policy, optimize the comparison by setting the basic coverage of Sun Permanent Life to the minimum of \$25,000. Note that increasing the basic coverage of Sun Permanent Life beyond \$25,000 will raise premiums, potentially skewing the comparison.

➤ **Add a term insurance rider to the Sun Permanent Life policy to match the coverage of the standard term policy being compared, minus the \$25,000 base coverage.**

The term insurance rider attached to Sun Permanent Life should match the coverage of the standard term policy the client would have otherwise purchased. For an equitable comparison, consider reducing the term insurance rider coverage by \$25,000 to account for the basic Sun Permanent Life coverage. Sun Permanent Life offers term insurance riders exclusively in T10, T15, T20, or T30 options, which differs from standard term policies like Evolve Term. If a client has purchased a T15 term policy with no intention of renewal after 15 years, it's crucial to ensure consistency in the illustrations. When preparing comparisons between Sun Permanent Life and a standard term policy, we must elect to show both the Sun Permanent Life term rider and the standard term policy as non-renewable after the 15-year period.

➤ **Add Guaranteed return of premium on death benefit (ROPD).**

Any premiums paid for the policy are included in the death benefit and paid to the beneficiary tax-free on the death of the insured person. To select Guaranteed return of premium on death benefit:

- Maximum age of 50.
- Only available for 15 and 20 pay premium options.
- Must not have sub-standard rating. (When a term insurance rider and a ROPD rider is added, only a single life insurance with standard health status can be used.)
- Any other optional benefit other than Term insurance benefit cannot be selected.
- For single life, Term insurance benefit for linked person cannot be selected.

General rules for life insurance policy transfers

A life insurance policy transfer is a "disposition" within the meaning of subsection 148(9) of the Income Tax Act (ITA). Subsection 148(1) sets out the general rules that apply to the computation of tax in respect of a disposition. A life insurance policy transfer may trigger a policy gain, which is taxable in the hands of the transferor. The policy gain is equal to the proceeds of disposition minus the adjusted cost basis (ACB) of the interest in the life insurance policy. This gain is fully taxable as ordinary income. It should be noted that life insurance policies do not fall into the tax category of capital property, so a taxpayer who disposes of his interest in a life insurance policy does not realize a capital gain; instead, it is a policy gain and he will not be able to claim any losses and the entire gain is taken into income. For more information, particularly on how the proceeds of disposition amount is determined, please check out the documents reference below.

About this presentation

This presentation was prepared for information purposes only. It is not an insurance contract or an offer to provide insurance. It does not form any part of any policy that may be issued and is not intended to provide or replace professional legal or tax advice. For your specific situation, please consult your own tax and legal advisors. This presentation is based on values from the two product illustrations with the same date accompanying this presentation. Read this presentation together with the product illustrations, as it is incomplete without them. Unless specifically stated, the values and rates presented are not guaranteed.

[Tax implications of a life insurance policy transfer](#)

Savvy Term - Sun Permanent Life with Term rider and ROPD

- Sun Permanent Life with Term rider and ROPD typically requires higher premiums compared to term insurance.
- Is this additional cost justified?
- We'll calculate the pre-tax rate of return at which the additional premiums (relative to a standard term policy) would need to be invested in an interest earning asset to match the net to estate value.

Let's look at an example for 41-year-old female non-smoker. This following ledger provides the comparison of a Savvy Term vs. a Term 15. The alternate investment rate of 6.49%, calculates the rate of return an equivalent fixed interest investment would be required to earn in order to match the net to estate values of Sun Permanent Life at age 90.

Annual Premium					Invest The Difference						Term 15 \$2,250,000 initial face amount				Sun Permanent Life + ROPD \$250,000 base insurance amount - 15 Pay \$2,000,000 term benefit - Term 15			
Savvy Term																		
Year	Age	Premium	Term Premium	Premium Difference	Starting Balance	Investment Deposit	Starting Balance + Deposit	Investment Income 6.49%	Tax on Income 50.00%	Investment Balance	Cash Surrender Value	Term Net to Estate	Investment Net to Estate	Total Net to Estate	Death Benefit	Cash Surrender Value	Net to Estate	Alternate Inv rate Required
1	42	7,476	1,218	6,258	0	6,258	6,258	406	203	6,461	0	2,250,000	6,461	2,256,461	2,257,476	0	2,257,476	38.91%
2	43	7,476	1,218	6,258	6,461	6,258	12,719	825	413	13,132	0	2,250,000	13,132	2,263,132	2,264,951	0	2,264,951	24.91%
3	44	7,476	1,218	6,258	13,132	6,258	19,390	1,258	629	20,019	0	2,250,000	20,019	2,270,019	2,272,427	1,500	2,272,427	18.31%
4	45	7,476	1,218	6,258	20,019	6,258	26,277	1,705	852	27,129	0	2,250,000	27,129	2,277,129	2,279,902	2,000	2,279,902	14.48%
5	46	7,476	1,218	6,258	27,129	6,258	33,387	2,166	1,083	34,470	0	2,250,000	34,470	2,284,470	2,287,378	2,750	2,287,378	11.97%
6	47	7,476	1,218	6,258	34,470	6,258	40,728	2,642	1,321	42,049	0	2,250,000	42,049	2,292,049	2,294,853	3,500	2,294,853	10.20%
7	48	7,476	1,218	6,258	42,049	6,258	48,307	3,134	1,567	49,874	0	2,250,000	49,874	2,299,874	2,302,329	4,250	2,302,329	8.89%
8	49	7,476	1,218	6,258	49,874	6,258	56,132	3,641	1,821	57,952	0	2,250,000	57,952	2,307,952	2,309,804	5,250	2,309,804	7.88%
9	50	7,476	1,218	6,258	57,952	6,258	64,210	4,165	2,083	66,293	0	2,250,000	66,293	2,316,293	2,317,280	6,250	2,317,280	7.07%
10	51	7,476	1,218	6,258	66,293	6,258	72,551	4,706	2,353	74,904	0	2,250,000	74,904	2,324,904	2,324,756	7,250	2,324,756	6.42%
11	52	7,476	1,218	6,258	74,904	6,258	81,162	5,265	2,632	83,795	0	2,250,000	83,795	2,333,795	2,332,231	10,250	2,332,231	5.87%
12	53	7,476	1,218	6,258	83,795	6,258	90,053	5,842	2,921	92,973	0	2,250,000	92,973	2,342,973	2,339,707	14,000	2,339,707	5.41%
13	54	7,476	1,218	6,258	92,973	6,258	99,231	6,437	3,218	102,450	0	2,250,000	102,450	2,352,450	2,347,182	18,000	2,347,182	5.02%
14	55	7,476	1,218	6,258	102,450	6,258	108,708	7,052	3,526	112,234	0	2,250,000	112,234	2,362,234	2,354,658	22,500	2,354,658	4.68%
15	56	7,476	1,218	6,258	112,234	6,258	118,492	7,686	3,843	122,335	0	2,250,000	122,335	2,372,335	2,362,133	27,000	2,362,133	4.38%
16	57	0	0	0	122,335	0	122,335	7,936	3,968	126,303	0	0	126,303	126,303	362,133	28,250	362,133	28.31%
17	58	0	0	0	126,303	0	126,303	8,193	4,097	130,399	0	0	130,399	130,399	362,133	29,750	362,133	25.86%
18	59	0	0	0	130,399	0	130,399	8,459	4,229	134,629	0	0	134,629	134,629	362,133	31,250	362,133	23.77%
19	60	0	0	0	134,629	0	134,629	8,733	4,367	138,995	0	0	138,995	138,995	362,133	32,750	362,133	21.97%
20	61	0	0	0	138,995	0	138,995	9,016	4,508	143,503	0	0	143,503	143,503	362,133	38,500	362,133	20.41%
21	62	0	0	0	143,503	0	143,503	9,309	4,654	148,158	0	0	148,158	148,158	362,133	41,250	362,133	19.05%
22	63	0	0	0	148,158	0	148,158	9,611	4,805	152,963	0	0	152,963	152,963	362,133	44,000	362,133	17.86%
23	64	0	0	0	152,963	0	152,963	9,922	4,961	157,924	0	0	157,924	157,924	362,133	46,750	362,133	16.79%
24	65	0	0	0	157,924	0	157,924	10,244	5,122	163,046	0	0	163,046	163,046	362,133	49,750	362,133	15.85%
25	66	0	0	0	163,046	0	163,046	10,576	5,288	168,335	0	0	168,335	168,335	362,133	52,500	362,133	15.00%
26	67	0	0	0	168,335	0	168,335	10,920	5,460	173,794	0	0	173,794	173,794	362,133	55,500	362,133	14.23%
27	68	0	0	0	173,794	0	173,794	11,274	5,637	179,431	0	0	179,431	179,431	362,133	58,750	362,133	13.54%
28	69	0	0	0	179,431	0	179,431	11,639	5,820	185,251	0	0	185,251	185,251	362,133	61,750	362,133	12.91%
29	70	0	0	0	185,251	0	185,251	12,017	6,008	191,259	0	0	191,259	191,259	362,133	65,000	362,133	12.34%
30	71	0	0	0	191,259	0	191,259	12,407	6,203	197,463	0	0	197,463	197,463	362,133	68,750	362,133	11.81%
31	72	0	0	0	197,463	0	197,463	12,809	6,404	203,867	0	0	203,867	203,867	362,133	72,750	362,133	11.33%
32	73	0	0	0	203,867	0	203,867	13,224	6,612	210,479	0	0	210,479	210,479	362,133	76,750	362,133	10.88%
33	74	0	0	0	210,479	0	210,479	13,653	6,827	217,306	0	0	217,306	217,306	362,133	80,750	362,133	10.46%
34	75	0	0	0	217,306	0	217,306	14,096	7,048	224,354	0	0	224,354	224,354	362,133	84,750	362,133	10.08%
35	76	0	0	0	224,354	0	224,354	14,553	7,277	231,631	0	0	231,631	231,631	362,133	89,000	362,133	9.72%
36	77	0	0	0	231,631	0	231,631	15,025	7,513	239,144	0	0	239,144	239,144	362,133	93,000	362,133	9.39%
37	78	0	0	0	239,144	0	239,144	15,513	7,756	246,900	0	0	246,900	246,900	362,133	97,250	362,133	9.08%
38	79	0	0	0	246,900	0	246,900	16,016	8,008	254,908	0	0	254,908	254,908	362,133	101,250	362,133	8.79%
39	80	0	0	0	254,908	0	254,908	16,535	8,268	263,176	0	0	263,176	263,176	362,133	105,500	362,133	8.51%
40	81	0	0	0	263,176	0	263,176	17,072	8,536	271,711	0	0	271,711	271,711	362,133	109,500	362,133	8.26%
41	82	0	0	0	271,711	0	271,711	17,625	8,813	280,524	0	0	280,524	280,524	362,133	113,500	362,133	8.01%
42	83	0	0	0	280,524	0	280,524	18,197	9,099	289,623	0	0	289,623	289,623	362,133	117,250	362,133	7.78%
43	84	0	0	0	289,623	0	289,623	18,787	9,394	299,016	0	0	299,016	299,016	362,133	121,250	362,133	7.57%
44	85	0	0	0	299,016	0	299,016	19,397	9,698	308,714	0	0	308,714	308,714	362,133	125,000	362,133	7.36%
45	86	0	0	0	308,714	0	308,714	20,026	10,013	318,727	0	0	318,727	318,727	362,133	128,500	362,133	7.17%
46	87	0	0	0	318,727	0	318,727	20,675	10,338	329,065	0	0	329,065	329,065	362,133	135,000	362,133	6.99%
47	88	0	0	0	329,065	0	329,065	21,346	10,673	339,738	0	0	339,738	339,738	362,133	141,500	362,133	6.81%
48	89	0	0	0	339,738	0	339,738	22,038	11,019	350,757	0	0	350,757	350,757	362,133	147,750	362,133	6.65%
49	90	0	0	0	350,757	0	350,757	22,753	11,376	362,133	0	0	362,133	362,133	362,133	154,250	362,133	6.49%
50	91	0	0	0	362,133	0	362,133	23,491	11,745	373,879	0	0	373,879	373,879	362,133	161,000	362,133	6.34%
51	92	0	0	0	373,879	0	373,879	24,253	12,126	386,005	0	0	386,005	386,005	362,133	167,500	362,133	6.19%
52	93	0	0	0	386,005	0	386,005	25,039	12,520	398,525	0	0	398,525	398,525	362,133	174,500	362,133	6.05%
53	94	0	0	0	398,525	0	398,525	25,851	12,926	411,450	0	0	411,450	411,450	362,133	181,500	362,133	5.92%
54	95	0	0	0	411,450	0	411,450	26,690	13,345	424,795	0	0	424,795	424,795	362,133	189,000	362,133	5.80%
55	96	0	0	0	424,795	0	424,795	27,556	13,778	438,573	0	0	438,573	438,573	362,133	197,000	362,133	5.67%
56	97	0	0	0	438,573	0	438,573	28,449	14,225	452,798	0	0	452,798	452,798	362,133	206,000	362,133	5.56%

Annual Premium					Invest The Difference						Term 15 \$2,250,000 initial face amount				Sun Permanent Life + ROPD \$250,000 base insurance amount - 15 Pay \$2,000,000 term benefit - Term 15			
		<i>Savvy Term</i>	Term	Premium	Starting	Investment	Starting	Investment	Tax on	Investment	Cash	Term	Investment	Total	Death	Cash	Net to	Alternate
Year	Age	Premium	Premium	Difference	Balance	Deposit	Balance + Deposit	Income 6.49%	Income 50.00%	Balance	Surrender Value	Net to Estate	Net to Estate	Net to Estate	Benefit	Surrender Value	Esate	Inv rate Required
57	98	0	0	0	452,798	0	452,798	29,372	14,686	467,484	0	0	467,484	467,484	362,133	216,250	362,133	5.45%
58	99	0	0	0	467,484	0	467,484	30,325	15,162	482,646	0	0	482,646	482,646	362,133	228,250	362,133	5.34%
59	100	0	0	0	482,646	0	482,646	31,308	15,654	498,301	0	0	498,301	498,301	362,133	250,000	362,133	5.24%