

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 7.57%, 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 \$10,525,000 initial face amount				Sun Permanent Life + ROPD \$25,000 base insurance amount - 15 Pay \$10,500,000 term benefit - Term 15			
Savvy Term																		
Year	Age	Premium	Term Premium	Premium Difference	Starting Balance	Investment Deposit	Starting Balance + Deposit	Investment Income 7.57%	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	7,508	5,603	1,904	0	1,904	1,904	144	72	1,976	0	10,525,000	1,976	10,526,976	10,532,508	0	10,532,508	588.48%
2	43	7,508	5,603	1,904	1,976	1,904	3,881	294	147	4,027	0	10,525,000	4,027	10,529,027	10,540,015	0	10,540,015	270.43%
3	44	7,508	5,603	1,904	4,027	1,904	5,932	449	224	6,156	0	10,525,000	6,156	10,531,156	10,547,523	150	10,547,523	172.96%
4	45	7,508	5,603	1,904	6,156	1,904	8,060	610	305	8,365	0	10,525,000	8,365	10,533,365	10,555,030	200	10,555,030	126.63%
5	46	7,508	5,603	1,904	8,365	1,904	10,270	777	388	10,658	0	10,525,000	10,658	10,535,658	10,562,538	275	10,562,538	99.72%
6	47	7,508	5,603	1,904	10,658	1,904	12,562	950	475	13,038	0	10,525,000	13,038	10,538,038	10,570,045	350	10,570,045	82.19%
7	48	7,508	5,603	1,904	13,038	1,904	14,942	1,130	565	15,507	0	10,525,000	15,507	10,540,507	10,577,553	425	10,577,553	69.87%
8	49	7,508	5,603	1,904	15,507	1,904	17,412	1,317	659	18,070	0	10,525,000	18,070	10,543,070	10,585,060	525	10,585,060	60.75%
9	50	7,508	5,603	1,904	18,070	1,904	19,974	1,511	756	20,730	0	10,525,000	20,730	10,545,730	10,592,568	625	10,592,568	53.73%
10	51	7,508	5,603	1,904	20,730	1,904	22,634	1,712	856	23,491	0	10,525,000	23,491	10,548,491	10,600,076	725	10,600,076	48.16%
11	52	7,508	5,603	1,904	23,491	1,904	25,395	1,921	961	26,355	0	10,525,000	26,355	10,551,355	10,607,583	1,025	10,607,583	43.64%
12	53	7,508	5,603	1,904	26,355	1,904	28,260	2,138	1,069	29,329	0	10,525,000	29,329	10,554,329	10,615,091	1,400	10,615,091	39.89%
13	54	7,508	5,603	1,904	29,329	1,904	31,233	2,363	1,181	32,415	0	10,525,000	32,415	10,557,415	10,622,598	1,800	10,622,598	36.73%
14	55	7,508	5,603	1,904	32,415	1,904	34,319	2,596	1,298	35,617	0	10,525,000	35,617	10,560,617	10,630,106	2,250	10,630,106	34.04%
15	56	7,508	5,603	1,904	35,617	1,904	37,521	2,839	1,419	38,941	0	10,525,000	38,941	10,563,941	10,637,613	2,700	10,637,613	31.71%
16	57	0	0	0	38,941	0	38,941	2,946	1,473	40,414	0	0	40,414	40,414	137,613	2,825	137,613	32.78%
17	58	0	0	0	40,414	0	40,414	3,058	1,529	41,943	0	0	41,943	41,943	137,613	2,975	137,613	29.97%
18	59	0	0	0	41,943	0	41,943	3,173	1,587	43,529	0	0	43,529	43,529	137,613	3,125	137,613	27.58%
19	60	0	0	0	43,529	0	43,529	3,293	1,647	45,176	0	0	45,176	45,176	137,613	3,275	137,613	25.52%
20	61	0	0	0	45,176	0	45,176	3,418	1,709	46,885	0	0	46,885	46,885	137,613	3,850	137,613	23.73%
21	62	0	0	0	46,885	0	46,885	3,547	1,774	48,658	0	0	48,658	48,658	137,613	4,125	137,613	22.16%
22	63	0	0	0	48,658	0	48,658	3,681	1,841	50,499	0	0	50,499	50,499	137,613	4,400	137,613	20.78%
23	64	0	0	0	50,499	0	50,499	3,820	1,910	52,409	0	0	52,409	52,409	137,613	4,675	137,613	19.55%
24	65	0	0	0	52,409	0	52,409	3,965	1,983	54,391	0	0	54,391	54,391	137,613	4,975	137,613	18.46%
25	66	0	0	0	54,391	0	54,391	4,115	2,057	56,449	0	0	56,449	56,449	137,613	5,250	137,613	17.47%
26	67	0	0	0	56,449	0	56,449	4,271	2,135	58,584	0	0	58,584	58,584	137,613	5,550	137,613	16.59%
27	68	0	0	0	58,584	0	58,584	4,432	2,216	60,800	0	0	60,800	60,800	137,613	5,875	137,613	15.78%
28	69	0	0	0	60,800	0	60,800	4,600	2,300	63,100	0	0	63,100	63,100	137,613	6,175	137,613	15.05%
29	70	0	0	0	63,100	0	63,100	4,774	2,387	65,487	0	0	65,487	65,487	137,613	6,500	137,613	14.38%
30	71	0	0	0	65,487	0	65,487	4,954	2,477	67,964	0	0	67,964	67,964	137,613	6,875	137,613	13.77%
31	72	0	0	0	67,964	0	67,964	5,142	2,571	70,535	0	0	70,535	70,535	137,613	7,275	137,613	13.20%
32	73	0	0	0	70,535	0	70,535	5,336	2,668	73,204	0	0	73,204	73,204	137,613	7,675	137,613	12.68%
33	74	0	0	0	73,204	0	73,204	5,538	2,769	75,973	0	0	75,973	75,973	137,613	8,075	137,613	12.20%
34	75	0	0	0	75,973	0	75,973	5,748	2,874	78,847	0	0	78,847	78,847	137,613	8,475	137,613	11.75%
35	76	0	0	0	78,847	0	78,847	5,965	2,983	81,829	0	0	81,829	81,829	137,613	8,900	137,613	11.34%
36	77	0	0	0	81,829	0	81,829	6,191	3,095	84,925	0	0	84,925	84,925	137,613	9,300	137,613	10.95%
37	78	0	0	0	84,925	0	84,925	6,425	3,212	88,137	0	0	88,137	88,137	137,613	9,725	137,613	10.59%
38	79	0	0	0	88,137	0	88,137	6,668	3,334	91,471	0	0	91,471	91,471	137,613	10,125	137,613	10.25%
39	80	0	0	0	91,471	0	91,471	6,920	3,460	94,931	0	0	94,931	94,931	137,613	10,550	137,613	9.93%
40	81	0	0	0	94,931	0	94,931	7,182	3,591	98,522	0	0	98,522	98,522	137,613	10,950	137,613	9.63%
41	82	0	0	0	98,522	0	98,522	7,454	3,727	102,249	0	0	102,249	102,249	137,613	11,350	137,613	9.35%
42	83	0	0	0	102,249	0	102,249	7,736	3,868	106,117	0	0	106,117	106,117	137,613	11,725	137,613	9.08%
43	84	0	0	0	106,117	0	106,117	8,028	4,014	110,131	0	0	110,131	110,131	137,613	12,125	137,613	8.83%
44	85	0	0	0	110,131	0	110,131	8,332	4,166	114,297	0	0	114,297	114,297	137,613	12,500	137,613	8.59%
45	86	0	0	0	114,297	0	114,297	8,647	4,324	118,621	0	0	118,621	118,621	137,613	12,850	137,613	8.36%
46	87	0	0	0	118,621	0	118,621	8,974	4,487	123,108	0	0	123,108	123,108	137,613	13,500	137,613	8.15%
47	88	0	0	0	123,108	0	123,108	9,314	4,657	127,765	0	0	127,765	127,765	137,613	14,150	137,613	7.94%
48	89	0	0	0	127,765	0	127,765	9,666	4,833	132,598	0	0	132,598	132,598	137,613	14,775	137,613	7.75%
49	90	0	0	0	132,598	0	132,598	10,032	5,016	137,613	0	0	137,613	137,613	137,613	15,425	137,613	7.57%
50	91	0	0	0	137,613	0	137,613	10,411	5,206	142,819	0	0	142,819	142,819	137,613	16,100	137,613	7.39%
51	92	0	0	0	142,819	0	142,819	10,805	5,402	148,221	0	0	148,221	148,221	137,613	16,750	137,613	7.22%
52	93	0	0	0	148,221	0	148,221	11,214	5,607	153,828	0	0	153,828	153,828	137,613	17,450	137,613	7.06%
53	94	0	0	0	153,828	0	153,828	11,638	5,819	159,647	0	0	159,647	159,647	137,613	18,150	137,613	6.91%
54	95	0	0	0	159,647	0	159,647	12,078	6,039	165,686	0	0	165,686	165,686	137,613	18,900	137,613	6.76%
55	96	0	0	0	165,686	0	165,686	12,535	6,268	171,954	0	0	171,954	171,954	137,613	19,700	137,613	6.62%
56	97	0	0	0	171,954	0	171,954	13,009	6,505	178,458	0	0	178,458	178,458	137,613	20,600	137,613	6.48%

Annual Premium					Invest The Difference						Term 15 \$10,525,000 initial face amount				Sun Permanent Life + ROPD \$25,000 base insurance amount - 15 Pay \$10,500,000 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 7.57%	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	178,458	0	178,458	13,501	6,751	185,209	0	0	185,209	185,209	137,613	21,625	137,613	6.35%
58	99	0	0	0	185,209	0	185,209	14,012	7,006	192,215	0	0	192,215	192,215	137,613	22,825	137,613	6.23%
59	100	0	0	0	192,215	0	192,215	14,542	7,271	199,486	0	0	199,486	199,486	137,613	25,000	137,613	6.11%