

LIAAC

Case Study #3

Sam & Sarah Summer – high net worth family



Case study – HNW Family

- Sam and Sarah Summer, a modern Canadian couple: dual income earners, multiple priorities (aging parents, kids' education, a growing business, busy schedules), and a nagging feeling they're underinsured.
- Need a complete financial solution including health coverage and education savings, but most of all want estate protection and to preserve what they have built.



Case study – HNW Family

- Sam & Sarah Summer & 3 children
- Insurance need given family, mortgage and charitable giving goals.
- Need solutions working in harmony but separately – her money is tied-up in a holding company, whereas his money is all personal (he’s an employee of an unrelated company).
- They need coordinated planning, not just products, that can architect a family wealth transfer.

Case Study – Sarah Summer (holding company)

Re-allocation of insurance using LIAAC approach

LIFE INSURANCE AS AN ASSET CLASS

Permanent life insurance has always been an exceptional estate planning tool, and in this presentation, we will evaluate the additional merits of permanent life insurance as an asset class.

AN INTRODUCTION TO PERMANENT LIFE INSURANCE

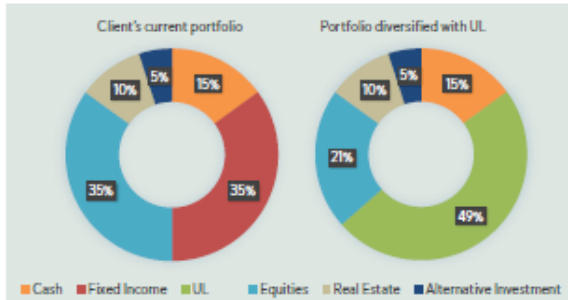
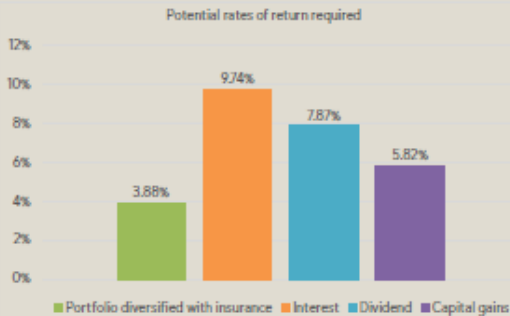
Permanent life insurance demonstrates all essential characteristics of an asset class, operating within a comprehensive regulatory framework. What distinguishes it is its unique dual nature: simultaneously providing mortality protection and wealth accumulation. When structured and funded appropriately, it functions as a tax-advantaged wealth vehicle. The death benefit offers estate liquidity and legacy planning, and the cash value provides growth potential, portfolio diversification, and capital access. This is all within a tax-preferred structure that can enhance after-tax returns relative to comparable taxable investments.

Participating whole life insurance (Par) represents the permanent insurance planning that many advisors and clients are more familiar with. It provides guaranteed lifetime coverage supported by three key guarantees: premium amounts, minimum cash values, and death benefit levels. These guarantees remain in force provided the policyowner maintains the required premium payments.

Universal life insurance (UL) offers a different structure characterized by greater transparency and flexibility compared to Par. It clearly separates insurance charges from the investment component, creating transparency that enables policyowners to track precisely how their deposits flow through the policy.

HOW THE OPTIONS COMPARE – DIFFERENT INVESTMENTS

To achieve the same net to estate benefits as a portfolio diversified with insurance, other asset classes may require higher rates of return.



Note: The diversified asset mix is calculated as of year 1, using the sum of all insurance premiums. This calculation does not factor in any investment growth, additional funding, rebalancing, or insurance benefits.

	Client's current portfolio	Portfolio diversified with insurance
Initial value	950,000	489,100 Remaining investment
Investment value		2,000,000 Death benefit
Initial annual premium/ payment	-	23,045
Collateral value in year 25	1,372,949	1,057,583
Corporate value in year 35	3,076,642	2,221,571 Remaining investment
Investment value		231,731 Cash surrender value
Capital dividend account in year 35	790,975	2,442,272
Net to estate in year 35	2,338,417	3,605,235
IRR in year 35	2.61%	3.88%

The collateral values are based on the following loan-to-value ratios: 100% cash, 90% fixed income, 50% equities, 65% real estate, 0% alternative investments, 75% Cash Value for UL. This tool's calculation excludes post-mortem planning strategies and related considerations.

LIFE INSURANCE AS AN ASSET CLASS

Let's compare the client's current portfolio to one diversified with insurance and see how they perform in three areas: relative levels of risk, estate benefits, and liquidity as an interim benefit.

CAPITAL PRESERVATION AND RISK ANALYSIS

When comparing portfolios, the question transcends simple return. "Which portfolio earns more?" becomes "Which portfolio demonstrates superior risk-adjusted returns?" Standard deviation provides a straightforward measure of risk, quantifying how much portfolio returns deviate from average returns.

Due to the generally low correlation to typical assets, insurance provides a low overall portfolio volatility while maintaining a higher internal rate of return (IRR). The lower volatility means the portfolio diversified with insurance experiences less extreme swings in value, providing growth even during market downturns.

	Client's current portfolio	Portfolio diversified with insurance
Standard deviation	2.61%	3.88%
Internal rate of return	7.00%	4.71%

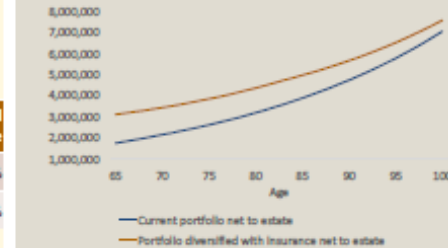
Given a portfolio size of \$950,000, how might the higher standard deviation affect the portfolio's value over time?

Portfolio value range with 90% probability

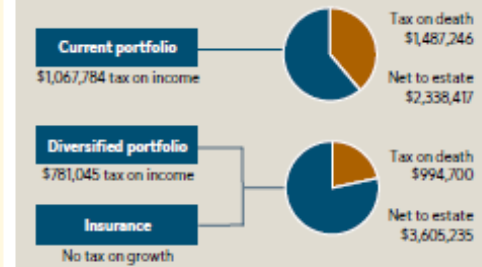


ESTATE VALUE ANALYSIS

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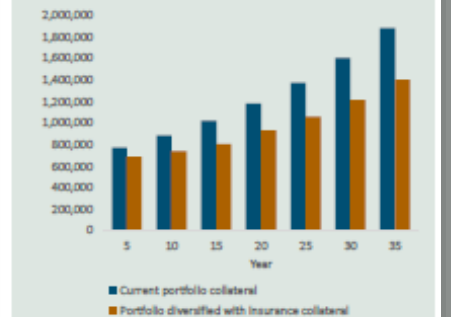
By diversifying an investment portfolio with insurance, the clients could potentially save \$779,286 in taxes — \$286,739 during their lifetime and \$492,547 upon death in year 35.



LIQUIDITY ANALYSIS

A common concern among clients contemplating permanent insurance centers on liquidity reduction. The perception is that allocating capital to insurance inevitably diminishes access to funds. Comparing collateral value often reveals a more nuanced reality. Permanent insurance offers several main options for accessing liquidity:

1. Policy loans: Insurers offer policy loans against the policy's cash values. However, these may have tax consequences.
2. Third-party collateral loans: Clients may use the policy's cash value as collateral to borrow from a third party.
3. Partial or full withdrawals: Clients may withdraw partially or fully from the policy, collecting the cash surrender values. This option may also have tax consequences.




In addition, UL has built-in liquidity features where clients can withdraw a portion of their investment account while disabled, ill, or injured, all tax-free under current tax rules. Similarly, for joint-last-to-die policies, the surviving policyowner can access up to 100% of the investment account tax-free at the loss of the first spouse.

Par policies allow clients to receive par dividends in cash.

Case Study – Sarah Summer (holding company)

Re-allocation of insurance using LIAAC approach

Client summary



Sarah Summer
Female, age 37, non-smoker

Insurance coverage	Amount (\$)
Guaranteed level rates to age 100	2,000,000

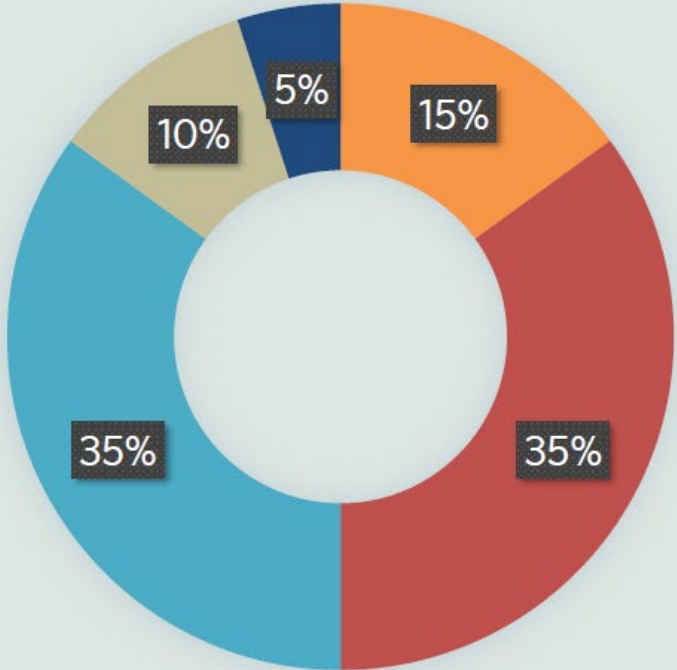
Optional benefits	Amount (\$)
Business value protection	500,000

Payment information	
Planned periodic payment for this illustration:	\$23,045.00 yearly for years 1 to 20
Estimated minimum first year yearly payment:	\$14,343.00
Estimated maximum first year yearly payment:	\$82,267.00

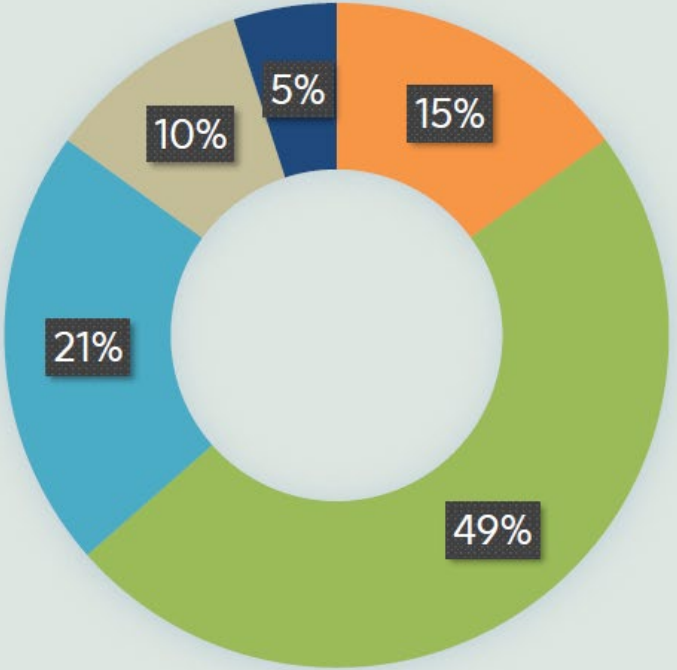
Case Study – Sarah Summer (holding company)

Re-allocation of insurance using LIAAC approach

Client's current portfolio



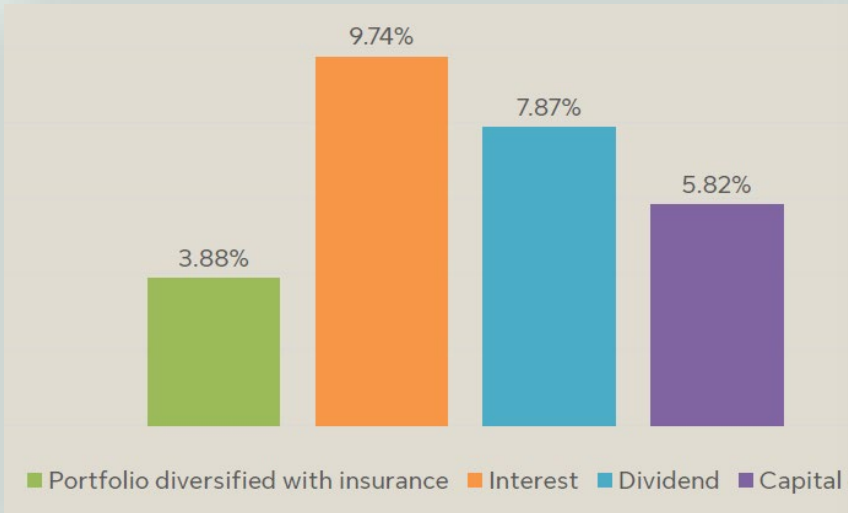
Portfolio diversified with UL



Legend: Cash (orange), Fixed Income (red), UL (green), Equities (blue), Real Estate (tan), Alternative Investment (dark blue)

Case Study – Sarah Summer (holding company)

Looking at the big picture when using LIAAC approach



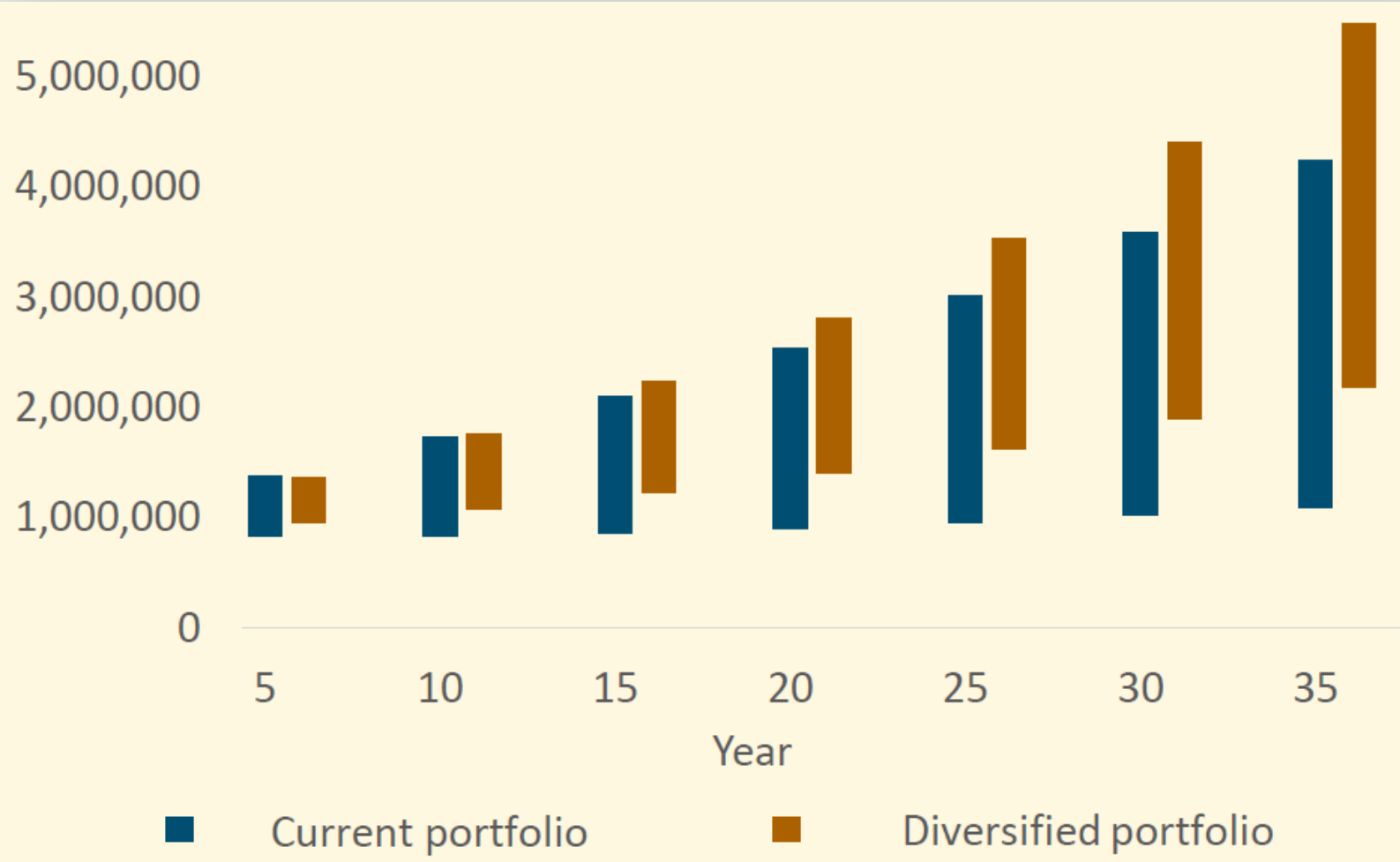
	SunUniversalLife II	
	Client's current portfolio	Portfolio diversified with insurance
Initial value	950,000	489,100
	Investment value	Remaining investment 2,000,000
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Case Study – Sarah Summer (holding company)

Looking at the big picture when using LIAAC approach

Portfolio value range with 90% probability:

- Shows the reduction in risks over the long term when adding insurance
- By year 35, the diversified portfolio shows a tighter, more consistent range—exactly what a conservative investor needs.

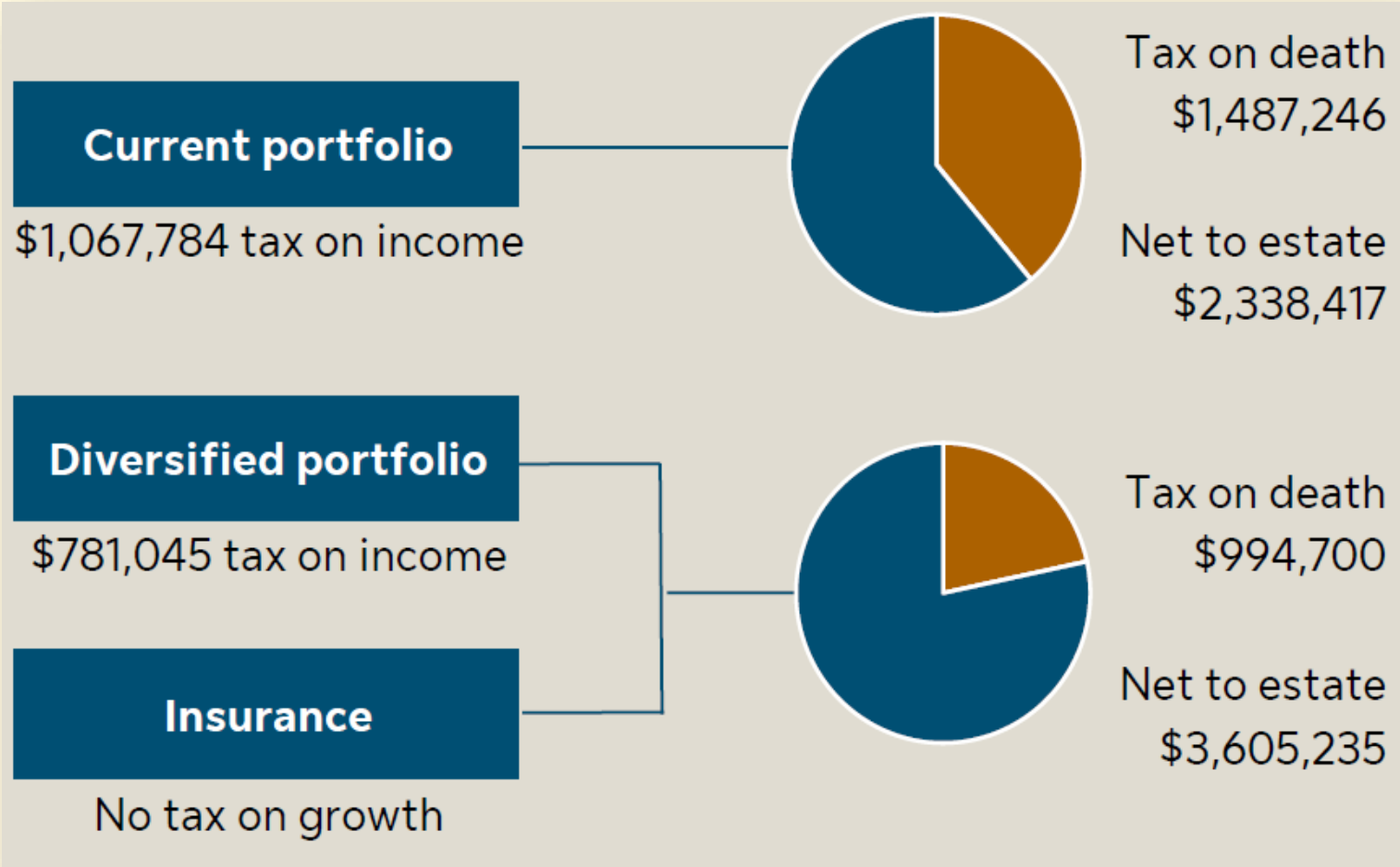


Case Study – Sarah Summer (holding company)

Looking at the big picture when using LIAAC approach – Protection and tax savings plus no tax on insurance growth

Estate solution & complete peace of mind.

- \$3.61M net to estate —an additional \$1.27M to her children and family.
- The BVP rider (worth \$500k in additional coverage) wasn't even exercised here, but it's available if needed.

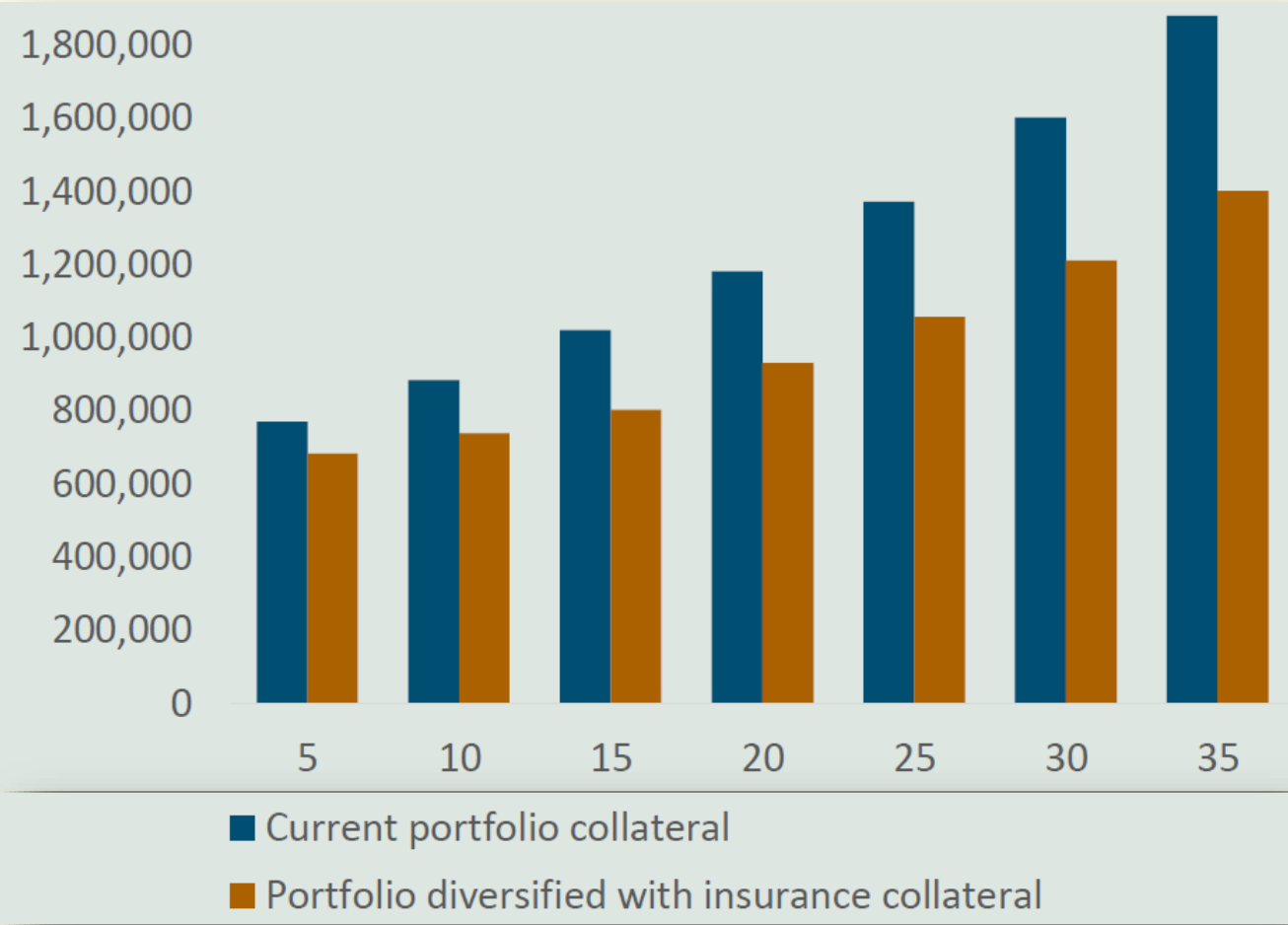


Case Study – Sarah Summer (holding company)

Looking at the big picture when using LIAAC approach – collateral and liquidity access

Does Sarah need liquidity?

- Her business cash flow covers operational needs; her investment portfolio is primarily for legacy and long-term security, not emergency access.
- Collateral value by year 25: \$1.06M (90% LTV available). This is real liquidity – just not in the traditional sense.





Case study – Sam Summer

- **Sam Summer**, employed, MNS37.
- **The Situation:** Stable employment income, but feeling under-insured given 3 kids + aging parents + mortgage.
- **His Goals:** Simple, secure, hands-off insurance that grows over time—no complexity.
- **His Unique Situation:** As an employee Sam needs personal estate optimization strategies; he needs personal wealth preservation and estate liquidity for the long term.

Case Study – Sam Summer (personal holdings)

Portfolio Reallocation Over 20 Years

Current Portfolio:

- \$850,000 invested across stocks, bonds, real estate
- Exposed to market volatility.
- Moderate return potential.
- Limited tax efficiency on existing portfolio.
- Very limited long term estate planning is part of his investment planning.

LIAAC Optimized Portfolio:

- Move \$20,815/year into Par (premium offset year 21+)
- \$1M guaranteed death benefit + growing Par dividends.
- Smooth, predictable returns via participating account.
- Enhanced insurance estate value & tax-free growth is integrated into Sam's planning.



Case study – Sam Summer

- **Why Par?** Participating whole life insurance is the ultimate "set it and forget it" solution for conservative employees:
 - Guaranteed premiums
 - Guaranteed death benefit
 - Hands-off investing (no fund picking)
 - Proven 150+ year track record
 - Growing coverage that meets with the needs of his growing family (and growing financial portfolio)

Case Study – Sam Summer (personal holdings)

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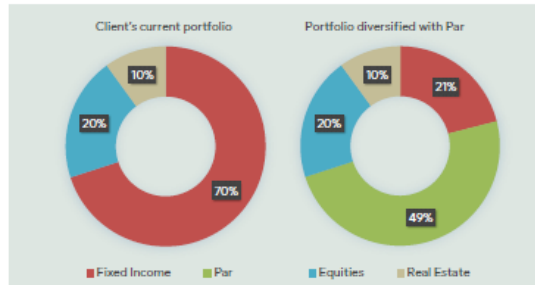
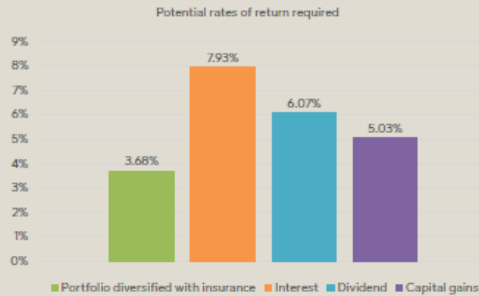
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Universal life insurance (UL) offers a different structure characterized by greater transparency and flexibility compared to Par. It clearly separates insurance charges from the investment component, creating transparency that enables policyowners to track precisely how their deposits flow through the policy.

HOW THE OPTIONS COMPARE – DIFFERENT INVESTMENTS

To achieve the same net to estate benefits as a portfolio diversified with insurance, other asset classes may require higher rates of return.



Note: The diversified asset mix is calculated as of year 1, using the sum of all insurance premiums. This calculation does not factor in any investment growth, additional funding, rebalancing, or insurance benefits.

	Client's current portfolio	Portfolio diversified with insurance
Initial value	850,000	433,699 Remaining investment
Investment value		1,000,000 Death benefit
Initial annual premium/ payment	-	20,815
Collateral value in year 40	1,868,896	2,476,565
Asset value in year 50	3,633,946	2,791,718 Remaining investment
Investment value		2,057,760 Cash surrender value
Collateral value in year 50	2,498,333	3,592,312
Net to estate in year 50	3,557,684	5,187,646
IRR in year 50	2.90%	3.68%

The collateral values are based on the following loan-to-value ratios: 90% fixed income, 50% equities, 65% real estate, 90% Par cash surrender value. This tool's calculation excludes post-mortem planning strategies and related considerations.

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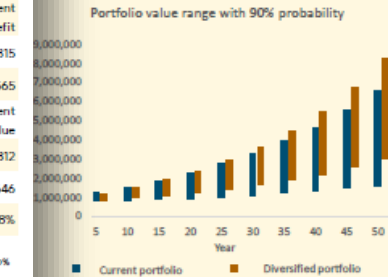
CAPITAL PRESERVATION AND RISK ANALYSIS

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.

With an exceptionally low correlation to typical assets, insurance often reduces overall portfolio volatility while maintaining or enhancing expected internal rate of return (IRR). The lower standard deviation means the portfolio diversified with insurance experiences less extreme swings in value, providing more consistent growth even during market downturns.

	Client's current portfolio	Portfolio diversified with insurance
IRR in year 50	2.90%	3.68%
Standard deviation	6.00%	4.39%

With a starting portfolio size of \$850,000, how might the changing IRR and standard deviation affect the portfolio's value trajectory over time?

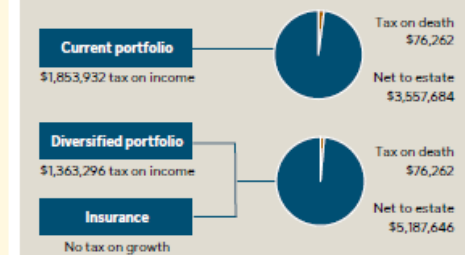


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By diversifying an investment portfolio with insurance, the clients could potentially save \$490,636 in taxes — \$490,636 during their lifetime and \$0 upon death in year 50.



LIQUIDITY ANALYSIS

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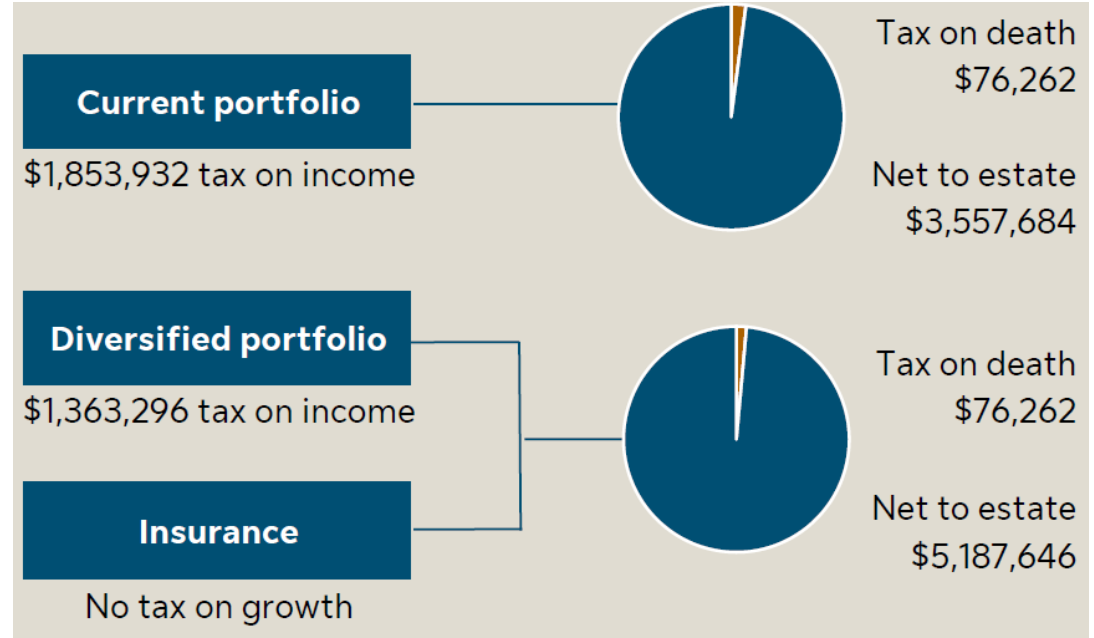
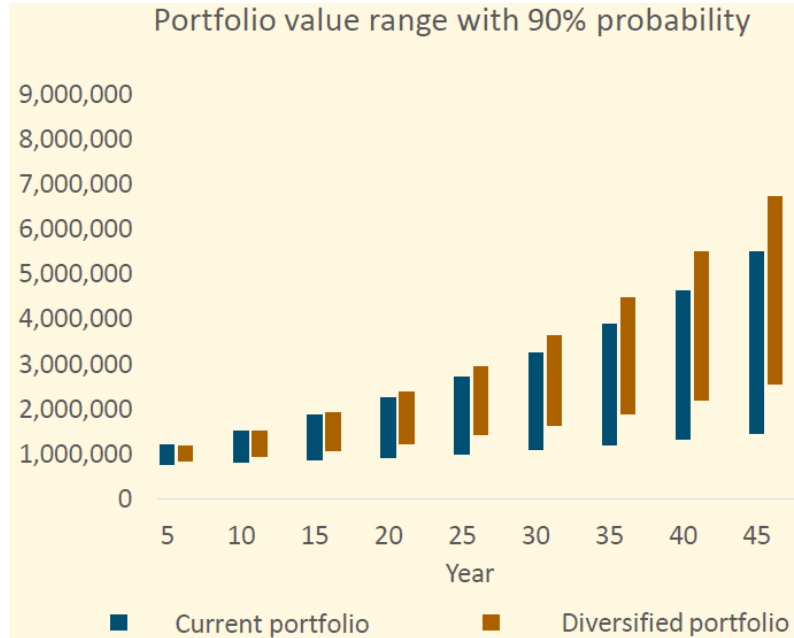


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Par policies allow clients to receive par dividends in cash.

Case Study – Sam Summer (personal holdings)

Looking at the big picture when using LIAAC approach – risk, return and efficiency analysis



IRR

- A net internal rate of return improvement of over ¾% at life expectancy, with is a meaningful after-tax growth improvement.
- Hands-off investing (no fund picking)

Portfolio Value

- The \$1.6M improvement in year 35 portfolio value is the compounding power of insurance combined with tax efficiency.
- This is conservative wealth building—no complicated strategies, just two complementary assets working in harmony.

Standard Deviation

- Standard deviation drops from 6.00% to 4.39%
- That's 27% less volatility. For a dad with 3 kids, that translates to fewer sleepless nights and more quality time with the family.

Case Study Summary for Sam Summer (personal holdings)

Addressing Sam & Sarah's top concerns

For Sam, Life Insurance as an Asset Class isn't complicated—it's liberating.

A single, guaranteed tool that protects what matters most while requiring zero active management.

That's the modern approach to wealth preservation for the working parent.

<u>Protection</u>	<u>Certainty</u>	<u>Legacy</u>
✓ \$1M guaranteed death benefit and growing.	✓ Guaranteed premiums.	✓ Additional \$1.6M net to estate (vs. traditional)
✓ Protects family with tax-free proceeds.	✓ Guaranteed cash values (no market volatility).	✓ Tax savings over lifetime and death.
✓ Quick and immediate estate liquidity.	✓ Std. deviation reduced by 27%.	✓ Growing collateral access if needed.
✓ Covers mortgage, kids' education, aging parent support goals.	✓ Predictable, hands-off growth via the stellar Sun Life participating account.	✓ Simple story: "My Par insurance grows, my family is secure."

Case Study Summary for Sam & Sarah Summer

Two Strategies, One Family Goal: Protection, Growth & Legacy

Combined Family Benefits:

Mortgage & Education Funding

- ✓ Combined \$3M immediate death benefit coverage

Family Security

- ✓ \$2M+ additional estate value vs. traditional approach

Risk Reduction

- ✓ Average 30% decrease in portfolio volatility across both strategies

Tax Savings

- ✓ \$1M+ lifetime savings combined

The Summers didn't choose insurance instead of investing, they chose insurance & LIAAC as part of a modern, diversified wealth strategy.

Sam's Personal Par Strategy:

- ✓ **\$1M guaranteed coverage** growing via dividends
- ✓ **\$1.5+M additional net-to-estate** vs. traditional portfolio
- ✓ **27% volatility reduction** (6.00% → 4.39% std dev)
- ✓ **Hands-off investing**—no active management required
- ✓ **Premium offset year 21**—self-funding thereafter

Sarah's Corporate UL Strategy:

- ✓ **\$2M coverage** with \$500K Business Value Protection rider
- ✓ **\$1.2+M additional net-to-estate to beneficiaries**
- ✓ **33% volatility reduction** (7.00% → 4.71% std dev)
- ✓ **Tax-efficient corporate structure** via holding company
- ✓ **Flexible investment options** with transparency