

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 38-year-old female non-smoker. This following ledger provides the comparison of a Savvy Term vs. a Term 20. The alternate investment rate of 6.76%, 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 20 \$2,500,000 initial face amount				Sun Permanent Life + ROPD \$25,000 base insurance amount - 20 Pay \$2,475,000 term benefit - Term 20			
		Savvy Term	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 +	Income	Income	Balance	Surrender	Net to	Net to	Net to	Benefit	Surrender	Estate	Inv rate
							Deposit	6.76%	50.00%		Value	Estate	Estate	Estate		Value		Required
1	39	2,135	1,325	810	0	810	810	55	27	837	0	2,500,000	837	2,500,837	2,502,135	0	2,502,135	327.29%
2	40	2,135	1,325	810	837	810	1,647	111	56	1,702	0	2,500,000	1,702	2,501,702	2,504,269	0	2,504,269	170.02%
3	41	2,135	1,325	810	1,702	810	2,512	170	85	2,597	0	2,500,000	2,597	2,502,597	2,506,404	100	2,506,404	114.08%
4	42	2,135	1,325	810	2,597	810	3,407	230	115	3,522	0	2,500,000	3,522	2,503,522	2,508,539	125	2,508,539	85.68%
5	43	2,135	1,325	810	3,522	810	4,331	293	146	4,478	0	2,500,000	4,478	2,504,478	2,510,673	150	2,510,673	68.55%
6	44	2,135	1,325	810	4,478	810	5,287	357	179	5,466	0	2,500,000	5,466	2,505,466	2,512,808	200	2,512,808	57.11%
7	45	2,135	1,325	810	5,466	810	6,276	424	212	6,488	0	2,500,000	6,488	2,506,488	2,514,943	275	2,514,943	48.93%
8	46	2,135	1,325	810	6,488	810	7,297	493	247	7,544	0	2,500,000	7,544	2,507,544	2,517,077	350	2,517,077	42.80%
9	47	2,135	1,325	810	7,544	810	8,354	564	282	8,636	0	2,500,000	8,636	2,508,636	2,519,212	450	2,519,212	38.03%
10	48	2,135	1,325	810	8,636	810	9,445	638	319	9,765	0	2,500,000	9,765	2,509,765	2,521,347	550	2,521,347	34.22%
11	49	2,135	1,325	810	9,765	810	10,574	714	357	10,931	0	2,500,000	10,931	2,510,931	2,523,481	650	2,523,481	31.10%
12	50	2,135	1,325	810	10,931	810	11,741	793	397	12,138	0	2,500,000	12,138	2,512,138	2,525,616	750	2,525,616	28.50%
13	51	2,135	1,325	810	12,138	810	12,947	875	437	13,385	0	2,500,000	13,385	2,513,385	2,527,751	875	2,527,751	26.30%
14	52	2,135	1,325	810	13,385	810	14,195	959	480	14,674	0	2,500,000	14,674	2,514,674	2,529,886	975	2,529,886	24.42%
15	53	2,135	1,325	810	14,674	810	15,484	1,046	523	16,007	0	2,500,000	16,007	2,516,007	2,532,020	1,100	2,532,020	22.78%
16	54	2,135	1,325	810	16,007	810	16,817	1,136	568	17,385	0	2,500,000	17,385	2,517,385	2,534,155	1,400	2,534,155	21.36%
17	55	2,135	1,325	810	17,385	810	18,194	1,229	615	18,809	0	2,500,000	18,809	2,518,809	2,536,290	1,725	2,536,290	20.10%
18	56	2,135	1,325	810	18,809	810	19,619	1,326	663	20,282	0	2,500,000	20,282	2,520,282	2,538,424	1,975	2,538,424	18.98%
19	57	2,135	1,325	810	20,282	810	21,091	1,425	713	21,804	0	2,500,000	21,804	2,521,804	2,540,559	2,250	2,540,559	17.98%
20	58	2,135	1,325	810	21,804	810	22,613	1,528	764	23,377	0	2,500,000	23,377	2,523,377	2,542,694	3,200	2,542,694	17.08%
21	59	0	0	0	23,377	0	23,377	1,580	790	24,167	0	0	24,167	24,167	67,694	3,400	67,694	22.83%
22	60	0	0	0	24,167	0	24,167	1,633	816	24,984	0	0	24,984	24,984	67,694	3,600	67,694	21.31%
23	61	0	0	0	24,984	0	24,984	1,688	844	25,828	0	0	25,828	25,828	67,694	3,850	67,694	19.96%
24	62	0	0	0	25,828	0	25,828	1,745	873	26,700	0	0	26,700	26,700	67,694	4,125	67,694	18.76%
25	63	0	0	0	26,700	0	26,700	1,804	902	27,602	0	0	27,602	27,602	67,694	4,400	67,694	17.69%
26	64	0	0	0	27,602	0	27,602	1,865	933	28,535	0	0	28,535	28,535	67,694	4,675	67,694	16.73%
27	65	0	0	0	28,535	0	28,535	1,928	964	29,499	0	0	29,499	29,499	67,694	4,975	67,694	15.86%
28	66	0	0	0	29,499	0	29,499	1,993	997	30,495	0	0	30,495	30,495	67,694	5,250	67,694	15.07%
29	67	0	0	0	30,495	0	30,495	2,061	1,030	31,526	0	0	31,526	31,526	67,694	5,550	67,694	14.36%
30	68	0	0	0	31,526	0	31,526	2,130	1,065	32,591	0	0	32,591	32,591	67,694	5,875	67,694	13.70%
31	69	0	0	0	32,591	0	32,591	2,202	1,101	33,692	0	0	33,692	33,692	67,694	6,175	67,694	13.10%
32	70	0	0	0	33,692	0	33,692	2,276	1,138	34,830	0	0	34,830	34,830	67,694	6,500	67,694	12.55%
33	71	0	0	0	34,830	0	34,830	2,353	1,177	36,007	0	0	36,007	36,007	67,694	6,875	67,694	12.04%
34	72	0	0	0	36,007	0	36,007	2,433	1,216	37,223	0	0	37,223	37,223	67,694	7,275	67,694	11.57%
35	73	0	0	0	37,223	0	37,223	2,515	1,258	38,481	0	0	38,481	38,481	67,694	7,675	67,694	11.14%
36	74	0	0	0	38,481	0	38,481	2,600	1,300	39,781	0	0	39,781	39,781	67,694	8,075	67,694	10.73%
37	75	0	0	0	39,781	0	39,781	2,688	1,344	41,125	0	0	41,125	41,125	67,694	8,475	67,694	10.36%
38	76	0	0	0	41,125	0	41,125	2,779	1,389	42,514	0	0	42,514	42,514	67,694	8,900	67,694	10.00%
39	77	0	0	0	42,514	0	42,514	2,873	1,436	43,950	0	0	43,950	43,950	67,694	9,300	67,694	9.67%
40	78	0	0	0	43,950	0	43,950	2,970	1,485	45,435	0	0	45,435	45,435	67,694	9,725	67,694	9.37%
41	79	0	0	0	45,435	0	45,435	3,070	1,535	46,970	0	0	46,970	46,970	67,694	10,125	67,694	9.08%
42	80	0	0	0	46,970	0	46,970	3,174	1,587	48,557	0	0	48,557	48,557	67,694	10,550	67,694	8.80%
43	81	0	0	0	48,557	0	48,557	3,281	1,640	50,197	0	0	50,197	50,197	67,694	10,950	67,694	8.54%
44	82	0	0	0	50,197	0	50,197	3,392	1,696	51,893	0	0	51,893	51,893	67,694	11,350	67,694	8.30%
45	83	0	0	0	51,893	0	51,893	3,506	1,753	53,646	0	0	53,646	53,646	67,694	11,725	67,694	8.07%
46	84	0	0	0	53,646	0	53,646	3,625	1,812	55,459	0	0	55,459	55,459	67,694	12,125	67,694	7.85%
47	85	0	0	0	55,459	0	55,459	3,747	1,874	57,332	0	0	57,332	57,332	67,694	12,500	67,694	7.65%
48	86	0	0	0	57,332	0	57,332	3,874	1,937	59,269	0	0	59,269	59,269	67,694	12,850	67,694	7.45%
49	87	0	0	0	59,269	0	59,269	4,005	2,002	61,271	0	0	61,271	61,271	67,694	13,500	67,694	7.26%
50	88	0	0	0	61,271	0	61,271	4,140	2,070	63,341	0	0	63,341	63,341	67,694	14,150	67,694	7.09%
51	89	0	0	0	63,341	0	63,341	4,280	2,140	65,481	0	0	65,481	65,481	67,694	14,775	67,694	6.92%
52	90	0	0	0	65,481	0	65,481	4,424	2,212	67,694	0	0	67,694	67,694	67,694	15,425	67,694	6.76%
53	91	0	0	0	67,694	0	67,694	4,574	2,287	69,981	0	0	69,981	69,981	67,694	16,100	67,694	6.60%
54	92	0	0	0	69,981	0	69,981	4,728	2,364	72,345	0	0	72,345	72,345	67,694	16,750	67,694	6.46%
55	93	0	0	0	72,345	0	72,345	4,888	2,444	74,789	0	0	74,789	74,789	67,694	17,450	67,694	6.31%
56	94	0	0	0	74,789	0	74,789	5,053	2,527	77,315	0	0	77,315	77,315	67,694	18,150	67,694	6.18%

Annual Premium					Invest The Difference						Term 20 \$2,500,000 initial face amount				Sun Permanent Life + ROPD \$25,000 base insurance amount - 20 Pay \$2,475,000 term benefit - Term 20			
		<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 6.76%	Income 50.00%	Balance	Surrender Value	Net to Estate	Net to Estate	Net to Estate	Benefit	Surrender Value	Esate	Inv rate Required
57	95	0	0	0	77,315	0	77,315	5,224	2,612	79,927	0	0	79,927	79,927	67,694	18,900	67,694	6.05%
58	96	0	0	0	79,927	0	79,927	5,401	2,700	82,628	0	0	82,628	82,628	67,694	19,700	67,694	5.93%
59	97	0	0	0	82,628	0	82,628	5,583	2,791	85,419	0	0	85,419	85,419	67,694	20,600	67,694	5.81%
60	98	0	0	0	85,419	0	85,419	5,772	2,886	88,305	0	0	88,305	88,305	67,694	21,625	67,694	5.69%
61	99	0	0	0	88,305	0	88,305	5,967	2,983	91,288	0	0	91,288	91,288	67,694	22,825	67,694	5.58%
62	100	0	0	0	91,288	0	91,288	6,168	3,084	94,372	0	0	94,372	94,372	67,694	25,000	67,694	5.48%