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

Sun Life

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 28-year-old female non-smoker. This following ledger provides the comparison of a Savvy Term vs. a Term 20. The alternate investment rate of 6.29%, 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 $725,000 initial face amount				Sun Permanent Life + ROPD $25,000 base insurance amount – 20 Pay $700,000 term benefit – Term 20			
Year	Age	Savvy Term Premium	Term Premium	Premium Difference	Starting Balance	Investment Deposit	Starting Balance + Deposit	Investment Income 6.29%	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 Esate	Alternate Inv rate Required
1	29	772	380	391	0	391	391	25	12	404	0	725,000	404	725,404	725,772	0	725,772	194.29%
2	30	772	380	391	404	391	795	50	25	820	0	725,000	820	725,820	726,543	0	726,543	109.53%
3	31	772	380	391	820	391	1,212	76	38	1,250	0	725,000	1,250	726,250	727,315	50	727,315	76.04%
4	32	772	380	391	1,250	391	1,641	103	52	1,693	0	725,000	1,693	726,693	728,087	75	728,087	58.18%
5	33	772	380	391	1,693	391	2,084	131	66	2,150	0	725,000	2,150	727,150	728,858	100	728,858	47.10%
6	34	772	380	391	2,150	391	2,541	160	80	2,621	0	725,000	2,621	727,621	729,630	125	729,630	39.56%
7	35	772	380	391	2,621	391	3,013	190	95	3,107	0	725,000	3,107	728,107	730,402	175	730,402	34.10%
8	36	772	380	391	3,107	391	3,499	220	110	3,609	0	725,000	3,609	728,609	731,173	225	731,173	29.96%
9	37	772	380	391	3,609	391	4,000	252	126	4,126	0	725,000	4,126	729,126	731,945	300	731,945	26.72%
10	38	772	380	391	4,126	391	4,518	284	142	4,660	0	725,000	4,660	729,660	732,717	375	732,717	24.11%
11	39	772	380	391	4,660	391	5,051	318	159	5,210	0	725,000	5,210	730,210	733,488	425	733,488	21.96%
12	40	772	380	391	5,210	391	5,601	352	176	5,778	0	725,000	5,778	730,778	734,260	525	734,260	20.16%
13	41	772	380	391	5,778	391	6,169	388	194	6,363	0	725,000	6,363	731,363	735,032	600	735,032	18.64%
14	42	772	380	391	6,363	391	6,754	425	212	6,967	0	725,000	6,967	731,967	735,804	725	735,804	17.33%
15	43	772	380	391	6,967	391	7,358	463	231	7,590	0	725,000	7,590	732,590	736,575	825	736,575	16.19%
16	44	772	380	391	7,590	391	7,981	502	251	8,232	0	725,000	8,232	733,232	737,347	950	737,347	15.19%
17	45	772	380	391	8,232	391	8,624	543	271	8,895	0	725,000	8,895	733,895	738,119	1,075	738,119	14.31%
18	46	772	380	391	8,895	391	9,286	584	292	9,579	0	725,000	9,579	734,579	738,890	1,175	738,890	13.53%
19	47	772	380	391	9,579	391	9,970	627	314	10,284	0	725,000	10,284	735,284	739,662	1,250	739,662	12.82%
20	48	772	380	391	10,284	391	10,675	672	336	11,011	0	725,000	11,011	736,011	740,434	1,600	740,434	12.19%
21	49	0	0	0	11,011	0	11,011	693	346	11,357	0	0	11,357	11,357	40,434	1,700	40,434	25.99%
22	50	0	0	0	11,357	0	11,357	714	357	11,714	0	0	11,714	11,714	40,434	1,825	40,434	24.28%
23	51	0	0	0	11,714	0	11,714	737	368	12,083	0	0	12,083	12,083	40,434	1,925	40,434	22.77%
24	52	0	0	0	12,083	0	12,083	760	380	12,463	0	0	12,463	12,463	40,434	2,050	40,434	21.42%
25	53	0	0	0	12,463	0	12,463	784	392	12,855	0	0	12,855	12,855	40,434	2,175	40,434	20.21%
26	54	0	0	0	12,855	0	12,855	809	404	13,259	0	0	13,259	13,259	40,434	2,375	40,434	19.13%
27	55	0	0	0	13,259	0	13,259	834	417	13,676	0	0	13,676	13,676	40,434	2,600	40,434	18.14%
28	56	0	0	0	13,676	0	13,676	860	430	14,107	0	0	14,107	14,107	40,434	2,800	40,434	17.25%
29	57	0	0	0	14,107	0	14,107	887	444	14,550	0	0	14,550	14,550	40,434	3,000	40,434	16.44%
30	58	0	0	0	14,550	0	14,550	915	458	15,008	0	0	15,008	15,008	40,434	3,200	40,434	15.70%
31	59	0	0	0	15,008	0	15,008	944	472	15,480	0	0	15,480	15,480	40,434	3,400	40,434	15.01%
32	60	0	0	0	15,480	0	15,480	974	487	15,967	0	0	15,967	15,967	40,434	3,600	40,434	14.39%
33	61	0	0	0	15,967	0	15,967	1,005	502	16,469	0	0	16,469	16,469	40,434	3,850	40,434	13.81%
34	62	0	0	0	16,469	0	16,469	1,036	518	16,987	0	0	16,987	16,987	40,434	4,125	40,434	13.27%
35	63	0	0	0	16,987	0	16,987	1,069	534	17,522	0	0	17,522	17,522	40,434	4,400	40,434	12.78%
36	64	0	0	0	17,522	0	17,522	1,102	551	18,073	0	0	18,073	18,073	40,434	4,675	40,434	12.31%
37	65	0	0	0	18,073	0	18,073	1,137	568	18,641	0	0	18,641	18,641	40,434	4,975	40,434	11.88%
38	66	0	0	0	18,641	0	18,641	1,173	586	19,228	0	0	19,228	19,228	40,434	5,250	40,434	11.48%
39	67	0	0	0	19,228	0	19,228	1,210	605	19,833	0	0	19,833	19,833	40,434	5,550	40,434	11.10%
40	68	0	0	0	19,833	0	19,833	1,248	624	20,456	0	0	20,456	20,456	40,434	5,875	40,434	10.75%
41	69	0	0	0	20,456	0	20,456	1,287	643	21,100	0	0	21,100	21,100	40,434	6,175	40,434	10.42%
42	70	0	0	0	21,100	0	21,100	1,327	664	21,764	0	0	21,764	21,764	40,434	6,500	40,434	10.10%
43	71	0	0	0	21,764	0	21,764	1,369	685	22,448	0	0	22,448	22,448	40,434	6,875	40,434	9.81%
44	72	0	0	0	22,448	0	22,448	1,412	706	23,154	0	0	23,154	23,154	40,434	7,275	40,434	9.53%
45	73	0	0	0	23,154	0	23,154	1,457	728	23,883	0	0	23,883	23,883	40,434	7,675	40,434	9.27%
46	74	0	0	0	23,883	0	23,883	1,502	751	24,634	0	0	24,634	24,634	40,434	8,075	40,434	9.02%
47	75	0	0	0	24,634	0	24,634	1,550	775	25,409	0	0	25,409	25,409	40,434	8,475	40,434	8.78%
48	76	0	0	0	25,409	0	25,409	1,599	799	26,208	0	0	26,208	26,208	40,434	8,900	40,434	8.56%
49	77	0	0	0	26,208	0	26,208	1,649	824	27,032	0	0	27,032	27,032	40,434	9,300	40,434	8.34%
50	78	0	0	0	27,032	0	27,032	1,701	850	27,883	0	0	27,883	27,883	40,434	9,725	40,434	8.14%
51	79	0	0	0	27,883	0	27,883	1,754	877	28,760	0	0	28,760	28,760	40,434	10,125	40,434	7.95%
52	80	0	0	0	28,760	0	28,760	1,809	905	29,664	0	0	29,664	29,664	40,434	10,550	40,434	7.76%
53	81	0	0	0	29,664	0	29,664	1,866	933	30,598	0	0	30,598	30,598	40,434	10,950	40,434	7.58%
54	82	0	0	0	30,598	0	30,598	1,925	962	31,560	0	0	31,560	31,560	40,434	11,350	40,434	7.41%
55	83	0	0	0	31,560	0	31,560	1,985	993	32,553	0	0	32,553	32,553	40,434	11,725	40,434	7.25%
56	84	0	0	0	32,553	0	32,553	2,048	1,024	33,577	0	0	33,577	33,577	40,434	12,125	40,434	7.10%

		Annual Premium			Invest The Difference						Term 20				Sun Permanent Life + ROPD			
Year	Age	Savvy Term Premium	Term Premium	Premium Difference	Starting Balance	Investment Deposit	Starting Balance + Deposit	Investment Income 6.29%	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 Esate	Alternate Inv rate Required
57	85	0	0	0	33,577	0	33,577	2,112	1,056	34,633	0	0	34,633	34,633	40,434	12,500	40,434	6.95%
58	86	0	0	0	34,633	0	34,633	2,179	1,089	35,722	0	0	35,722	35,722	40,434	12,850	40,434	6.81%
59	87	0	0	0	35,722	0	35,722	2,247	1,124	36,846	0	0	36,846	36,846	40,434	13,500	40,434	6.67%
60	88	0	0	0	36,846	0	36,846	2,318	1,159	38,005	0	0	38,005	38,005	40,434	14,150	40,434	6.54%
61	89	0	0	0	38,005	0	38,005	2,391	1,195	39,201	0	0	39,201	39,201	40,434	14,775	40,434	6.41%
62	90	0	0	0	39,201	0	39,201	2,466	1,233	40,434	0	0	40,434	40,434	40,434	15,425	40,434	6.29%
63	91	0	0	0	40,434	0	40,434	2,544	1,272	41,705	0	0	41,705	41,705	40,434	16,100	40,434	6.17%
64	92	0	0	0	41,705	0	41,705	2,624	1,312	43,017	0	0	43,017	43,017	40,434	16,750	40,434	6.06%
65	93	0	0	0	43,017	0	43,017	2,706	1,353	44,370	0	0	44,370	44,370	40,434	17,450	40,434	5.95%
66	94	0	0	0	44,370	0	44,370	2,791	1,396	45,766	0	0	45,766	45,766	40,434	18,150	40,434	5.85%
67	95	0	0	0	45,766	0	45,766	2,879	1,440	47,206	0	0	47,206	47,206	40,434	18,900	40,434	5.75%
68	96	0	0	0	47,206	0	47,206	2,970	1,485	48,691	0	0	48,691	48,691	40,434	19,700	40,434	5.65%
69	97	0	0	0	48,691	0	48,691	3,063	1,532	50,222	0	0	50,222	50,222	40,434	20,600	40,434	5.55%
70	98	0	0	0	50,222	0	50,222	3,160	1,580	51,802	0	0	51,802	51,802	40,434	21,625	40,434	5.46%
71	99	0	0	0	51,802	0	51,802	3,259	1,629	53,432	0	0	53,432	53,432	40,434	22,825	40,434	5.37%
72	100	0	0	0	53,432	0	53,432	3,361	1,681	55,112	0	0	55,112	55,112	40,434	25,000	40,434	5.29%

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