



SHARED OWNERSHIP
WITH SUN CRITICAL ILLNESS INSURANCE

**Help your business-owner clients
keep their best people.**

A shared ownership strategy using Sun Critical Illness Insurance.

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Sun 
Life Financial



Here's the story

Maury is vice-president of sales & marketing at a successful company, Yourbusiness.ca. The owners know that Maury (age 45, non-smoker) is key to their future business growth. But what if he suffered a major illness – like a heart attack or stroke – or was diagnosed with a debilitating disease like multiple sclerosis? Without question, this could have a significant impact on the company's future growth and financial results.

The owners are looking for a way to protect the company's interests while also strengthening Maury's ties to Yourbusiness.ca.

The challenge

Business continuation and executive benefit planning.

In view of Maury's outstanding contributions to the company, Yourbusiness.ca wants to offer him the opportunity to receive a future benefit to encourage him to stay with the company.

Maury expects to retire in twenty years and wants to save more for his retirement. But he is in the highest tax bracket and has already taken full advantage of tax-preferred savings options, including the company pension plan, his personal registered retirement savings plan (RRSP) and a tax-free savings account (TFSA).

The solution

Shared ownership with Sun Critical Illness Insurance.

What is shared ownership?

- Two parties share ownership of a single asset.
- They may share the costs and benefits proportionately, or may own and pay for distinct benefits the asset offers.

What is shared ownership of a critical illness insurance policy?

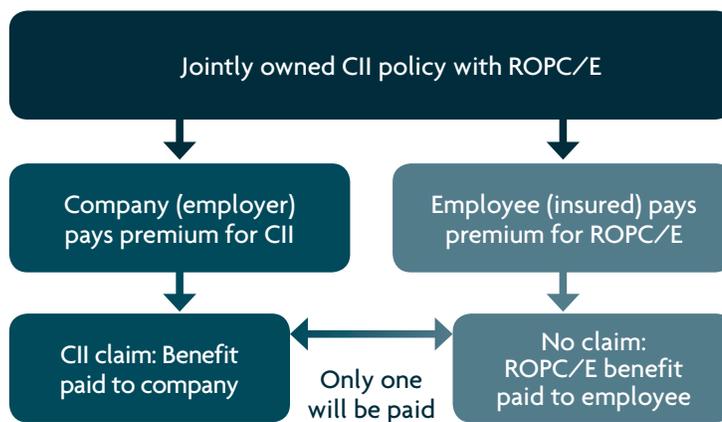
- A Sun Critical Illness Insurance policy offers two separate and identifiable benefits:
 - a basic benefit following diagnosis and survival of a covered critical illness, or
 - a return of premium benefit upon cancellation or expiry provided the policy has been in force for the required number of years.
- Under a shared ownership agreement both parties jointly own a critical illness policy. One party pays the premiums for the critical illness insurance benefit while the other party pays the premiums for the return of premium benefit.
- The shared ownership agreement is a private agreement between the parties. Sun Life Financial is not a party to it.

Maury and Yourbusiness.ca may be able to meet their objectives by sharing the ownership and benefits of a Sun Critical Illness Insurance policy.

HOW IT WORKS

Case study

- Maury: male, non-smoker, age 45.
- Planning to retire at age 65.
- Maury and Yourbusiness.ca plan to purchase Sun CII – Term 10, \$250,000 with return of premium on cancellation or expiry benefit (ROPC/E) – 15 years.
- Yourbusiness.ca and Maury will be joint owners of the policy.



- The ROPC/E benefit pays an amount equal to the eligible premiums paid if the parties cancel coverage on or after the 15th policy anniversary. There is no need to cancel coverage immediately after 15 years. The parties may agree to keep the policy in force until Maury retires in 20 years.
- Yourbusiness.ca and Maury jointly own a Sun Critical Illness Insurance policy.
- Yourbusiness.ca pays for the critical illness coverage.¹ Maury pays for the ROPC/E.

	Annual premiums ² paid by Yourbusiness.ca	Annual premiums ² paid by Maury
First 10 years	\$1,813	\$2,145
Next 10 years	\$4,955	\$4,903

¹ This may include additional group one critical illnesses (loss of independent existence and acquired brain injury) if elected at issue of policy.

² Based on rates as at March 2011 for a male age 45 non-smoker.

The result

Yourbusiness.ca gets the protection it needs and Maury gets an opportunity to share in the benefits offered by a Sun Critical Illness Insurance policy.

If there is a critical illness

If Maury is diagnosed with and survives a covered critical illness during the term of the shared ownership agreement, Sun Life Financial will pay a \$250,000 tax-free³ critical illness insurance benefit to Yourbusiness.ca.

Yourbusiness.ca can use this benefit to hire a temporary replacement for Maury, pay down debt or replace lost revenue until Maury recovers.

Yourbusiness.ca and Maury could also provide in their shared ownership agreement that Maury would receive a portion of the basic benefit as a taxable employee benefit, to help him while he recovers.

After the critical illness insurance benefit has been paid, the policy will terminate and no further benefits are payable.

If there is no critical illness

On or after the 15th policy anniversary, both parties could agree to cancel the policy.

At age 65, Maury retires from Yourbusiness.ca. At the policy anniversary following his 65th birthday, they decide to cancel the policy and Maury receives a return of premium benefit of \$138,150.³ This benefit equals the total returnable premiums paid by both Maury and Yourbusiness.ca to the date of cancellation or expiry.

The Canada Revenue Agency (CRA) may treat part of the benefit as a taxable employee benefit to Maury.

After paying all applicable taxes, Maury could use these funds to supplement his other long-term savings.

Only one of these benefits will be paid. If Maury has a covered critical illness, no return of premium benefit will be paid.

If Maury leaves the company before 15 years have passed (or before the date set out in his agreement with Yourbusiness.ca, whichever is later), he will receive no benefits from the policy and nothing for the premiums he would have been paying before leaving. This can provide him with a good incentive to stay with the company. The agreement may also give Maury the right to buy the policy from Yourbusiness.ca when he leaves or retires, instead of cancelling coverage. However, he may face some tax consequences.

³ Currently, there are no specific tax laws pertaining to the taxation of critical illness insurance plans so tax treatment cannot be guaranteed. Please consult your independent tax and legal professional to ensure that this type of arrangement meets your specific needs.

TAX AND LEGAL CONSIDERATIONS

- The tax treatment of critical illness insurance depends on the policy meeting the definition of accident and sickness insurance⁴ under the appropriate provincial insurance act. Although there is some uncertainty about the tax treatment that the CRA believes is appropriate in any given situation, we believe that critical illness insurance coverage (with or without a return of premium (ROP) benefit) should qualify as accident and sickness insurance. As a result, payment of the benefit itself in non-shared ownership situations should not be considered part of the policyholder's taxable income. This is particularly true in Quebec where the Civil Code clarifies that the addition of return of premium benefits or other riders does not change the character of the basic policy.⁵
- There is some risk that the CRA may view part of the ROP benefit from a shared ownership arrangement as a taxable benefit in the hands of the employee.
- If Maury leaves the company and wants to own the Sun Critical Illness Insurance policy that Yourbusiness.ca currently owns, Yourbusiness.ca will have to transfer ownership of that part of the policy to him. There will be a taxable benefit to Maury if he pays less than the fair market value of the policy at that time. The right to do this, however, may be limited by the terms of the shared ownership agreement.
- The shared ownership agreement is a private contract between the parties. Sun Life Financial is not a party to the agreement. Each party should retain independent tax and legal advice. A checklist of the items that should be considered for inclusion in the shared ownership agreement is available with the illustration. A sample outline of a shared ownership agreement using critical illness insurance is available on our advisor site at www.sunlife.ca/advisor.

ADVISOR CHECKLIST

- Both parties sign a shared ownership agreement, prepared by independent legal counsel.
- The company and the individual (key executive) apply for a jointly owned critical illness insurance policy and refer to the shared ownership agreement in the special instructions section of the application.
- Decide on payment method – annual payment or multiple monthly pre-authorized chequing (PAC).
- Both parties complete form E53 payee designation change for critical illness policies. This allows them to change the payee direction shown in the application to the following:
 - the critical illness insurance benefit to the corporation,
 - the return of premium on cancellation or expiry (ROPC/E) benefit to the individual (key executive),
 - the return of premium on death benefit (if applicable) to the corporation or the key executive.

The following steps are generally required to implement a shared ownership strategy using critical illness insurance:

1. Conduct a needs analysis to determine the coverage needed by the company.
2. Determine the need and interest in providing an additional benefit for the key person.
3. Submit a Sun Critical Illness Insurance application with cover letter or note advising that it will be subject to a shared ownership agreement.

⁴ TI - 2003-0026385 - Critical illness insurance; TI - 2004-0090791C6 - Critical illness and long term care insurance

⁵ TI - 2003 - 0004265 - Critical illness insurance; Articles 2445 and 2394 Quebec Civil Code (QCC)

WHAT'S THE BRIGHT IDEA? SUN CRITICAL ILLNESS INSURANCE

Sun Life Financial's market leading Sun Critical Illness Insurance provides you with the opportunity to offer your clients critical illness insurance coverage tailored to meet their needs.

- Term 10, term 75 and lifetime plans available.
- Full payment for 24 Group 1 covered conditions and partial payment for four additional conditions.
- Industry leading optional additional Group 1 covered conditions – acquired brain injury and loss of independent existence.
- Two return of premium on cancellation or expiry benefits to choose from:
 - return of premium on cancellation or expiry – 15 years
 - return of premium on cancellation or expiry – age 65

SUN CRITICAL ILLNESS INSURANCE TOOLS

Advisor guide

This convenient reference guide contains all the technical information you need to sell and service Sun Critical Illness Insurance policies. Refer to this guide for product and policy details, and application and underwriting requirements.

Guide to critical illness definitions

This guide contains detailed definitions of the covered conditions. It also includes information about survival and waiting periods and exclusions.

4. On approval, clients meet with their independent legal advisors to draw up a shared ownership agreement.
5. Clients execute the agreement.
6. Settle premium payment arrangements for each party (must be the same frequency for both parties).
7. Obtain the Acknowledgement and Release form.

MAKING IT EASY

Our goal is simple – to make it easy for you to sell and service our products. By providing your clients with a concrete summary of the issues that face them, you will be better positioned to help them structure an effective financial solution.

That's why we offer the following tools that you can use to explain the benefits of the shared ownership strategy using critical illness insurance.

SHARED OWNERSHIP STRATEGY TOOLS

Sun Critical Illness Shared Ownership strategy illustration

Using Sun Life Financial's illustration system, you will be able to easily demonstrate to your clients how a shared ownership arrangement using critical illness insurance may be the solution they have been looking for when it comes to protecting their business, while providing a benefit to a key employee.

Client fact sheet – Sun Critical Illness and shared ownership (810-3407)

This one page sheet sets out how a shared ownership arrangement using critical illness insurance may be the solution your business-owner clients are looking for. Using a real world example, this piece demonstrates how the shared ownership of a critical illness insurance policy can help achieve both employee retention and key person protection objectives. Use the editable field in the electronic version to customize the fact sheet with your name and contact information – ideal for client or prospect mail campaigns.

Tax and technical resources at www.sunlife.ca/advisor

We at Sun Life Financial want to provide you with the technical reference materials you need to assist you in making the sale.

- **Critical illness insurance reference paper:** Educate yourself, your clients and their other advisors about the tax and legal issues regarding this concept by reading our reference paper "Critical illness insurance – Health and Welfare trusts and other concepts" available under the Tax and Legal section under Strategies and concepts.
- **Sample shared ownership agreement outline:** This is a draft outline of an insurance sharing agreement for Sun Critical Illness Insurance. It is provided as a starting point for discussion and illustrative purposes only and for the assistance of legal counsel in preparing the required legal documentation for this arrangement.
- **Shared ownership of critical illness insurance technical reference paper:** This reference paper discusses the tax and other issues surrounding shared ownership of critical illness insurance, who the client needs to speak with for advice in implementing a shared ownership arrangement, and how the policy and shared ownership agreement must be set up.

We're here to help

We've been a trusted and reliable company for over 145 years. As a leading international financial services organization, we continue to build on that strong foundation with a focus on market-leading products, expert advice and innovative solutions.

Our team of insurance- and investment-focused sales directors, living benefits specialists and advanced tax and estate planning specialists understand your needs and work with you to help you make the best decisions.

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Contact your sales director or visit www.sunlife.ca today.

Life's brighter under the sun

