
KIM'S KORNER

I am so excited!! There are so many great things happening this fall that I don't know where to start. (Yes, I survived my 40th birthday. Thank you to everyone who passed along their best wishes - it was tough going wrapping my mind around a new number, but I survived).

I suppose the most significant announcement for us is our new partnership with Simon Jackson Insurance Broker Limited. We have amalgamated with this very experienced office to expand our services and products for our brokers. We will now be offering AIG, Industrial Alliance and Zurich to you, our valued associate. We will also be working to provide you with excellent educational opportunities and outstanding sales and backroom support. Our office will not be moving, nor will we be changing our name. We will continue to work as independent offices offering a larger insurance portfolio and expanded support services to our Associates. We will be hosting a formal Launch to introduce you to the principals at Simon Jackson Insurance; Simon Jackson and Stephen Tung; as well as the carriers we jointly represent. Invitations with all the details will be sent to you shortly. I welcome your comments about this partnership, so please feel free to contact me.

As you are well aware Transamerica Life acquired ING Life (NN Life) earlier this year. The merger and integration are scheduled to be completed by the end of the year. At that time, ING/NN logos and names will no longer exist. Effective January 1, 2001 the company will be known as Transamerica Life of Canada. Within the next few weeks agents who hold contracts with these companies will be notified by Transamerica that they will only be able to hold one contract come January 1. Brokers will be asked to choose which MGA they wish to continue working with if they currently hold contracts with separate offices. Certainly we would hope that you will choose our office if you need to make a choice. Those of you who hold both your Transamerica and NN contracts with our office, we will be using your Transamerica code starting in the new year. If you hold one of these contracts elsewhere, please contact either Karmin or myself to discuss the benefits and opportunities of choosing to use Taylor for Transamerica business now and in the future. You may qualify for the increased override of 180% which will be available on Transamerica business effective January 1.

OSFI recently released their guidelines for new reserving requirements for segregated funds. In all likelihood this change will have a profound impact on many companies' segregated funds expenses. A very good article about this was recently published in the Insurance Journal. Companies like Transamerica are evaluating the impact of these new requirements and will be making the necessary adjustments to their GrowSafe funds and affiliated funds. A new GrowSafe family of funds will be launched January 1 with 3 levels of protection offered. Please watch our communiqués for details.

I am also very excited with our new Website. It has been completely revamped and updated. It will be live by the end of October so check us out. Use it to get quotes, supplies and product information. If you have any suggestions on how we can improve it for you, please let me know. We are always looking for ways to improve our services.

This fall brings RRIF and annuity season, not to mention RRSP season. Please note that we are hosting a series of Investment Seminars to prepare you for these sales opportunities. Please note that Industrial Alliance offers a segregated fund RRSP and through Open Access, group RRSPs are available. Don't miss out - register your attendance with Indra soon.

This fall promises to be fast paced, informative and mind blowing. Hope you're ready for a great ride!!

Kim Stanley

FALL / WINTER SEMINARS 2000 - 2001

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|-----------------------------------------------------|-----------------------------------------------------|---------------------------------------------------------------------------------------------|
| October 31, 2000 10:00 a.m. - 12:00 p.m. | Maritime Life Investment Products | Kevin Murphy, Regional Marketing Consultant Maritime Life |
| November 7, 2000 10:00 a.m. - 12:00 p.m. | Standard Life Investment Products | Peter O'Boyle Standard Life |
| November 16, 2000 10:00 a.m. - 12:00 p.m. | Transamerica's Life New Integrated Portfolio | Shelley Moore, Regional Sales Manager Transamerica Life |
| November 30, 2000 10:00 a.m. - 12:00 p.m. | Industrial Alliance Investment Products | Stan Cameron Industrial Alliance |
| January 18, 2001 10:00 a.m. - 12:00 p.m. | Universal Life Analysis | Kevin Murphy, Regional Marketing Consultant Maritime Life, Kim Stanley, Taylor Insurance |

Please note that all seminars are eligible for Continuing Education credits and they are restricted to those of our Associates who have placed business with Taylor Insurance within the previous 12 months. Space is limited. We ask that you please confirm your attendance with Indra, and should you be unable to attend, please inform Indra 24 hours before the session.

COMPANY UPDATES

Canada Life - Recently announced rate decreases to its **LifeAdvance** product effective October 2. Canada has also added Motor Neuron Disease (ALS) to its list of covered diseases, bringing the total to 18. There is now a *Family Life Option on Term 10* which allows for the permanent waiving of a policy fee when two or more policies are approved for a common PAC billing. The fee only applies to the first contract. Also there are now Chinese language brochures available for clients which walk through the basics of Whole Life and talk about Canada's Life Executive Preferred.

Commercial Union - Still no announcement on their pending sale. We'll keep you posted.

Laurier Life - Effective October 1, Laurier announced lower **Term 10** rates for preferred male, non-smoking clients. These rates apply to clients meeting their "**N1**" **risk class criteria**. Other enhancements are planned, so please watch this Newsletter and our Bulletins for updates.

Maritime Life - An announcement concerning their critical illness plan, **Renaissance** (there will be a name change) is expected in late October outlining the product changes. Watch your mail and email for the details.

Standard Life - This fall is introducing **7 new funds** including 4 new index Funds; a Canadian Corporate Bond Fund; an International Bond Fund and a Canadian Equity Growth Fund (Small - Medium Cap). Their newest software version is WIN 12. Call Indra to obtain your latest version.

Transamerica Life - Recently announced their new integrated life and investment portfolios gathering the best from both ING Life and Transamerica. Transamerica's term line remains intact, as well as Advantage Life Plus. They have kept Challenger and Protector Plus. The new funds line-up will be announced later this fall. A Roadshow will be held the week of November 13 to introduce the new line-up to brokers. We will inform you of the date and location once it is announced.

**** Please note that we will be adding three new companies to our line-up later this fall — AIG, Industrial Alliance and Zurich Life. Please watch your mail, fax and email for details.*

Please feel free to contact Indra for marketing kits, current discs and/or CD ROMs for any of our companies and products.

SALES CONCEPT

When doing Estate Planning with clients, most of us consider using universal life on a joint last to die basis so that clients can tax shelter investment growth and to have the opportunity to cease paying premiums after a certain amount of time. You can also suggest to your clients that after the first death, the surviving spouse could extract a portion of the cash value to purchase an annuity to provide additional income. A recent ruling by Canada Customs and Revenue states that this cash is not a deemed disposition for the policy because the cash was a portion of the death benefit. So now your clients can really take advantage of their tax-sheltered money!!

STANDARD LIFE

The 250% Rule

Universal life insurance offers your clients tax sheltering on the investment growth of their policies. The tax savings can be significant over time.

But there are legal limits on the amount of money that can be tax sheltered in a life insurance policy. To make sure Perspecta policies continue to maintain their tax-exempt status, Standard Life does an exempt test once a year, on the anniversary date. The exempt test includes ensuring the policy meets the 250% Rule.

The 250% Rule - also known as the anti dump-in rule - is fairly straightforward. Beginning in Year 10, a policy's value may not grow to more than 250% of its value three years before.

What's the key practical effect of this rule?

If your client doesn't fund a policy at a reasonable level before Year 7, the opportunity to fund the policy later will be severely limited.

The maximum value permitted within a policy depends on age, amount of coverage and the policy's duration. The 250% Rule, however, can put additional limits on the allowed value beginning at the tenth anniversary.

Beginning with the tenth anniversary, the maximum allowed value is 250% of the value three years before. So in Year 10, the maximum value is 250% of the actual Year 7 value.

See examples in chart.

This bulletin, *The 250% Rule and Associated Issues* technical paper and the *250% Rule PowerPoint* are in the Business Development Managers & Consultant Sales shared folders. Please contact Kim for additional information.

| Policy anniversary | Exempt Line | Actual policy value* | 250% Rule maximum |
|---------------------------|--------------------|-----------------------------|--------------------------|
| 6 th | \$28,000 | \$3,000 | Doesn't apply |
| 7 th | \$32,000 | \$4,000 | Doesn't apply |
| 8 th | \$36,000 | \$5,000 | Doesn't apply |
| 9 th | \$40,000 | \$6,000 | Doesn't apply |
| 10 th | \$44,000 | \$7,000 | \$10,000 |
| 11 th | \$49,000 | \$8,000 | \$12,500 |
| 12 th | \$54,000 | \$9,000 | \$15,000 |

* This is referred to in the Income Tax Act as "accumulating fund". Reprinted with permission of Standard Life

See our technical paper, *The 250% Rule and Associated Issues*, for more details.

RRIF TO ANNUITY

Although RRIF sales far outnumber Annuity sales as a Retirement option for RRSP's, it doesn't mean that the client's situation can't change. What about converting the RRIF to an Annuity down the road? Often times, a client in their 70's or 80's are looking for a lifetime income guaranteed for both themselves and their spouse.

There are other reasons to consider this:

- **Capital Erosion** - This often occurs as the rate of return earned on the RRIF is less than the minimum amount that must be paid out each year.
- **Security** - The income is guaranteed to last a lifetime for both individuals with no management required regardless what happens in the domestic or foreign markets.
- **Increased Income** - Most of the time, the annuity income provides a higher income with no increased risk to the client. If the client does not require this extra income, it can be reinvested to offset inflation down the road.

So, if you sold that RRIF a number of years ago and haven't contacted the client in a while, call them to see if a lifetime income with some or all of their funds is of interest to them.

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YOUR QUESTION . . .

Q. A shareholder and a key employee of a corporation is the owner of an exempt universal life insurance policy on her life. She wishes to transfer it to the corporation. What are the tax implications?

A. When a universal life insurance policy is transferred from a shareholder to a corporation, a “disposition” within the meaning of the Income Tax Act (the Act) has occurred. Tax is payable on any gains made. If the corporation and the shareholder do not deal at arm’s length within the meaning of the Act, the proceeds of disposition will generally be deemed to be the CSV of the policy at the time. If a shareholder controls a corporation, the shareholder does not deal at arm’s length with the corporation. There may be other situations in which a shareholder and a corporation do not deal at arm’s length depending on the relationship among the shareholders and how the parties deal with each other.

Under normal circumstances, if the cash surrender value (CSV) of the policy is greater than the adjusted cost basis (ACB), an amount equal to the difference between the CSV and its ACB will be taxed as income in the shareholder’s hands in the year in which the disposition occurs. If the ACB is greater than the CSV, there will be no tax payable by the transferor shareholder.

The ACB of the policy to the corporation is the CSV. On the transfer the corporation does not inherit the ACB of the shareholder.

There are ramifications if the ACB is greater than the CSV at the time of the transfer - both positive and negative. If the policy is surrendered (or partially surrendered) before the death of the life insured, the policyholder is taxed on the amount by which the proceeds of disposition exceed the ACB (or proportionate ACB if a partial surrender). If the owner of the policy takes a policy loan, tax is incurred when the total loan amount exceeds the ACB - there is no prorating. A subsequent surrender or partial surrender by the corporation will result in more taxable income than if the surrender had been by the shareholder. This is because of the reduced ACB of the policy to the corporation. Similarly, if a loan is taken under the policy, income taxes may be incurred earlier than if the transferor shareholder had taken the loan while he/she owned the policy.

On the other hand, if the corporation does not surrender the policy, and it is designated beneficiary, death benefits will eventually flow into the corporation. The capital dividend account of the corporation is credited to the extent that the death benefits exceed the ACB. Capital dividends can be declared and paid out tax-free to the shareholders of the corporation. The lower ACB may result in more tax-free money in the hands of the shareholders!

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Maximum Old Age Security Benefit Rates – Effective July 1, 2000

| Type of Old Age Security Benefit July - September 2000 | Maximum Monthly Rates |
|-------------------------------------------------------------------|----------------------------------|
| Basic Old Age Security pension | \$424.12 |
| Guaranteed Income Supplement (GIS) | |
| Single | \$504.05 |
| Married to non-pensioner | \$504.05 |
| Married to pensioner | \$328.32 |
| Married to Spouse’s Allowance (SPA) recipient | \$328.32 |
| Spouse’s Allowance (SPA) | |
| Regular | \$752.44 |
| Widowed | \$830.70 |

SOFTWARE LIST

Canada Life..... Ver. 3.2
Commercial Union..... 2.0
ING Life 3.1
Equitable Life..... 3.1
Laurier Life EZ Plan 1.2.3..... 11 Aug. 2000
Maritime Life July 2000
National Life..... 2000.06
Standard Life Ver. 12
Transamerica Life..... Ver. 1.1
AIG 2.1 / 02-00
Industrial Alliance Ver. 3.0
Zurich Life..... 3.0