



## SHARED OWNERSHIP STRATEGY

**Help business owners protect  
company and personal assets  
and increase their savings.**

Your business. Your clients. Real solutions.

Sun   
Life Financial



### Here's the story

*James Robinson and Kirk Jones are the shareholders and key managers of Adventure Software, a successful computer software company. They both have concerns about insurance protection for the business and saving for their retirement.*

James Robinson age 49, and Kirk Jones age 51, entered into a shareholder agreement nine years ago, including a buy-sell arrangement, funded with a company-owned 10-year term life insurance policy for \$1.5 million dollars. The policy is coming up for renewal, but James and Kirk's situation is different than nine years ago. Their needs and concerns have changed. James and Kirk already contribute the maximum to their company group RRSP. Each owns a small non-registered investment portfolio.

They have discussed and updated their personal and business goals and have identified the following objectives:

- to have adequate life insurance in a company-owned policy to fund a share redemption in case one of them dies
- to enhance the company insurance coverage to protect against key person expenses in case of premature death of either James or Kirk. These expenses could include:
  - lost business and reduced profits because of the loss of a key manager
  - recruiting expenses to find a suitable replacement, and training expenses for the new person
  - increased salary for the new recruit (since he or she will not be a shareholder)
- to increase their retirement savings so they can retire within the next 15 years
- to obtain additional personal insurance coverage to benefit their family in the event of a premature death
- to enable ongoing personal insurance coverage after their retirement for estate planning purposes.

## The challenge

*A common strategy for many companies, including Adventure Software, is to simply renew and increase 10-year term insurance to fund a buy-sell agreement and to cover the company's need for key person insurance.*

In addition, shareholders such as James and Kirk usually plan to grow their retirement savings through non-registered investments. This strategy only works for short-term corporate needs and may not meet all of their objectives.

It also limits the benefits James and Kirk can realize from their hard-earned profits.

- Over the years, they will see a significant increase in costs for renewing personal and corporate term life insurance policies.
- Personally-owned permanent life insurance coverage seems expensive, since premiums are paid with after-tax money accumulated at the individual's highest tax rate. But term policies generally offer no flexibility to create cash values. It's clear they need a different solution than either regular permanent or term insurance.
- RRSP contribution limits restrict access to tax-sheltered savings for big income earners.
- An Individual Pension Plan (IPP) requires a significant investment that may affect the company's cash flow to fund the plan. It also creates a Past Service Pension Adjustment (PSPA) that limits RRSP contributions. James and Kirk are also still too young to implement an IPP.
- Tax deferral tools such as Retirement Compensation Arrangements (RCA) are not the best solution for personal life insurance coverage. In case of a premature death, having the death benefit received by the RCA Trust is not tax efficient, since it converts a normally tax-free payment into a taxable source of income.

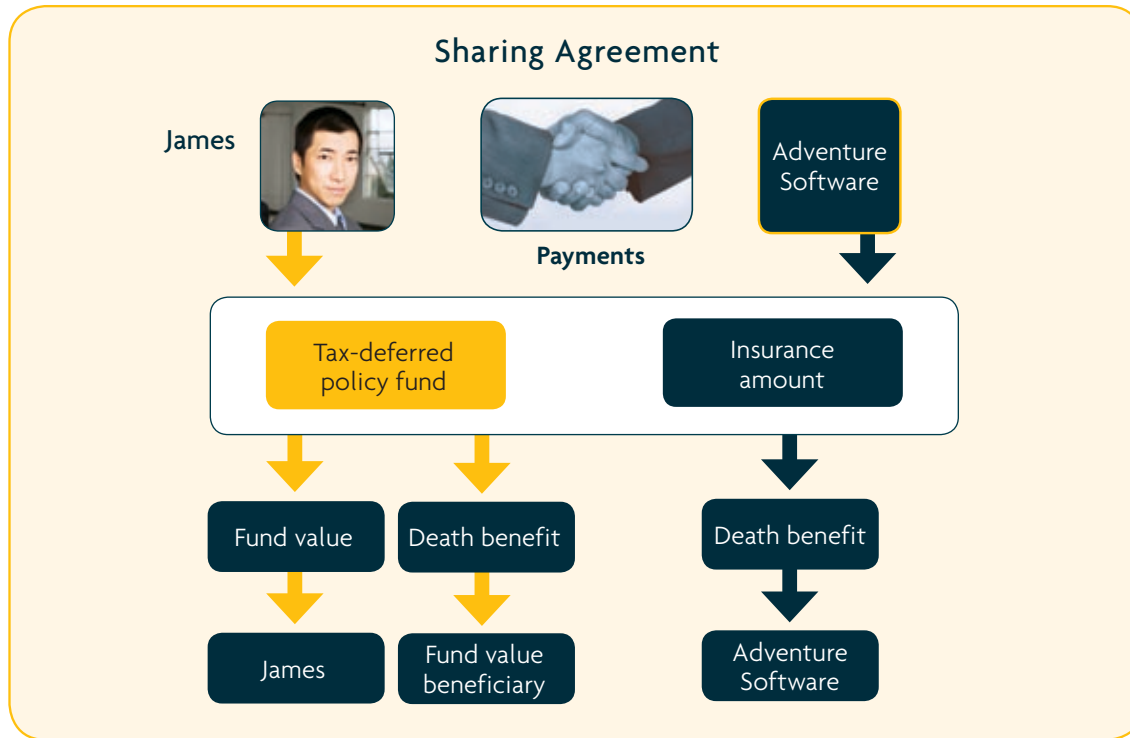
## The solution

*Use the shared ownership strategy to meet multiple needs for multiple owners.*

The shared ownership strategy takes advantage of the SunUniversalLife policy features to unbundle the contract. The policy consists of both the life insurance death benefit and the tax-deferred investments in the policy fund. These two elements can both be paid out tax-free upon death. This allows for the sharing of various components by multiple persons to meet the various needs of a company and its shareholders. The division of ownership and costs are settled by contractual agreement, outside of the life insurance contract between the parties.

In the case of James and Kirk, the company can own the death benefit protection it needs on these key managers, and the managers/shareholders have the opportunity to make deposits into the tax-deferred policy fund inside the life insurance policy.

Let's look at how this would work for James (although the same would apply for Kirk).



James sets up a shared ownership arrangement for a SunUniversalLife policy with his company, Adventure Software. He personally owns and pays for the deposits to the tax-deferred policy fund. In future, he can use these additional savings to improve his retirement cash flow simply by withdrawing funds from the fund portion of the policy, or by borrowing against the cash value of the policy fund.

Adventure Software owns the policy death benefit itself. The company pays the amount calculated according to the premium sharing method in their life insurance shared ownership agreement. This death benefit protection is provided to fund the buy-sell agreement provision for share redemption on the shareholder's death and to cover the key person insurance needs.

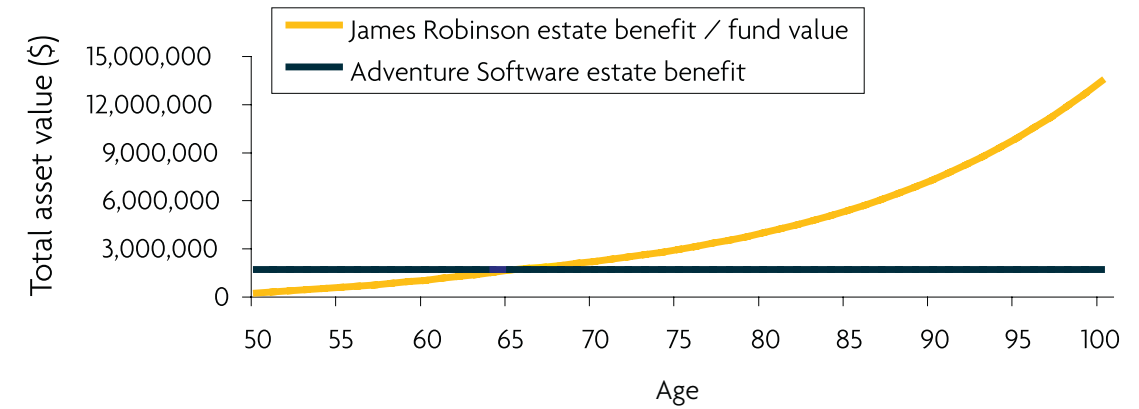
### Advantages of the shared ownership strategy

Ownership can have its advantages. With ownership comes control, including the right to name a beneficiary. On the other hand, transferring ownership of an interest may have income tax implications, depending on the circumstances.

In companies such as Adventure Software, with non-related shareholders, different considerations may apply. Relationships may be excellent between unrelated business partners, but not everyone shares the same financial interests. Death of a key manager and shareholder will definitely change things. That's why it is so important to document the terms of the shareholder's agreement with each other – so everyone, including the company, can be protected against the unforeseen. The shared ownership strategy can do an excellent job of matching different-sized solutions to the needs of different owners.

## The result

*Meeting your clients' needs through shared interests in a tax-exempt life insurance policy.*



Illustrated values based on a \$1,500,000 SunUniversalLife policy with bonus and an assumed interest rate of 6% for the fund value.

With the shared ownership strategy, each party owns and pays for what they need. Kirk and James can each have the same, or even different, coverage. In the event of James' or Kirk's premature death, the company will receive the life insurance (\$1.5 million in this case) death benefit tax-free. The majority of the death benefit will be eligible for credit to the corporate Capital Dividend Account, providing funds necessary for the share redemption transactions contemplated in the shareholder agreement and also needed to locate and hire a replacement manager.

By the time James retires as planned, he will have had a chance to put away substantial extra dollars into a tax-deferred policy fund and all without paying for the insurance coverage necessary to create that opportunity. In addition, in the case of James' premature death the policy fund will be paid as a part of the tax-free death benefit to James' beneficiaries.

And lastly, if in the future the company should no longer need its insurance coverage on its key managers and shareholders, it will be possible to transfer ownership of the life policy (with some tax implications) to the individuals themselves for use in their estate planning.

**The Sun Life Financial shared ownership strategy – simplifying financial protection, while growing savings!**

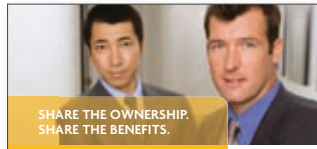
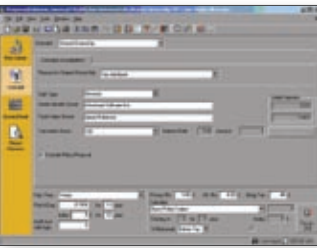

## PLANNING CONSIDERATIONS

There are several methods of sharing available for these arrangements. Careful planning is required to avoid unexpected tax consequences in future. For more information please refer to the technical reference paper "Sharing interest in a life insurance policy" and the Lawyers and accountants guide – Sharing interest in a life insurance policy. Both are available under Strategies & concepts on the Sun Life Advisor web site at [www.sunlife.ca/advisor](http://www.sunlife.ca/advisor).

## MAKING IT EASY

Our goal is simple – to make it as easy as possible 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.

Many people have trouble visualizing how dramatically taxes can reduce the size of an estate. Clients also may not fully grasp the potential cost of the other funding options (cash, selling assets, and borrowing). So, how can you show them the magnitude of the problem and back up your recommendation? We can help with the following tools:

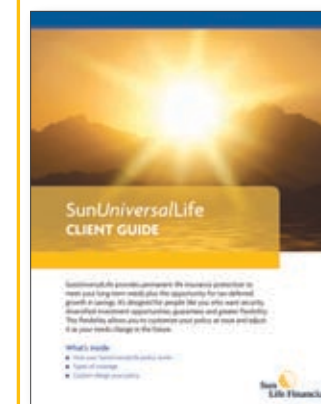
 <p><b>WHY PAY FOR MORE THAN YOU NEED?</b> Business protection with tax-sheltered savings using the shared ownership strategy.</p> <p><b>Meet James and Kirk</b></p> <p><b>The challenge</b></p> <p><b>Sun Life Financial</b></p>	<p><b>Client fact sheet:</b> This one-page sheet explains how the shared ownership strategy works. It highlights the benefits and encourages your clients to contact you for more information.</p>
	<p><b>Shared ownership strategy software:</b> With Sun Life Financial's intuitive and easy-to-use shared ownership strategy software, you can create detailed client needs analysis reports based on your clients' actual financial situation. With a minimal amount of effort, you can clearly demonstrate the advantage to both parties. The shared ownership strategy software is part of our Eos product illustration system, available through your Sun Life Financial Regional Distribution Office (RDO).</p>
	<p><b>Client reports:</b> Our shared ownership strategy software produces a full-colour report with text and colour graphs on each page for a powerful presentation of the problem and solution.</p>

## WHAT'S THE BRIGHT IDEA? SUNUNIVERSALLIFE

The bright idea behind the shared ownership strategy is Sun*Universal*Life. Besides providing your clients with a flexible financial planning tool, Sun*Universal*Life gives you the confidence to deliver:

- Optimal tax-deferred growth.
- Competitive, guaranteed level cost of insurance.
- A bonus option that combines a guaranteed investment bonus starting in year 2 with a unique cost of insurance discount controlled by the client, or a no-bonus option that provides lower management fees on investment account options.
- Large selection of competitive, tax-deferred investment options, including three exclusive Financial Post Index (FPX) accounts and seven institutional managed accounts.
- Tax-free access to policy funds if required in future as a result of disability.

### SUNUNIVERSALLIFE TOOLS



For further information about the versatility of Sun*Universal*Life, our client guide, comprehensive advisor guide, and investment account options booklet, can provide you and your clients with full details about the product's features and benefits.



## The backup you need.

*With Sun Life Financial, you get the best behind-the-scenes support around. As one of our distribution partners, your own estate planning consultant or insurance specialist will be your first line of support. Plus, if you need additional assistance, we're here to help.*

### [www.sunlife.ca/advisor](http://www.sunlife.ca/advisor)

Visit us around the clock to check out our broad range of tools and support services, including our proprietary sales concepts, Financial Advisor bulletins, a wide assortment of reference articles and case studies, client PowerPoint presentations, needs analysis software and full product guides.

### Sales, Marketing and Resource Team (SMART)

For telephone consultation or advice, call us toll free from 8:30 a.m. to 4:30 p.m. (eastern time) at **1-800-800-4SUN/4786, option 1,4,1**. Your call will be answered in person by an expert who understands your needs and can answer your specific questions about our products, software and sales support tools.

### Regional distribution offices

Your own estate planning consultant or insurance specialist can call the regional distribution office near you to arrange for face-to-face case assistance, or consultation on advanced tax and estate planning issues. Call **1-800-800-4SUN/4786, option 5**.

For an investment multiplier strategy package, including the sample case illustration used in this case study and printed materials, visit the Strategies & concepts section on our advisor website at [www.sunlife.ca/advisor](http://www.sunlife.ca/advisor) or send an e-mail to [SMARTTEAM@sunlife.com](mailto:SMARTTEAM@sunlife.com).