



Tax, Retirement &
Estate Planning Services

CONCEPTUALLY
SPEAKING

For more information or a
FREE consultation, click or call:
www.grouphenatale.com
514 996-7227

Immediate Finance Arrangements – and now you know the rest of the story...

For affluent clients and business owners the Immediate Finance Arrangement (IFA) can be an effective way to provide them with life insurance protection today and into the future while preserving cash for investment purposes.

There are many issues and assumptions that impact the strategy. Here are some of the more common issues clients need to understand to determine if IFA is right for them.

1. Income required to use deductions

In personal IFA situations advisors commonly assume the tax deductions will offset income taxed at the highest marginal rate. To help the client understand how much income they will need each year the Tax Summary page of the IFA illustration includes a column entitled "Income Required to Use Deductions". If the IFA illustration assumes the highest marginal tax rate the amounts showing in this column reflect income earned and taxed at the highest rate. In most provinces taxpayers will need to earn in excess of \$200,000 before their next dollar of income is taxed at the highest rate.

2. Premium payments

In all IFA situations it is assumed that the borrowed funds will be used to earn income from a business or property to ensure the structure will support the client being able to deduct the loan interest expense and to take advantage of the collateral insurance deduction. Using the borrowed funds for other purposes will not support the client being able to take advantage of these tax deductions. As a result it is imperative that your client is able to pay premiums independent of the borrowed funds.

3. Loan interest is not actually capitalized

With certain IFA structures the IFA illustration appears to show the loan interest expense being capitalized similar to what is available under the Insured Retirement Program (IRP). Unlike IRP, loan interest of an IFA loan must be paid by the borrower every month. With certain IFA structures the client may borrow an amount at the end of the year to replenish cash used to pay the interest expense. This additional end of year loan plus the beginning of year loan balance is the yearly loan balance on the IFA illustration. Whenever a loan is taken under the strategy, including an end of year loan to replenish cash used to pay the interest expense, the borrowed amount must be used to earn income from a business or property or the interest relating to that loan will not be deductible.

4. IFA, Manulife Bank and Universal Life solutions

Manulife Bank's current lending practice is to support IFA solutions secured by whole life contracts (par or non-par) and universal life contracts (Manulife UL, InnoVision, Security UL). For UL based solutions Manulife Bank offers the following:

1. UL solutions with funds invested in fixed interest, guaranteed investments – loan margin 90%
2. Manulife UL solutions with funds invested in the Performax Gold fund – loan margin 85%
3. UL solutions with funds invested in managed or indexed accounts – loan margin 50%

5. IFA, Manulife Bank, Minimum case size

The minimum case size for IFA is annual loans of \$30,000 with a target loan balance of \$300,000 at the end of the borrowing period. This means the minimum case size is annual loans of \$30,000 for 10 years. If the client wishes to do a shorter payment period, for example a 6 pay solution, the minimum case size for this solution would be annual loans of \$50,000 for 6 years.

Consider the Manulife advantage

1. Industry-leading insurance products that provide the policy benefits necessary to work effectively with the IFA strategy.
2. Industry- leading illustration support. Our illustrations provide your client with the information they need to make an informed purchase decision. We can illustrate customized solutions that reflect different rate assumptions, lending costs, additional collateral issues, etc.
3. Technical and marketing support that can help you in all aspects of the sales process.
4. Access to a lender who understands the strategy and offers a competitive lending package.

Date: Mar 2016

The Tax, Retirement & Estate Planning Services at Manulife Financial writes various publications on an ongoing basis. This team of accountants, lawyers and insurance professionals provides specialized information about legal issues, accounting and life insurance and their link to complex tax and estate planning solutions.

These publications are distributed on the understanding that Manulife Financial is not engaged in rendering legal, accounting or other professional advice. If legal or other expert assistance is required, the service of a competent professional should be sought.

These columns are current as of the time of writing, but are not updated for subsequent changes in legislation unless specifically noted.

This information is for Advisor use only. It is not intended for clients. This document is protected by copyright. Reproduction is prohibited without Manulife's written permission.

