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INSURANCE AS AN ASSET CLASS

iA Financial Group

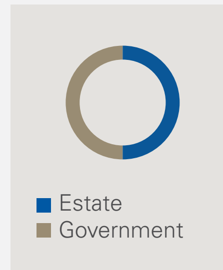
For years, we have heard financial sayings such as: "Don't put all your eggs in one basket", "buy low, sell high" and "timing is everything". All of this remains true, but investors today face new challenges, such as interest rates that fluctuate in line with inflation and frequent market turbulence. Despite current trends, Markowitz's theory that traditional portfolio development is based on the correlation between risk and asset return is still relevant. In addition, diversification remains an excellent way to develop efficient financial planning. Efficiency reduces overall risk.

There are several strategies to diversify your portfolio. Sectoral diversification can in fact reduce risk in the event of a market downturn, as can geographical diversification. Investors can also reshuffle their portfolios based on market capitalization or by investing in alternative investments (private equity, infrastructure, real estate, etc.).

However, these are not the only strategies that can reduce portfolio risk and optimize expected returns. A strategy involving integrating a permanent life insurance policy into the client's financial plan can also be considered in order to improve diversification, while offering an attractive after-tax rate of return. The opportunities offered by permanent life insurance products go beyond traditional insurance needs. In this modern strategy, life insurance not only meets the need for protection, but also diversifies financial assets during the insured's lifetime and at death. In addition, insurance cash surrender values can serve as a source of liquidity and allow for additional strategies if the need arises. For example, you can access the cash value in several ways: a policy loan, partial surrender or secured loan.

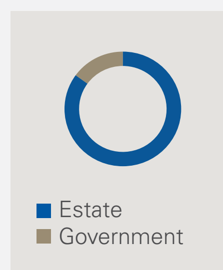
TRADITIONAL PORTFOLIO

	CATEGORY	LIQUIDITY	AT DEATH
Investment	**Investment** – Income tax – Capital gains tax	**Market value access** Can generate taxable dispositions	**Sale of investments** – Capital gains tax – Estate dividend tax



MODERN PORTFOLIO (ADDITION OF INSURANCE AS AN ASSET CLASS)

	CATEGORY	LIQUIDITY	AT DEATH
Investment	**Investment** – Income tax – Capital gains tax	**Market value access** Can generate taxable dispositions	**Sale of investments** – Capital gains tax – Estate dividend tax
	Insurance – Non-taxable gains – Tax free	**Access to surrender value** – Withdrawal (Possible tax impacts) – Policy loan (Possible tax impacts) – Secured loan	**Death benefit** – Tax free – Generate CDA in the corporation (contribution in the event of the applicant's death – Estate dividend tax, when applicable



WHO IS THE "INSURANCE-AS-AN-ASSET-CLASS" STRATEGY FOR?

This strategy is geared towards businesses and individuals with ongoing life insurance needs, who have excess income or assets that are not needed in the short term to finance their activities, lifestyle or retirement.

It is important to create winning conditions to maximize the strategy, such as predictable cash flows in order to pay insurance premiums.

OBJECTIVES:

Protection in the event of death

The strategy is based on the need for permanent life insurance. Thus, when the need for protection in the event of death arises, you can use and consider cash surrender values as financial assets. Permanent life insurance policies offer attractive internal rates of return.

Diversification

This strategy makes it possible to diversify assets by including permanent life insurance in the client's financial planning. Some insurance products benefit from institutional investment management. This type of management gives clients exposure to alternative investments. These investments offer attractive returns while maintaining moderate risk.

Tax efficiency

Life insurance policies have an advantageous tax status. Cash value growth is tax free, which has a snowball effect. In addition, the death benefit is not taxable to the beneficiary.

The insurance-as-an-asset-class strategy is particularly advantageous for joint-stock companies, mainly because of the credit it provides to the Capital Dividend Account (CDA). The amount credited to the CDA is the difference between the death benefit and the policy's adjusted cost base (ACB). The corporation may pay tax-free dividends to its shareholders, up to the balance of the CDA.

On the other hand, when the corporation is the policy owner, it pays premiums with after-tax dollars at a lower rate. As a result, the financial burden in terms of life insurance is less than for shareholders.

In addition, life insurance policies held by corporations are not subject to passive income rules. Thus, the amounts deposited in the form of additional contributions do not affect eligibility for the Small Business Deduction (SBD), if applicable.

Access to liquidity

It is possible to access the accumulated cash value in the form of cash. Whether in the form of a policy loan or partial surrender, you will need to consider any tax consequences that may apply.

In addition, insurance can be used as collateral with an external financial institution to obtain a secured loan. The borrower can use the secured loan to make investments that generate income, or they can choose to use it for personal purposes. It is important to have enough taxable income to deduct interest from the loan to maximize the strategy, when possible.

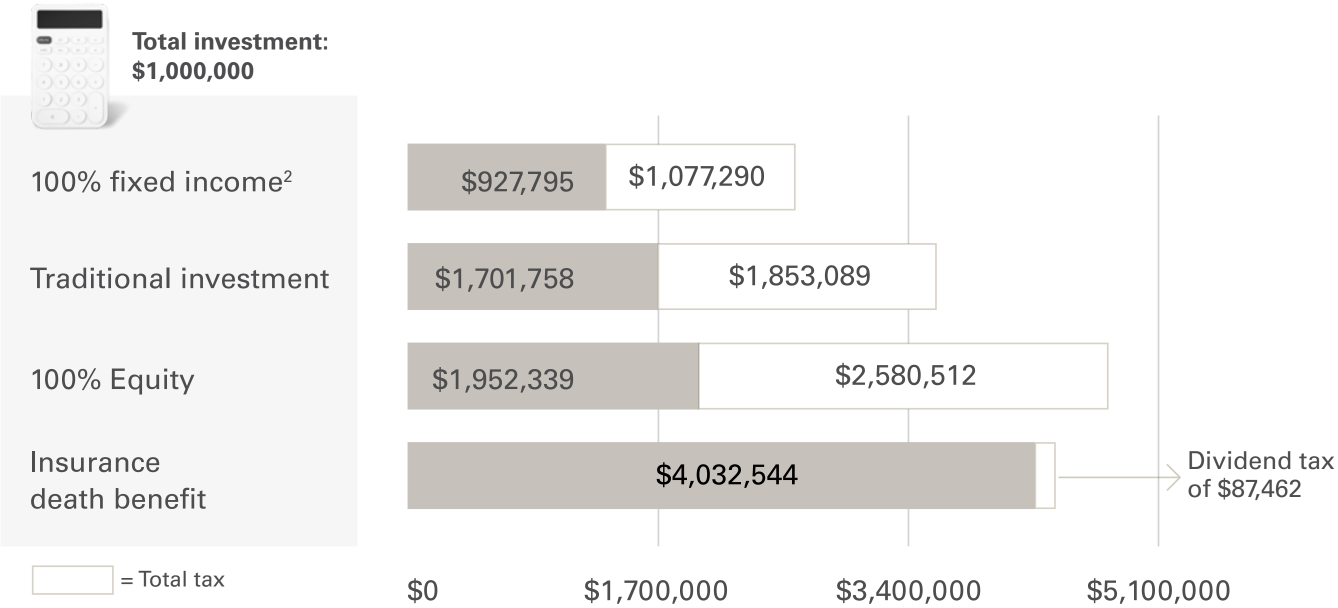
Additional information

The corporate tax rate on investment income is about 50%.[1] This is when the strategy is particularly effective, thanks to the tax advantages that life insurance provides.

In the chart below, we compare an amount of $100,000 per year invested through a management company for 10 years, by a 50-year-old non-smoking man in each of the investment categories. The total tax corresponds to the tax paid annually as well as at death. It should be noted here that, for the Insurance category, virtually no tax is paid thanks to the CDA.

[1] A portion of this tax burden is temporary, but greatly impedes the accumulation of taxable income.

LIFE INSURANCE RETURN AT AGE 85



[2] Balanced profile, FP Canada. Fixed income: 3.20% (gross) Equities: 6.20% (gross)

It is clear that life insurance, with its many advantages, is an asset class that can be very attractive for individuals and for shareholders of corporations. The need for insurance remains the primary reason why policyholders purchase life insurance. However, particularly through its tax efficiency, insurance offers an advantageous internal return and an element of diversification that is essential to good financial planning.

iA LARGE CASE **SOLUTIONS**

The iA Large Case Solutions program offers a support service for high-net-worth clients who need more complex financial strategies in the areas of taxation, sales concepts and optimization of individual insurance and savings products.

Our team of experts offers personalized, simple, high-performance solutions that enable advisors to meet the specific needs of affluent clients, professionals and business owners.

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