THE Great-West Life ASSURANCE COMPANY

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with universal life insurance

Case study: Universal life insurance

Flexibility and options for a growing family business

Meet Kendra and Sam

Kendra and Sam own Natura Gardens, a successful garden centre and landscaping business. They're in their mid-40s and starting to plan for early retirement. They may sell the business, or pass it on to their children.

Sam and Kendra recognize they need permanent life insurance protection. They also want flexibility and tax-advantaged investment opportunities.

Their priorities are to:

- Protect their family's lifestyle in the event of unexpected death
- Find tax-advantaged alternatives to non-registered investments
- Leave a legacy for their children

Financial situation

Kendra and Sam have worked hard to build the business since their early 20s. They've maxed out their RRSP and TFSA contributions and now they're looking for tax-advantaged alternatives to non-registered investments. Entrepreneurs by nature, they want an active role in how their money's invested and aren't afraid of some risk and volatility.

Which solution works best?

Revenues in the garden/landscaping sector are substantially lower from January to March and higher from May to September. Based on cyclical cash flows, Sam and Kendra's priorities and their desire to actively manage their money, their advisor recommends universal life insurance.

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Universal life insurance offers options and flexibility so Sam and Kendra can:

- Increase, decrease or stop payments based on cash flow and the policy's cash value
- Choose between two payout (death benefit) and multiple payment (cost of insurance) options, and switch payment options if needs change
- Select investment options that meet their financial objectives and risk tolerance

After discussing their financial situation, their advisor recommends the new annually increasing payments to age 85 cost of insurance option and offers two different payout options to consider. She also recommends a joint last-to-die solution to keep their cost of insurance charges as low as possible and direct more of the payment to their investment options.

Annually increasing payments to age 85 + level payout

This combination works well with Sam and Kendra's seasonal income, and will help them lower their insurance costs over time.

Aggressive funding in the early years (when the cost of insurance is lower) directs more money to their investment options, which helps grow the account value, subject to government limits. As the account value grows, their net amount at risk (difference between the coverage amount and the account value) decreases, which lowers insurance costs.

On the flip side, if the policy's account value decreases (due to a decrease in investment option returns, for example) the net amount of risk will increase. Coupled with yearly renewable term rates, this increases the cost to maintain a level payout.

On death, the policy pays out the coverage amount **or** the total account value, whichever is greater.

If plans change as they near retirement, Sam and Kendra can manage costs in two ways:

- Reduce payments by reducing the face amount of their policy
- Switch to level payments and avoid annual increases

Annually increasing payments to age 85 + coverage plus payout

This combination works if Sam and Kendra's goal is to maximize a legacy for their children. On death, the policy pays out the coverage amount **plus** the policy's cash value.

Sam and Kendra decide to make the minimum payment most months and make additional payments from May to September, when cash flow is good. This slow and steady approach gives them tax advantages now. It also builds greater wealth long term that they can access to create a legacy for their children, or to borrow against for business growth.

Over time, the payout can grow if the policy's account value grows (growth is not guaranteed). Conversely, if the account value decreases due to poor investment returns or a cash withdrawal, the total payout also decreases. The death benefit is guaranteed, as long as required payments are made.