EMPIRE LIFE CLASS PLUS 3.0

GUARANTEED RETIREMENT INCOME FOR LIFE

An overview of the tax treatment of withdrawals from Class Plus 3.0

Empire Life Class Plus 3.0 segregated fund contracts can give clients the peace of mind that comes with knowing they have guaranteed retirement income for life.[1] The following overview provides an example of the tax treatment of the withdrawals from Empire Life Class Plus 3.0 made by a 65 year old in a one year period.

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[1] Making an Excess Withdrawal may decrease the guaranteed retirement income for life amount.

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Scenario:

In the examples below, we assume a 65 year old Ontario resident with a Lifetime Withdrawal Amount (LWA) option of 4%, $300,000 invested in a non-registered contract, one year growth of 5% and $12,000 guaranteed annual income. The client did not make any switches, nor redeem any additional units, during the year. We have assumed a marginal income tax rate of 31% and a 9% marginal income tax rate on eligible dividends.

Example 1 – Simple Taxation of Class Plus 3.0 Income

Withdrawals from a Class Plus 3.0 contract are made by redeeming fund class units of one or more segregated funds held in the contract which will trigger a capital gain or loss. The amount of the capital gain or loss will be the market value of the redeemed fund class units on the date of the withdrawal, less the adjusted cost basis (ACB), as well as applicable monthly fees and deferred sales charges (DSC).[2] If a client makes a withdrawal during the year, the T3 information slip[3] will include any realized capital gain or loss resulting from the disposition or deemed disposition of fund class units.

In this example, there are no fund income allocations in the year.

Original Investment (ACB)		**$300,000**
Growth rate	5%	$15,000
Market value		$315,000
Withdrawal		$12,000
Capital gain on redemption of units	($315,000 - $300,000)/$315,000 x $12,000	$571
Taxable capital gain	50% x $571	$286
Tax payable on capital gains	31% x $286	$89

Example 2 – Taxation of Class Plus 3.0 Income with Allocated Fund Income

Deposits into Class Plus 3.0 can be invested in a selection of segregated funds. Each fund will allocate the income and capital gains or losses it earns proportionally by fund class units to all contract owners throughout the year. A capital gain/loss can also be triggered if the fund manager sells an underlying security even though the unit holder makes no switches. These income allocations are reported to the contract owner annually. If a client makes a withdrawal during the year, the T3 information slip will include any realized capital gain or loss resulting from the disposition or deemed disposition of fund class units.

In this example, the fund allocated income earned from eligible dividends, as well capital gains (the result of the fund manager selling some underlying securities in the fund).

Original Investment (ACB)		**$300,000**
Annual fund income allocated to account	Canadian eligible dividends $2,000 Capital gains $1,500	$3,500
Updated ACB		$303,500
Growth rate	5%	$15,000
Market value		$315,000
Withdrawal		$12,000
Capital gain on redemption of units	($315,000 - $303,500)/$315,000 x $12,000	$438
Taxable capital gains	50% x ($1,500+$438)	$969
Tax payable on capital gains	31% x $969	$300
Tax payable on dividends	9% x $2,000	$180

[2] Deferred Sales Charge (DSC) and Low Load (LL) purchase options were closed to new investments effective May 29, 2023. Deposits into those purchase options made prior to that date will retain their redemption schedule until it matures.

[3] T3 information slip for a Canadian resident (other than resident in Quebec), T3 and Relevé 16 slips for a Quebec resident, and NR4 slip for a non-resident of Canada.

Example 3 – Taxation of Class Plus 3.0 Income with Allocated Fund Income and Losses

In this example, the fund allocated income earned from eligible dividends, as well as a capital loss (the result of the fund manager selling some underlying securities in the fund).

Capital losses can normally be applied against capital gains and not used to reduce other income. Unused current year net capital losses can be used to reduce capital gains in any of the three proceeding years or in any future year.

Original Investment (ACB)		**$300,000**
Annual fund income allocated to account	Canadian eligible dividends $2,000 Capital loss $1,500	$500
Updated ACB		$300,500
Growth rate	5%	$15,000
Market Value		$315,000
Withdrawal		$12,000
Capital gain on redemption of units	($315,000 - $300,500)/$315,000 x $12,000	$552
Allowable capital loss	50% x (-$1,500+$552)	($474)
Tax payable on dividends	9% x $2,000	$180

The non-registered contract examples outlined above are for illustrative purposes only and should not be construed to be tax advice as each client's situation is different. In years with market downturns, withdrawals from Class Plus 3.0 will generally erode capital.

Guaranteed Payment Phase

The Guaranteed Payment Phase occurs when the market value of the Fund Class units is $0 and the Income Base for the Lifetime Withdrawal Amount (LWA) is positive. The taxation of the benefits associated with a guaranteed minimum withdrawal benefit plan remains uncertain at this time. Empire Life reports any payments during the Guaranteed Payment Phase based on our understanding of the legislation and CRA assessing practices at the time of payment. **The policyholder is responsible for any tax liabilities arising from any change in law, interpretation, or CRA assessing practice.**

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