# RBC Growth Insurance and RBC Growth Insurance Plus

## Immediate financing arrangement

Insurance

An immediate financing arrangement (IFA) is a strategy that allows an individual or business owner to purchase a permanent life insurance policy with cash value while ensuring a major portion of the cash used to pay the premium immediately becomes available for other business or investment purposes.

In this strategy, the policy owner obtains a loan or line of credit from a financial institution using the cash value of the policy as collateral immediately after paying the first premium payment.[1] They then use the borrowed funds for business or investment purposes.

### Is an IFA right for you?

An IFA may be appropriate for individuals and business owners who:

- Have a need or desire for permanent life insurance protection
- Have a long-term planning horizon
- Have a need or desire to access the funds used to buy an insurance policy – e.g. for business or investment purposes
- Understand the important considerations/risks associated with an IFA[2]

### Understanding the benefits of an IFA

An IFA has two main benefits:

- Helps buy life insurance coverage
- Allows the policy owner to immediately borrow against the cash value of the policy

The loan proceeds using an IFA are not taxable. It is worth noting that the borrower may be able to claim interest and collateral insurance deductions.[3] The ability to claim these deductions will help maximize the benefits of this strategy. Together, these benefits will help reduce the after-tax cash required to fund a life insurance policy.

### Establishing an IFA

There are three steps to put an IFA into place:

1. **An individual or business owner purchases a permanent life insurance policy in which they deposit sufficient funds to accumulate a substantial cash surrender value.**[4] They must have sufficient cash flow each year to pay the premiums and the interest.

2. **The policy is used as collateral for a loan or line of credit from a restricted financial institution.**[5] The collateral assignment of the policy must be required as a condition of the loan by the lender. Depending on the amount of desired borrowing, it is possible that the lender may also require additional guarantees or collateral, at least in the initial years of the policy.

3. **The borrowed funds are invested to earn taxable income from business or property.** If the funds are used for other purposes (e.g. personal use such as the payment of insurance premiums, etc.), the interest and collateral insurance deduction will not be available.

## Comparing an IFA for individuals and corporations

| | Individual | Corporation |
|---|---|---|
| **Life Insured** | ▪ Generally, the policy owner | ▪ Generally, the shareholder |
| **Borrower** | ▪ The policy owner | ▪ Usually, the corporation |
| **Beneficiary** | ▪ The lender may require the estate of the owner-insured-borrower to be the beneficiary. | ▪ Owner-corporation |
| **Death Benefit** | ▪ The policy proceeds are first used to repay the loan or line of credit.<br>▪ Any excess money is paid to the beneficiaries tax-free. | ▪ The policy proceeds are first used to repay the loan or line of credit.<br>▪ Any excess is paid to the corporation-beneficiary tax-free.<br>▪ Generally, the death benefit less the adjusted cost basis of the policy results in a credit to the capital dividend account (CDA) of the corporation.<br>▪ If the CDA has a positive balance, a tax-free capital dividend may be paid to Canadian resident shareholders. |

## Taking the next step

While an IFA can be implemented using a permanent life insurance policy with a cash value, selecting the right product for your situation is important. An IFA is a complex strategy requiring professional tax, legal and other advice to ensure the individual or business owner realizes the potential benefits of this strategy and understands various important considerations/risks associated with it.

For more information, please contact your Insurance Advisor or visit **rbcinsurance.com/growth-insurance** to discuss how participating life insurance can work for you.

RBC® Insurance

[1] The loan is not guaranteed. The borrower must meet the requirements of the lender. The loan must be obtained from a restricted financial institution as defined in the Income Tax Act.
[2] Please speak to your financial advisor to understand associated important considerations/risks.
[3] Subject to meeting the requirements of the Income Tax Act.
[4] The Income Tax Act rules limit the maximum amount that can be deposited annually and the tax-deferred growth in the policy.
[5] A restricted financial institution includes: (a) a bank, (b) a corporation licensed or otherwise authorized under the laws of Canada or a province to carry on in Canada the business of offering to the public its services as trustee, (c) a credit union, (d) an insurance corporation, (e) a corporation whose principal business is the lending of money to persons with whom the corporation is dealing at arm's length or the purchasing of debt obligations issued by such persons or a combination thereof, (e.1) a corporation described in paragraph (g) of the definition "financial institution" in subsection 181(1), or (f) a corporation that is controlled by one or more corporations described in any of paragraphs (a) to (e.1).



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