

Insurance Products Update

Universal Life Insurance Segregated Funds Spring Investment Options

Tax Effectiveness of a Universal Life Insurance Policy

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Last month, we discussed some issues surrounding the tax season and tax planning in general. Continuing with that theme we would like to bring to your attention an often overlooked benefit of a particular type of life insurance.

The type of life insurance I am referring to is a Universal Life insurance policy. The often overlooked benefit is your ability to accumulate assets on either a tax deferred basis or on a fully tax exempt basis. Whether the assets receive a deferral or a full exemption from taxation depends on how they are taken out of the contract. We will address the exemption versus deferral issue a little later. The first question that needs to be answered is how does the product work and why does it get special treatment?

The How and the Why?

When an individual or a couple apply for a term insurance policy or a whole

life policy, they commit themselves to a set premium payment for a predetermined amount of time. Universal Life is a variable life insurance policy which presents some interesting opportunities. When you purchase a Universal policy you are given the option to pay what in the industry is referred to as a minimum or maximum premium. The minimum premium is what is required to keep the policy in force and if you choose to pay only the minimum, you will need to make premium payments for as long as you want the contract. However if you choose to deposit amounts in excess of the minimum, you get the benefit of having those deposits compound tax sheltered. The excess deposits can then be used to either increase the death benefit on the policy, to fund future insurance costs on the contract or a combination of the two. Either way, you as the policyholder win on an after-tax basis. This is because when assets accumulate tax deferred, like in an RRSP, you will generally end up with a greater pool of capital than assets accumulated in a taxable environment. Alternatively if you use the income generated from the excess deposits to fund the policy's insurance costs, you are using before tax dollars as opposed to your future hard earned after-tax dollars.

The reason the accumulation of assets on a tax deferred basis is allowed within a life insurance contract is that Revenue Canada and the insurance act says it's OK. It's that simple. The reason these policies have a maximum premium is so that the deferral feature is not abused. Insurance companies are required to test the policy each year to ensure that the contract has maintained it's exempt status.

Investment Options

The objection insurers heard the most during the early days of Universal Life was that there weren't enough investment choices. The insurance industry has responded by providing a number of guaranteed investment options as well as offering several equity based investment options. A point worth mentioning, when you are considering a policy and comparing companies: it is wise to look closely at how the investment returns are credited to the contract. Not all contracts are created equally. This is where you can really benefit from the services of an insurance specialist who does not have ties to any one company.

Who Should Consider This Type Of Insurance

There are two categories of individuals who should consider a Universal Life insurance policy. The first is anyone

1 Year Total Return

1	C.I. Sector Global Telecommunications	81.4%
2	MAXXUM American Equity Fund	70.8%
3	Fidelity Focus Technology Fund	68.2%
4	Altamira Science and Technology Fund	58.0%
5	BPI Global Opportunities Fund	53.9%
6	20/20 Aggressive Growth Fund	50.5%
7	AIM Global Technology Fund	50.2%
8	20/20 India Fund	48.5%
9	BPI American Equity Value Fund	47.5%
10	Talvest Global Sci & Technology C\$	47.4%

3 Year Total Return

1	BPI Global Opportunities Fund	49.1%
2	MAXXUM American Equity Fund	41.9%
3	Ethical North American Equity Fund	40.3%
4	AGF American Growth Class	36.8%
5	Altamira Science and Technology Fund	36.3%
6	BPI American Equity Value Fund	34.3%
7	AIM American Premier Fund	31.2%
8	AIM European Growth Fund	30.5%
9	Royal & SunAlliance U.S. Equity Fund	29.4%
10	Elliott & Page American Growth Fund	27.9%

5 Year Total Return

1	Ethical North American Equity Fund	30.7%
2	Green Line Science & Technology Fund	30.2%
3	AGF American Growth Class	28.6%
4	AIM Global Health Sciences Fund	27.8%
5	BPI American Equity Value Fund	27.1%
6	Spectrum United American Growth Fund C\$	25.7%
7	Green Line U.S. Index Fund U\$	24.9%
8	McLean Budden American Growth Fund	23.6%
9	20/20 Aggressive Growth Fund	23.4%
10	AIC Value Fund	23.4%

10 Year Total Return

1	PH&N U.S. Pooled Pension Fund	20.2%
2	AGF American Growth Class	19.8%
3	McLean Budden American Growth Fund	19.6%
4	Spectrum United American Growth Fund C\$	19.1%
5	PH&N U.S. Equity Fund	18.9%
6	Ethical North American Equity Fund	17.8%
7	Green Line U.S. Index Fund U\$	17.3%
8	Elliott & Page American Growth Fund	16.2%
9	Royal U.S. Equity Fund C\$	16.1%
10	Guardian American Equity Fund Ltd.	16.0%

1 Year Total Return

1	20/20 Managed Futures Value Fund	-57.8%
2	Dynamic Global Resource Fund	-46.7%
3	20/20 Latin America Fund	-44.7%
4	C.I. Latin American Fund	-34.0%
5	BPI American Small Companies Fund	-30.8%
6	Scotia Latin American Growth Fund	-27.4%
7	Fidelity Latin American Growth Fund	-26.7%
8	Green Line Latin American Growth Fund	-24.0%
9	Fidelity Emerging Markets Portfolio Fund	-23.9%
10	Spectrum United Emerging Markets Fund	-22.8%

3 Year Total Return

1	20/20 Managed Futures Value Fund	-22.5%
2	Fidelity Emerging Markets Portfolio Fun	-21.0%
3	AGF Asian Growth Class	-18.8%
4	Dynamic Global Resource Fund	-16.8%
5	Royal Asian Growth Fund	-14.8%
6	Ethical Pacific Rim Fund	-14.7%
7	Universal Far East Fund	-14.7%
8	C.I. Sector Pacific	-13.2%
9	C.I. Pacific Fund	-12.5%
10	Altamira Asia Pacific Fund	-12.2%

5 Year Total Return

1	Altamira Asia Pacific Fund	-10.4%
2	C.I. Latin American Fund	-8.2%
3	AGF Asian Growth Class	-7.9%
4	C.I. Sector Pacific	-7.6%
5	Universal Far East Fund	-7.5%
6	Royal Asian Growth Fund	-7.1%
7	C.I. Pacific Fund	-7.0%
8	Green Line Emerging Markets Fund	-6.2%
9	20/20 Latin America Fund	-5.5%
10	Green Line Asian Growth Fund	-4.4%

10 Year Total Return

1	Royal Japanese Stock Fund	-1.3%
2	AGF Japan Class	1.8%
3	C.I. Sector Pacific	3.2%
4	C.I. Pacific Fund	3.6%
5	C.I. Sector Short-Term Shares	4.2%
6	Atlas American Money Market Fund	4.6%
7	Altamira Global Diversified Fund	7.5%
8	Templeton Global Bond Fund	7.7%
9	Global Strategy World Bond Fund	8.0%
10	Universal International Stock Fund	8.1%

COMMENTARY

ScotiaMcLeod would be pleased to provide you with further detailed information on the above mutual funds, however we cannot provide information on the funds marked #. These are historical performance rankings, and are not indicative of future investment performance. When analyzing particular funds, stress longer term performance.

These rankings are not sales advice and ScotiaMcLeod does not recommend simply selling bottom past performance funds and buying top past performing funds. Purchase or redemption fees may be involved. Please call 863-7777 or 1-800-387-9273 for specific recommendations tailored to your individual needs.

1 Year Total Return

1 VenGrowth Investment Fund Inc. (LSVCC)	17.3%
2 Green Line U.S. RSP Index Fund	16.4%
3 Atlas American RSP Index Fund	16.4%
4 Scotia CanAm Stock Index Fund	15.1%
5 C.I. American RSP Fund	12.8%
6 Talvest Foreign Pay Canadian Bond Fund	12.8%
7 Green Line Global RSP Bond Fund	11.6%
8 Scotia CanAm US\$ Income Fund	11.6%
9 AGF RSP Global Bond Fund	11.1%
10 Spectrum United RRSP International Bond	11.0%

3 Year Total Return

1 AIC Advantage Fund	29.0%
2 AIC Diversified Canada Fund	28.6%
3 Quebec Growth Fund Inc.	28.5%
4 PH&N Dividend Income Fund	25.4%
5 Scotia CanAm Stock Index Fund	23.5%
6 Global Strategy Diversified Europe Fund	22.3%
7 Royal Dividend Fund	21.7%
8 C.I. American RSP Fund	21.0%
9 Scotia Canadian Dividend Fund	20.2%
10 Scudder Canadian Equity Fund	19.5%

5 Year Total Return

1 AIC Advantage Fund	24.5%
2 Scotia CanAm Stock Index Fund	23.0%
3 PH&N Dividend Income Fund	18.4%
4 Royal Dividend Fund	16.1%
5 Global Strategy Diversified Europe Fund	16.0%
6 Quebec Growth Fund Inc.	15.8%
7 PH&N Vintage Fund	14.9%
8 Bissett Canadian Equity Fund	14.6%
9 Tradex Equity Fund Limited	14.5%
10 Cundill Canadian Security Fund Series A	14.1%

10 Year Total Return

1 AIC Advantage Fund	21.0%
2 ABC Fundamental-Value Fund	17.9% #
3 GBC Canadian Growth Fund	17.1%
4 Altamira Equity Fund	16.8%
5 Quebec Growth Fund Inc.	15.9%
6 PH&N Vintage Fund	15.2%
7 ABC Fully-Managed Fund	14.6% #
8 Marathon Equity Fund	14.2%
9 PH&N Dividend Income Fund	13.9%
10 Mawer New Canada Fund	13.2%

1 Year Total Return

1 Green Line Energy Fund	-40.4%
2 Spectrum United Canadian Resource Fund	-38.4%
3 Atlas Canadian Emerging Growth Fund	-37.3%
4 20/20 Canadian Resources Fund Ltd.	-37.2%
5 BPI Canadian Resource Fund Inc.	-36.4%
6 Atlas Canadian Small Cap Growth Fund	-34.1%
7 BPI Canadian Small Companies Fund	-33.8%
8 Bissett Small Cap Fund	-33.6%
9 O'Donnell Canadian Emerging Growth Fund	-33.6%
10 Global Strategy Canadian Small Cap Fund	-32.5%

3 Year Total Return

1 Altamira Precious & Strategic Metal Fun	-27.9%
2 Global Strategy Gold Plus Fund	-27.3%
3 BPI Canadian Resource Fund Inc.	-25.8%
4 Dynamic Precious Metals Fund	-23.5%
5 Scotia Precious Metals Fund	-23.2%
6 Universal Precious Metals Fund	-21.6%
7 Royal Precious Metals Fund	-20.7%
8 MAXXUM Natural Resource Fund	-20.4%
9 Altamira Resource Fund	-18.8%
10 Green Line Precious Metals Fund	-15.1%

5 Year Total Return

1 BPI Canadian Resource Fund Inc.	-13.6%
2 Dynamic Precious Metals Fund	-11.0%
3 Altamira Resource Fund	-10.8%
4 Scotia Precious Metals Fund	-10.6%
5 Industrial Equity Fund Limited	-9.8%
6 Global Strategy Gold Plus Fund	-9.6%
7 Universal Precious Metals Fund	-6.4%
8 Green Line Resource Fund	-6.0%
9 20/20 Canadian Resources Fund Ltd.	-3.6%
10 MAXXUM Natural Resource Fund	-3.5%

10 Year Total Return

1 Industrial Equity Fund Limited	-0.9%
2 BPI Canadian Resource Fund Inc.	1.1%
3 Dynamic Precious Metals Fund	2.0%
4 Industrial Growth Fund	2.4%
5 Green Line U.S. Money Market Fund	4.6%
6 Royal Precious Metals Fund	4.8%
7 20/20 Canadian Resources Fund Ltd.	5.3%
8 BPI Canadian Small Companies Fund	5.5%
9 Universal Canadian Resource Fund	5.6%
10 C.I. Sector Canadian	5.6%

NOTES TO THE PERFORMANCE TABLES

- ScotiaMcLeod is unable to supply information on funds marked #
- Figures are average rates of return for the periods ending March 31, 1999
- Source data from the Mutual Funds Source Disk, April 12, 1999, which includes over 2,400 funds
- Funds with total assets under \$25 million are not included
- Only "totally public" funds are ranked
- RRSP Eligible Funds are at least 80% Canadian content and can also be held outside RRSPs
- Performance figures include reinvested dividends and management fees have been subtracted
- Non RRSP eligible funds can be held inside a ScotiaMcLeod RRSP to a maximum of 20% of book value

who has a long term need for insurance, is using all of their RRSP room and has additional disposable income to invest for a long term objective. The second individual is anyone who has excess capital that is attracting unnecessary taxable investment income. Rather than losing control of the capital such as when assets are gifted or placed in a trust, the capital stays in the control of the owner just in case it is needed at a later date, and in the meantime the assets will not be subjected to income tax. This type of situation quite often calls for a joint and last to die Universal life contract.

Tax Deferred or Tax Exempt?

As already mentioned the assets compound tax deferred while they are inside the policy. When the owner of the policy makes a withdrawal, a portion of that withdrawal will be considered taxable. The taxable portion will depend on the percentage of the investment funds assets withdrawn that are considered contributed capital and the percentage that is investment growth. However, any investment income that is paid out as part of a death claim does not attract income tax. So if you are looking for ways to effectively plan your estate, this might be the answer.

The bottom line is that life insurance, and in particular Universal Life can be an effective tool in anyone's overall financial plan.

Segregated Funds Update

Over the last six months the industry has seen several more segregated (seg) fund products become available to the public. Most notable are AIC and Templeton who came out with a segregated version of their most popular funds. So if you like the idea of having a portion of your investment capital in a higher risk fund such as the AIC Advantage fund but are not comfortable with the risk, have no fear. You can now purchase the seg version and have either 75% or 100% of your capital guaranteed.

How to Beat the 20% Foreign Content Rule

Recently, Revenue Canada handed down a ruling which allows international seg funds to qualify as domestic content inside an RRSP until 2001. So if you like the idea of having more than 20% of your RRSP assets invested outside of Canada, you can achieve the objective by investing in seg funds. Revenue Canada has said they will review the ruling in 2001. If they do change the rules, our guess is that they will treat the change like they have done in the past to insurance related products and grandfather any existing contracts. At the very least you get a couple of years of participation in what have traditionally been better performing markets.

Who Says Seg Funds Don't Perform

There has always been a perception that segregated funds underperform their cousins, mutual funds. While it is true that some seg funds have higher management fees than mutual funds, this does not always translate into underperformance. A recent review of seg fund returns showed that they are quite capable of competing. For example, Transamerica's 21st Century fund (a NASDAQ linked index fund) showed a whopping 67% return for one year and a two year return of over 54%. In fairness to mutual funds it should be mentioned that they are not allowed to offer funds that are linked to the NASDAQ. However, BPI's American Equity Value returned 40.1% over one year, ManuLife's AGF American Growth Class fund returned 38.6% and their Fidelity Int'l Portfolio Fund has returned 12.5% over one year and 19.7% over two years. All numbers are as of February 28th, 1999.

Seeing those type of returns furthers the argument that Canadian investors should be doing whatever they can to maximize their foreign content. Seg funds might be the solution. After all, you get the potential upside of higher returns and the safety of the guarantee that you cannot lose most or all of your invested capital.

We would be happy to discuss further the merits of Universal Life insurance or holding seg funds inside your portfolio. Please contact our insurance specialist, Allan McGlade at 416-862-3066 or 1-800-387-9273 for a personal consultation.