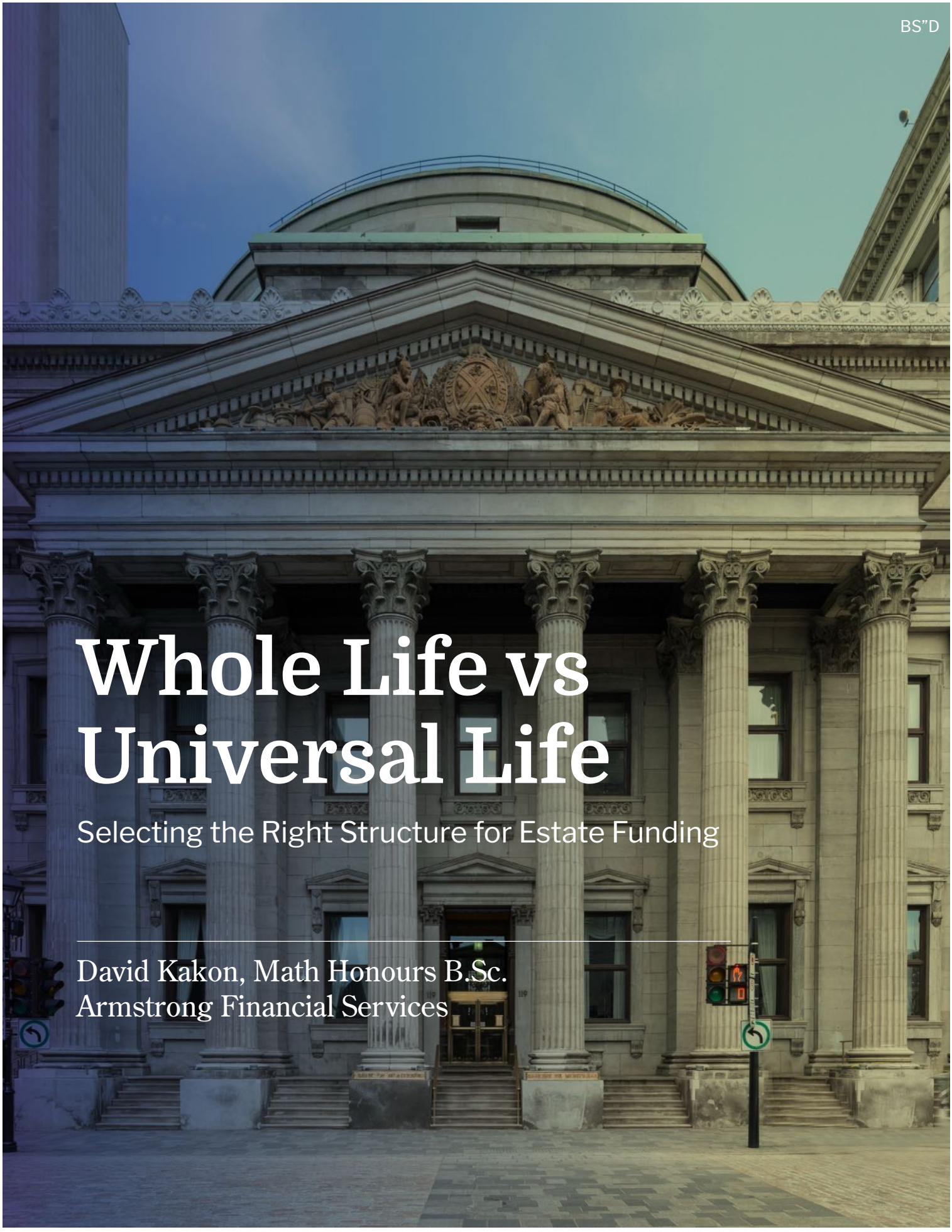
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Whole Life vs Universal Life

Selecting the Right Structure for Estate Funding

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Whole Life vs. Universal Life
Selecting the Right Structure for Estate Funding

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For corporate owners, the primary role of permanent insurance is to fund a defined future tax liability with tax-free liquidity at the moment it is crystallized. Where the objective is a specific liability amount, the choice between Participating Whole Life and Universal Life is primarily a structural one.

Participating Whole Life *is designed to increase the death benefit over time using non-guaranteed dividends. When the goal is a fixed liability, this creates a practical trade-off: either the base coverage is set below the liability (creating a prolonged shortfall risk if dividends underperform), or the full liability is purchased upfront (forcing the corporation to pay for excess coverage it doesn't need and diverting capital from higher-priority business uses).*

Level Universal Life *is designed to match the target liability from inception. The face amount is set to the required level and remains at that level for life, while tax-sheltered policy investment returns are used internally to reduce future insurance costs rather than increase coverage, driving greater cost-efficiency and predictability when planning around a defined corporate transfer liability.*

This memo will examine the mechanics of both, concluding with a quantitative comparison using a matched-funding methodology on a Net-To-Estate basis.

A. Participating Whole Life

Participating Whole Life features a fixed premium and a guaranteed base death benefit. Any coverage beyond this base depends on non-guaranteed dividends from the insurer's participating account—a single managed pool outside the policyholder's control. Assuming these discretionary dividends are used to purchase Paid-Up Additions (PUA) to grow the death benefit, all policy growth relies entirely on the insurer's proprietary dividend formula and outcome.

Discretionary Dividend Mechanism

The frequently referenced Dividend Scale Interest Rate (DSIR %) is used by illustration software to project Whole Life policy outcomes. While often mistakenly viewed as the policy's "yield" or "crediting rate," the DSIR is actually just one component of a broader, proprietary dividend calculation. Before any dividend is credited, the insurer deducts internal costs for mortality, expenses, taxes, and reserve requirements. Because these internal hurdles are relatively fixed, a reduction in the DSIR typically results in a disproportionately larger percentage reduction in the actual dividend credited to the policy. Consequently, the DSIR shown on an illustration should not be interpreted as the net rate of return, and the relationship between the two is not linear. [(1)].

Whole Life projections must be stress-tested to be credible. Prudent analysis requires evaluating scenarios at –1% and –2% below current assumptions. Because of the internal cost structures mentioned earlier, a 1% reduction in the DSIR often triggers a disproportionate decline in projected cash and estate values. This can delay, or entirely prevent, the policy from reaching the target coverage required to fund the estate liability by life expectancy.

The Structural Trade-off: Shortfall or Excess

Because Participating Whole Life uses dividends to buy additional insurance and increase the death benefit over time, this forces one of two outcomes when the objective is a defined future estate liability:

1) Shortfall: The base coverage is set below the liability today, relying on projected growth to "catch up" by life expectancy. This leaves the estate under-insured in the interim, making the plan's success contingent on two non-guaranteed factors: sustained dividend performance and the insured surviving long enough for that growth to materialize.

2) Excess: The base coverage is set to the full liability from day one, yet the policy structurally continues to purchase additional insurance via dividends. In effect, the corporation pays for excess coverage it does not need, diverting capital away from higher-priority business uses (such as growth, reinvestment, debt reduction, or opportunistic deployment).

B. Level Universal Life

Level Universal Life (UL) is structurally designed to match a fixed estate liability with a contractually fixed death benefit from inception. The insurance amount is set upfront and remains level for life, ensuring the liability is covered precisely at all times without the risk of a shortfall or inefficient "excess" coverage.

Unlike Whole Life, which utilizes returns to grow coverage, Level UL maintains a level face amount and instead can use investment returns to pay down insurance costs. Amounts deposited in excess of the annual Cost of Insurance (COI) create a tax-exempt investment fund. During the funding years, this capital can be allocated to grow unencumbered. Once a target fund value is achieved, the reserve can be de-risked, allowing its net present value to safely and completely cover all future insurance costs.

Funding Approach

Universal Life offers a broad spectrum of investment options, ranging from Guaranteed Investment Certificates (GICs) and Government bond accounts to institutional mandates (e.g., BlackRock, Fidelity) and equity indices (e.g., S&P 500, TSX).

Historically, however, this flexibility presented a structural dilemma for corporate liability matching. Policyholders were forced to choose between the cash drag of low-yielding accounts—which required larger capital outlays to sustain the policy—or the volatility of equity markets, which introduced unacceptable risk.

To resolve this trade-off, Canada's major insurers have introduced Institutional **Smoothed-Yield Accounts**. These funds allow corporations to access the insurer's participating asset pool—the "engine" of Whole Life—while retaining the cost-efficient structure of Universal Life's contractually fixed death benefit.

Sun Life's Diversified Account (SLDA) serves as a prime example [(2)]. Managed by the same team and following the same "total-rate-of-return" mandate as the carrier's Whole Life participating account, it provides a strong chassis for UL funding:

- **Contractual Capital Protection:** The account features a 0% floor, guaranteeing that the credited rate will never be negative.
- **Stability:** The fund is typically illustrated between **3.5% and 4.1%**, reflecting the historical range in which the fund trades with near-zero volatility (Std Dev < 1.0%).
- **Institutional Access:** It mirrors the Whole Life fund with direct access to private fixed income (14.4%), commercial mortgages (13.0%), and real estate (13.0%), as well as government & corporate bonds (48.6%) and equities (9.8%).

It is important to reiterate that the goal here is not to increase coverage; the face value remains fixed. Instead, this yield compounds internally on a tax-free basis to offset the Cost of Insurance and, in turn, to drive down the required corporate premium.

C. Corporate Considerations: Net-to-Estate Analysis

For corporate owners, policy efficiency is not determined by the headline face value. It is determined by Net-to-Estate—the actual after-tax capital that reaches shareholders once Adjusted Cost Basis (ACB), Capital Dividend Account (CDA) credits, and terminal share valuation taxes are accounted for.

1. **CDA mechanics:** The CDA credit from a corporately owned policy is generally defined as the death benefit proceeds minus the policy's Adjusted Cost Basis (ACB) immediately before death (ITA 89(1)(d)). Any portion of the death benefit that exceeds the available CDA credit (specifically the amount equal to the ACB) must be distributed as a taxable (non-eligible) dividend.
2. **CSV share-valuation mechanics:** A policy's Cash Surrender Value (CSV) can trigger a terminal share-value tax, even when the death benefit itself is received tax-free. Upon the death of a shareholder, subsection 70(5.3) dictates that the policy's value immediately before death is its CSV. Crucially, this amount increases the Fair Market Value (FMV) of the corporate shares dollar-for-dollar, directly inflating the capital gain realized on those shares at death. Counterintuitively, this gain is not reduced by the policy's ACB [(3)].

Whole Life (Corporate Net-to-Estate)

When evaluated under this corporate context, Participating Whole Life is structurally exposed to two adverse tax outcomes. First, its design inherently generates a higher ACB, directly reducing the portion of the death benefit that can be distributed tax-free through the CDA. Second, Whole Life is intentionally engineered to accumulate significant CSV over time and to match the death benefit at endowment. This artificially inflates the corporate share value at death, creating an additional capital gains tax liability for the estate, where the taxable gain increases dollar-for-dollar with the CSV. As a result, the gross death benefit and the net amount actually retained by the estate can diverge materially.

Level Universal Life (Corporate Net-to-Estate)

Level Universal Life can be explicitly structured to align death benefit, ACB, and CDA outcomes. By utilizing a "**Level + ACB**" design, the policy's death benefit automatically adjusts to equal the fixed insurance amount **plus** the ACB [(4)]. Because the CDA credit is calculated as death benefit minus ACB, this structure mathematically guarantees that the full target liability amount is credited to the CDA at death, providing absolute predictability. Furthermore, a properly optimized level UL can be designed to carry nil CSV at life expectancy, completely eliminating the capital gains exposure created under ITA 70(5.3).

D. Methodology: Comparing Whole Life & Universal Life

A meaningful comparison between Whole Life and Universal Life requires a tax-adjusted Net-to-Estate analysis using **matched funding**. The objective is to evaluate both structures under identical funding conditions, viewing the results strictly through the lens of after-tax estate value, rather than relying on headline death benefits or single-point illustrations.

The Analytical Framework

To ensure a rigorous, bias-free comparison, we adhere to the following five-step process:

1. **Define the Planning Benchmark:** Determine the specific death benefit required based on the estate's projected tax obligation.
2. **Establish the Cost Baseline (Universal Life):** Using a conservative return assumption, solve for the annual premium required to fund a level-death-benefit UL that fully covers the target liability from inception for life.
3. **Remove Funding Bias (Whole Life):** Apply that identical premium schedule to a Whole Life policy. Instead of letting the allure of growth distract from the cost, we solve for the exact outcome this normalized budget can purchase under conservative dividend assumptions (-1% or -1.5% from the current rate).
4. **Corporate Reality Test (Net-to-Estate):** Adjust both outcomes for real-world corporate taxation. We strictly account for CDA limits, taxable dividends on any portion exceeding the CDA, and CSV-driven capital gains exposure.
5. **Full Horizon Assessment:** Compare across the entire timeline. This exposes any coverage gaps in the intermediate years and ensures the strategy fully funds the liability at every point, rather than just at a single, theoretical endpoint.

Special Consideration: Financed Whole Life Strategies (IFA)

When Whole Life is structured as an Immediate Financing Arrangement (IFA), a bank loan funds the premiums. This effectively replaces the planned policy premium with a "new premium" of variable, lifelong interest payments. An objective analysis must compare these lifetime interest costs directly against the fixed UL premium. To be credible, this model must stress-test a 6% loan rate alongside a -1% DSIR reduction, and evaluate outcomes both with and without the assumed tax deductibility of interest and premiums to account for General Anti-Avoidance Rule (GAAR) risks. [(5)].

On the payout side, the comparison must focus strictly on the Net Death Benefit (Gross Coverage minus the Loan Balance) versus the fixed Level UL Face Amount. Since the corporate tax treatment of the CDA and CSV remains identical across both setups, the decision ultimately reduces to a single variable: the financial efficiency of paying variable interest for life versus funding a structured, fixed premium.

E. Case Study: Outcomes Under Matched Funding

This case study isolates structural efficiency from funding bias. We begin by defining the target Net-to-Estate objective and a common funding period, and then solve for the exact Universal Life premium required to secure that liability. By applying that identical premium schedule to an optimized Whole Life design, we can strictly evaluate the difference in after-tax outcomes under normalized inputs.

1. Client Assumptions

- Profile: 55-year-old male, non-smoker, in good health
- Ownership: Quebec resident CCPC (Holding Company)
- Objective: $10,000,000 of after-tax Net-to-Estate liquidity
- Funding Period: 10-year premium schedule
- Planning horizon: Life expectancy set to Year 30 (Age 85)

2. Solve for Universal Life first

We first solve for a Universal Life design that provides level coverage from inception for life, specifically structured to deliver the exact Net-to-Estate target. The annual premium required to fund this policy becomes the fixed financial input for both plans.

- **Product:** Sun Life Universal Life II
- **Asset Allocation:** 100% Sun Life Diversified Account (SLDA).
- **Return Assumption:** 3.95% (Smoothed Yield; no equity sleeve).
- **Solved Premium:** $341,768 (Payable for 10 Years).

3. Apply Identical Funding to Whole Life

We then apply that **identical premium** ($341,768 × 10) to an optimized Whole Life design (Sun Par Protector II, calibrated for maximum overfunding) under a conservative Dividend Scale Interest Rate (DSIR) of 5.25% (-1% from the current rate), ensuring the comparison isolates structural efficiency rather than funding levels.

4. Evaluate both policies on a Net-to-Estate basis

Using current Quebec top-bracket rates, Net-to-Estate is calculated as follows:

- **Tax-free dividend:** Proceeds up to the CDA credit are distributed tax-free.
- **Taxable dividend:** Funds in excess of CDA are distributed as a taxable (non-eligible) dividend at 48.70%.
- **CSV share-valuation tax:** Net-to-Estate is reduced by tax attributable to policy CSV under ITA 70(5.3), modelled at 26.65% (53.31% rate × 50% inclusion rate).

$$\Rightarrow \textit{Net-to-Estate} = CDA + [\,(FV - CDA) \times (1 - 48.70\%)\,] - [\,CSV \times 26.65\%\,]$$

F. Case Study: Summary of Results

The results below reflect after-tax Net-to-Estate outcomes (accounting for CDA credits and taxes), rather than potentially misleading gross illustrations. **Both policies are funded with the same premium of $341,768 per year for 10 years.**

***Universal Life** / Sun Life UL II Level Face + ACB, YRT85 Cost, SLDA @ 3.95%*

Year	Age	CSV	Face Value	ACB	CDA	Net-to-Estate
1	56	-	10,329,268	329,268	10,000,000	10,168,914
10	65	3,226,052	12,982,404	2,982,404	10,000,000	10,670,150
20	75	2,809,599	11,205,639	1,205,639	10,000,000	9,869,664
30	**85**	**-**	**10,000,000**	**-**	**10,000,000**	**10,000,000**
40	95	-	10,000,000	-	10,000,000	10,000,000

***Whole Life** / Sun Life Par Protector (Offset After Year 10) DSIR @ 5.25%*

Year	Age	CSV	Face Value	ACB	CDA	Net-to-Estate
1	56	196,302	5,014,208	335,892	4,678,316	4,798,309
10	65	3,191,877	9,268,803	3,182,511	6,086,292	6,868,205
20	75	5,348,895	9,033,809	2,278,983	6,754,826	6,498,330
30	**85**	**7,511,610**	**9,824,916**	**480,039**	**9,344,877**	**7,589,105**
40	95	10,054,368	11,337,650	-	11,337,650	8,657,910

Conclusion:

Under identical funding conditions, Universal Life outperforms Whole Life across the entire projection—not just at life expectancy. UL locks in the required liability protection from day one and directs tax-free growth toward minimizing long-term carrying costs, providing the required after-tax liquidity at every measured interval.

Conversely, Whole Life's reliance on dividend-driven growth leaves the estate drastically underinsured for decades. Starting with a material coverage gap, the Whole Life policy never catches up to the liability. It provides just $4.8M (less than half the required target) in Year 1, and still yields a $2.4M shortfall at life expectancy (Age 85).

Appendix

A. Universal Life Case Study - Illustration Details

B. Whole Life Case Study - Illustration Details

C. Glossary of Technical Terms

D. Source References

Sun Life Universal Life @ 3.95%

Yr	Age	Deposit	Cash Value	Face Value	ACB	CDA	Net to Estate [1]
1	56	$341,768	-	$10,329,268	$329,268	$10,000,000	$10,168,914
2	57	341,768	228,544	10,652,417	652,417	10,000,000	10,273,777
3	58	341,768	533,640	10,970,084	970,084	10,000,000	10,355,425
4	59	341,768	936,619	11,281,909	1,281,909	10,000,000	10,407,987
5	60	341,768	1,257,412	11,587,266	1,587,266	10,000,000	10,479,136
6	61	341,768	1,674,302	11,885,270	1,885,270	10,000,000	10,520,900
7	62	341,768	2,008,346	12,174,967	2,174,967	10,000,000	10,580,484
8	63	341,768	2,529,992	12,455,276	2,455,276	10,000,000	10,585,250
9	64	341,768	2,876,072	12,724,815	2,724,815	10,000,000	10,631,285
10	65	**341,768**	**3,226,052**	**12,982,404**	**2,982,404**	**10,000,000**	**10,670,150**
11	66	-	3,231,633	12,883,863	2,883,863	10,000,000	10,618,111
12	67	-	3,227,809	12,770,058	2,770,058	10,000,000	10,560,748
13	68	-	3,214,451	12,639,480	2,639,480	10,000,000	10,497,322
14	69	-	3,192,139	12,490,617	2,490,617	10,000,000	10,426,902
15	70	-	3,160,726	12,321,908	2,321,908	10,000,000	10,348,726
16	71	-	3,117,539	12,131,583	2,131,583	10,000,000	10,262,600
17	72	-	3,061,078	11,924,499	1,924,499	10,000,000	10,171,414
18	73	-	2,992,610	11,700,719	1,700,719	10,000,000	10,074,863
19	74	-	2,910,463	11,460,747	1,460,747	10,000,000	9,973,652
20	75	**-**	**2,809,599**	**11,205,639**	**1,205,639**	**10,000,000**	**9,869,664**
21	76	-	2,687,287	10,936,975	936,975	10,000,000	9,764,439
22	77	-	2,542,726	10,656,397	656,397	10,000,000	9,659,032
23	78	-	2,375,935	10,366,454	366,454	10,000,000	9,554,745
24	79	-	2,181,625	10,070,419	70,419	10,000,000	9,454,667
25	80	-	1,955,828	10,000,000	-	10,000,000	9,478,723
26	81	-	1,685,850	10,000,000	-	10,000,000	9,550,679
27	82	-	1,361,948	10,000,000	-	10,000,000	9,637,007
28	83	-	975,169	10,000,000	-	10,000,000	9,740,093
29	84	-	523,490	10,000,000	-	10,000,000	9,860,477
30	**85**	**-**	**-**	**10,000,000**	**-**	**10,000,000**	**10,000,000**
31	86	-	-	10,000,000	-	10,000,000	10,000,000
32	87	-	-	10,000,000	-	10,000,000	10,000,000
33	88	-	-	10,000,000	-	10,000,000	10,000,000
34	89	-	-	10,000,000	-	10,000,000	10,000,000
35	90	-	-	10,000,000	-	10,000,000	10,000,000
36	91	-	-	10,000,000	-	10,000,000	10,000,000
37	92	-	-	10,000,000	-	10,000,000	10,000,000
38	93	-	-	10,000,000	-	10,000,000	10,000,000
39	94	-	-	10,000,000	-	10,000,000	10,000,000
40	95	**-**	**-**	**10,000,000**	**-**	**10,000,000**	**10,000,000**

Insured: Male Age 55 Std Non-Smoker (QC) Corporate Owner
Sun Life Universal Life II Level UL (YRT70) / Assumed ROR = 3.95%
(1) Net Estate = CDA + [(Face - CDA) x (1 - 48.70%)] - [CV x 26.65%]

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Sun Life Whole Life Par @ 5.25%

Yr	Age	Deposit	Cash Value	Face Value	ACB	CDA	Net to Estate [1]
1	56	$341,768	$196,302	$5,014,208	$335,892	$4,678,316	$4,798,309
2	57	341,768	405,668	5,474,322	668,571	4,805,751	5,040,607
3	58	341,768	628,767	5,935,869	998,298	4,937,571	5,282,116
4	59	341,768	866,279	6,399,469	1,324,774	5,074,695	5,523,419
5	60	341,768	1,146,076	6,865,594	1,647,557	5,218,037	5,757,776
6	61	341,768	1,452,905	7,335,051	1,966,050	5,369,001	5,990,349
7	62	341,768	1,826,216	7,808,834	2,279,610	5,529,224	6,211,932
8	63	341,768	2,239,955	8,288,334	2,587,489	5,700,845	6,431,223
9	64	341,768	2,694,798	8,774,454	2,888,780	5,885,674	6,649,387
10	65	**341,768**	**3,191,877**	**9,268,803**	**3,182,511**	**6,086,292**	**6,868,205**
11	66	-	3,395,039	9,186,016	3,128,290	6,057,726	6,757,676
12	67	-	3,625,744	9,117,200	3,067,288	6,049,912	6,657,079
13	68	-	3,884,145	9,062,517	2,998,731	6,063,786	6,566,913
14	69	-	4,169,977	9,021,871	2,921,878	6,099,993	6,487,513
15	70	-	4,483,036	8,995,488	2,835,885	6,159,603	6,419,571
16	71	-	4,644,975	8,983,022	2,739,735	6,243,287	6,410,769
17	72	-	4,812,227	8,980,610	2,636,398	6,344,212	6,414,105
18	73	-	4,984,946	8,988,181	2,525,413	6,462,768	6,429,692
19	74	-	5,163,700	9,005,893	2,406,399	6,599,494	6,457,722
20	75	**-**	**5,348,895**	**9,033,809**	**2,278,983**	**6,754,826**	**6,498,330**
21	76	-	5,540,870	9,071,914	2,142,809	6,929,105	6,551,586
22	77	-	5,739,927	9,119,921	1,997,512	7,122,409	6,617,299
23	78	-	5,946,240	9,177,480	1,842,831	7,334,649	6,695,200
24	79	-	6,160,073	9,244,173	1,678,480	7,565,693	6,784,940
25	80	-	6,381,403	9,319,263	1,504,258	7,815,005	6,885,886
26	81	-	6,611,010	9,402,940	1,319,979	8,082,961	6,998,111
27	82	-	6,825,755	9,496,043	1,125,495	8,370,548	7,128,693
28	83	-	7,047,885	9,598,387	920,688	8,677,699	7,271,574
29	84	-	7,276,910	9,708,241	705,529	9,002,712	7,425,170
30	**85**	**-**	**7,511,610**	**9,824,916**	**480,039**	**9,344,877**	**7,589,105**
31	86	-	7,752,515	9,949,775	244,219	9,705,556	7,764,601
32	87	-	7,998,671	10,082,520	-	10,082,520	7,950,674
33	88	-	8,248,831	10,222,644	-	10,222,644	8,024,124
34	89	-	8,502,187	10,370,154	-	10,370,154	8,104,109
35	90	-	8,756,801	10,523,086	-	10,523,086	8,189,180
36	91	-	9,011,802	10,680,695	-	10,680,695	8,278,824
37	92	-	9,267,674	10,841,837	-	10,841,837	8,371,770
38	93	-	9,525,999	11,006,056	-	11,006,056	8,467,139
39	94	-	9,787,128	11,171,553	-	11,171,553	8,563,039
40	95	**-**	**10,054,368**	**11,337,650**	**-**	**11,337,650**	**8,657,910**

Insured: Male Age 55 Std Non-Smoker (QC) Corporate Owner
Sun Life Whole Life Par Protector (Offset Y11) / Div. Int. Scale: 5.25%
(1) Net to Estate = CDA + [(Face - CDA) x (1 - 48.7%)] - [CV x 26.65%]

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C) Glossary of Terms

Policy Face Value
The contractual death benefit. In a Level UL policy, this amount remains permanently fixed. In a UL Level+Fund, it grows based on investment accumulation, whereas in Participating Whole Life, it typically grows over time via discretionary dividends.

Cash Surrender Value (CSV)
The accessible liquid equity within a policy. Crucially for corporate owners, the CSV establishes the fair market value of the shares immediately prior to death.

Net Amount at Risk (NAAR)
The carrier's actual financial exposure. The NAAR serves as the base figure for calculating internal policy charges. In a Level UL policy, it is calculated as the Face Value minus the CSV (meaning a growing cash value results in a diminishing NAAR). In Whole Life or Level+ACB structures, the NAAR typically remains fixed.

Cost of Insurance Rate (COI Rate)
The contractual multiplier used to price the coverage, typically fixed and expressed as a rate per $1,000 of NAAR. This rate is applied directly to the NAAR to determine the actual cost deducted from the policy.

Cost of Insurance (COI)
The actual dollar amount deducted from the policy account to maintain coverage, calculated as [COI Rate × (NAAR ÷ 1,000)]. Because this calculation is tied to the NAAR, the COI deductions in a Level UL policy decrease as the cash pool grows.

Net Cost of Pure Insurance (NCPI)
The fixed annual tax cost of the policy, calculated using the NAAR and CRA-defined rates. The NCPI serves two functions: it is the cumulative expense that grinds down the policy's Adjusted Cost Basis (ACB), and it is the premium portion that can be deducted from corporate income when a policy is collaterally assigned for a loan.

Adjusted Cost Basis (ACB)
The corporate tax base of the policy, calculated as Total Premiums Paid minus Cumulative NCPI. Because the NCPI accumulates annually, it eventually overtakes the total premiums deposited, driving the ACB down to $0. This declining ACB directly dictates the tax-free distribution limit at death.

CDA (Capital Dividend Account)
A notional corporate account enabling tax-free distributions to shareholders. For life insurance, the credit is calculated as the Death Benefit minus the ACB. As the ACB reduces to $0 over time, the entire death benefit becomes a 100% tax-free CDA credit.

D) Source References

(1) *"You don't choose the investments that make up the participating account. We invest the account to meet the long-term objectives and guarantees of participating policies." "The dividend scale interest rate is not guaranteed and is based on factors that are certain to change. The dividend scale interest rate is neither an estimate nor a guarantee of how the products will perform in future. Dividends take into account factors such as investment yield, mortality, expenses, taxes, and lapses." "We also employ smoothing techniques to help keep the dividend scale interest rate more stable over time. Smoothing refers to the process of amortizing investment gains and losses over a number of years." (Sun Life Participating Whole Life Facts Figures, 2025 /* https://cdn.armfs.com/memos/sources/810-3827.pdf*)*

(2) *"The Sun Life Diversified Account is managed by the same group of professionals who are responsible for the Sun Life participating account." "The diversified account is unique in that it offers Clients the investment philosophy and design of a participating account, but with the flexibility and transparency only offered by universal life insurance." "To help minimize the volatility of returns, we use a smoothed portfolio asset yield to set the interest rate. The process of smoothing involves amortizing gains and losses on assets within the portfolio over time." "Sun Life guarantees that the interest rate credited to your policy for the SLDA will never be negative." (Sun Life Diversified Account, 2025 /* https://cdn.armfs.com/memos/sources/810-4936.pdf*)*

(3) *"The Income Tax Act (ITA) provides in subsection 70(5.3) that in the event of the death of a shareholder of a corporation, only the cash surrender value (CSV) of any insurance policy on the shareholder's life needs to be considered for purposes of determining the fair market value (FMV) of the deceased's shares in order to calculate the capital gain or loss on the shares. This means that even if the FMV of the life insurance policy was very high immediately before the insured's death (because, for example, he or she had a terminal illness), only the CSV of the policy would be taken into account for the valuation of shares." (Fair Market Value of Corporate Shares and Life Insurance, 2020 /*https://cdn.armfs.com/memos/sources/810-7053.pdf*)*

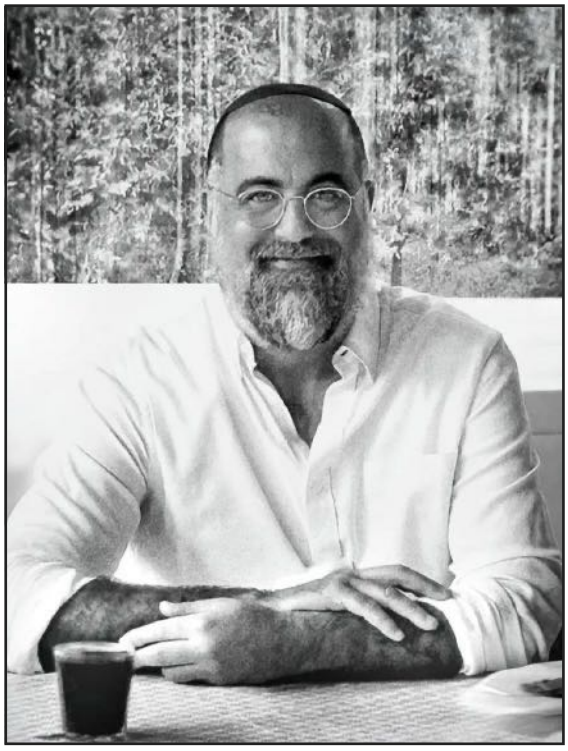
(4) *"Level insurance amount plus adjusted cost basis (ACB): The death benefit will always be equal to the basic insurance amount plus the policy's adjusted cost basis. This option is designed for business owners who want to optimize credits to the corporation's capital dividend account." (Sun Life Universal Life II Client Guide, 2025 /*https://cdn.armfs.com/memos/sources/810-4554.pdf*)*

(5) *"The tax treatment applicable to loans, interest deductibility and life insurance policies may change over time without any grandfathering provisions." "In addition, the CRA could decide to invoke the GAAR in section 245 of the ITA." "The concern is that, in circumstances where it determines that it is appropriate to do so, the CRA could use the GAAR to characterize a collateral loan as a policy loan. Any money received from a policy loan is tax-free to the extent the borrowed funds do not exceed the policy's ACB, and taxable to the extent they do." (Leveraging a Life Insurance Policy, 2024 /* https://cdn.armfs.com/memos/sources/810-2876.pdf*)*

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