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	Topic	Summary
	<p>Introduction</p>	<ul style="list-style-type: none"> • The government has updated the tax rules that govern life insurance policies issued January 1, 2017 and beyond, which will impact new sales of life insurance products • The legislative changes will also apply to policies issued before December 31, 2016, which lose grandfathering due to certain policy changes made after January 1, 2017
	<p>Exempt test</p>	<ul style="list-style-type: none"> • The exempt test measures the extent to which a life insurance policy is protection-oriented or savings-oriented • These income tax rules, including the exempt test, were first introduced in 1982 • Generally, if the savings element of the actual policy (the greater of the cash surrender value and a reserve) is always less than or equal to the savings element of a hypothetical exemption test policy, then the actual life insurance policy is exempt from accrual taxation
	<p>Highlights of the changes</p>	<ul style="list-style-type: none"> • All policies issued on or before December 31, 2016 will be grandfathered • However, a policy could lose its grandfathered status if certain changes are made after 2016, specifically, policy changes that would increase coverage and require medical underwriting • The prescribed payment period for exemption test policies will be shortened from 20 years to 8 years, and the assumed endowment age will increase from age 85 to age 90 to reflect higher life expectancy • Participating life insurance policies issued after 2016 will have less room for tax-advantaged value inside the policy over the long term • For universal life policies issued in 2017 and later, the change will result in: <ul style="list-style-type: none"> ○ Higher investment income tax ○ An increase in the cost of universal life insurance ○ Less room for tax-advantaged value inside the policy over the long term

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 <p>Highlights of the changes</p>	<ul style="list-style-type: none"> • For most policies issued after 2016, the net cost of pure insurance (NCPI) will be lower, which will cause the adjusted cost basis (ACB) to decrease at a slower rate, reducing the possible tax deductions for collateral loans • For corporate policies, a higher ACB will reduce the credit to the capital dividend account (CDA) • For rated cases, this will generally result in a higher NCPI, reducing the ACB faster, increasing the credit to the CDA, and may increase deductions for collateral loans
 <p>Impact</p>	<ul style="list-style-type: none"> • We design our life insurance products to be tax exempt at issue and, in an effort to keep them exempt, we test them annually • With these changes, we'll continue to test life insurance policies annually in an effort to keep your clients' policies tax exempt
 <p>Client considerations</p>	<ul style="list-style-type: none"> • For policies that may be assigned as collateral for a loan, and the interest on the loan is deductible for income tax purposes, clients may also deduct a portion or all of each policy's NCPI <ul style="list-style-type: none"> ○ Clients may want to buy now as the NCPI will generally be higher than in 2017 and later years • Buy corporately owned life insurance now <ul style="list-style-type: none"> ○ In general, the larger NCPI will reduce the ACB faster, leaving a larger credit to the corporation's capital dividend account ○ This will maximize the potential to distribute life insurance death benefit proceeds to shareholders of a private corporation as tax-free capital dividends • Clients who are interested in universal life insurance, and want to minimize the cost of insurance or maximize the amount of premiums that can be paid into the policy (referred to as maximum funding) will want to consider buying in 2016

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	Action plan	<ul style="list-style-type: none">• Plan your approach with existing and new clients• Consider the impact these legislative changes will have for corporate clients, as well as individual clients interested in permanent life insurance• Familiarize yourself with the changes that could trigger a loss of grandfathering to ensure the best possible solutions for your clients• Contact your MGA, branch office or the Canada Life regional marketing centre nearest you if you have questions about these changes
	Conclusion	<ul style="list-style-type: none">• In the coming months, watch for more information as we keep you up to date with how these changes will impact your clients, your business and our products