

Using corporate money to fund your retirement

Many individuals have built up significant cash or liquid assets within their corporation but the tax cost of withdrawing those funds is often prohibitive, resulting in the corporation itself looking to purchase the investments directly.¹

HOW MANULIFE RETIREMENTPLUS™ CAN HELP

Manulife RetirementPlus may be an appropriate investment particularly where the corporation wants to have a guaranteed income stream either now, or in the future. For example, where an individual intends to use the corporate assets to help fund their retirement income.

Manulife RetirementPlus may be especially attractive to owners sensitive to protecting their assets and who are currently invested in fixed income investments such as GICs² or bonds.

The guarantees offered by Manulife RetirementPlus help ensure lifetime income that the owner can never outlive. In addition, it provides the opportunity to invest in the market and take advantage of tax deferral and more tax efficient income when saving

for retirement, as well as the potential for greater investment growth.³

MEET CHRISTINE

Christine, 45, is a successful businesswoman with \$3 million in her corporation and plans to retire in 20 years when she is 65. She doesn't have a pension plan, and although she has maximized her Registered Retirement Savings Plan (RRSP) contributions, she needs the corporation's assets to supplement her retirement income.

Christine has taken a conservative approach to investing the assets of her corporation and is invested exclusively in GICs, bonds and high interest savings accounts. Now, she is looking for higher potential returns, moreover she is not happy that almost half of the growth is being lost to taxes.

¹This piece assumes the corporation is a Canadian Controlled Private Corporation (CCPC). ²For this article GIC refers to both Insurance company issued Guaranteed Interest Contracts as well as Guaranteed Investment Certificates issued by other financial institutions. ³For a more detailed explanation see "Tax Treatment of Manulife RetirementPlus" MK2872.

Let's assume she uses \$1 million of that \$3 million to purchase Manulife RetirementPlus, deferring income for 20 years. Compare that with investing \$1 million in a GIC or bond for 20 years, assuming no withdrawals.

CHRISTINE'S PORTFOLIO AFTER 20 YEARS

After 20 years, assuming a five per cent rate of return on her investment in Manulife RetirementPlus, she would have approximately \$847,000 more than had she invested in a GIC/Bond (assuming a three per cent rate of return). The corporation would have paid approximately \$20,000 more in taxes, however this includes approximately \$271,000 of taxes paid on capital gains at the time of Transition.⁴ While this Transition does realize taxes upfront, it also creates a significant increase to the Capital Dividend Account (CDA) of almost \$580,000. Consequently, the corporation has a balance of \$766,013 that it can pay out tax free to Christine as a "capital" dividend.⁵ Furthermore, starting in year 21 (when Christine is 65), with Manulife RetirementPlus the corporation is guaranteed to receive an annual income of \$156,825 a year for every year that Christine is alive.⁶ With the GIC the same amount of gross income is being withdrawn, however, this includes a return of capital component to make up the interest income shortfall.

Accumulation stage – snapshot after 20 years

| | GIC/Bond 3.0% ROR ⁷ (\$) | Manulife RetirementPlus 5.0% ROR ⁸ (\$) |
|--|--|--|
| Fair Market Value | 1,791,987 | 2,653,298 |
| Income Credits Transitioned ⁹ | \$0 | 1,010,847 |
| Amount Added to CDA | 0 | 764,650 |
| Tax paid Years 1-20 | 372,234 | 417,664 |

For illustration purposes only. ⁷ Rate of return (ROR) ⁸ During the Savings Phase assumes a 30% taxable portion on the fund return (75% capital gains & 25% interest) and a 2.98% income credit rate. The corporate tax rate is 47% (23.5% on capital gains). ⁹ Income Credits are not cash deposits, they increase the basis for calculating future guaranteed income. The Income Credit Rate is subject to change. For the current rate please visit manulife.ca/investments or speak with your advisor.

⁴ The process of moving market value and Accumulated Income Credits from the Savings Phase to the Preservation or Income Phases in a Manulife RetirementPlus contract. ⁵ The CDA is a notional account that includes the non-taxable 50% of all capital gains. Corporations can elect to pay a "capital" dividend up to the balance in the CDA and the dividend is received tax-free by the shareholder. For more information on CDA, see "Taxation of investment income within a corporation" MK2665. ⁶ Assumes Christine is the annuitant and, at age 65, has elected the Total Income Amount at a 4.28% Income Rate and no excess withdrawals are made. For current rates please visit manulife.ca/investments.

CHRISTINE'S AFTER-TAX INCOME IN YEARS 21-46

Starting in year 21 when she needs the income from her corporation to fund her retirement, Christine's after-tax income with Manulife RetirementPlus, assuming a two per cent rate of return, is substantially higher than with the GIC/Bond. In fact, Christine receives more than twice the after-tax income between the ages of 65 and 90 from Manulife RetirementPlus compared to a GIC.

This is because when the GIC's market value is depleted at year 35, it can no longer pay any more return of capital (ROC) or interest income.

After-tax income to Christine ¹⁰

| | GIC/Bond 3.0% ROR (\$) | Fair Market Value (\$) | Manulife RetirementPlus 2.0% ROR (\$) | Fair Market Value (\$) |
|---------------------|------------------------|------------------------|---------------------------------------|------------------------|
| Year 21 (age 65) | 88,144 | 1,688,922 | 142,466 | 2,535,187 |
| Year 26 (age 70) | 120,296 | 1,125,318 | 140,904 | 1,982,928 |
| Year 31 (age 75) | 103,299 | 471,947 | 120,009 | 1,373,189 |
| Year 36 (age 80) | 0 | 0 | 104,290 | 699,988 |
| Year 41 (age 85) | 0 | 0 | 99,613 ¹¹ | 0 |
| Year 46 (age 90) | 0 | 0 | 83,533 | 0 |
| Total (years 21-46) | 1,584,000 | 0 | 2,987,820 | 0 |

For illustration purposes only. ¹⁰ Assumes a corporate tax rate of 47%, year end allocations equal to 80% of fund return comprised 90% interest and 10% capital gains. The taxable dividends paid to Christine are non-eligible dividends taxed at 33%. Takes into account and maximizes the use of the Refundable Dividend Tax on Hand (RDTOH) account and CDA where possible. Based on a Single Life Payout Option. ¹¹ We have assumed that payments during the guaranteed payment phase (which begins in year 41) are fully taxable however the taxation of these payments is uncertain at this time. Please consult your tax advisor.

THE ADVANTAGE OF MANULIFE RETIREMENTPLUS

With Manulife RetirementPlus, the benefit is its ability to provide a guaranteed lifetime income to help manage longevity risk. Even when the market value is depleted in year 41, the investment enters the Guaranteed Payment Phase¹² and continues to pay Christine a guaranteed income stream.

By shifting part of the corporation's portfolio from fixed income investments to Manulife RetirementPlus, the total after-tax income Christine receives from her corporation during the Income Phase may be significantly higher leaving her feeling much better about her retirement plans.¹³

IDEAL CANDIDATES

Individuals:

- With cash in their corporation that they are looking to invest
- With corporate assets currently invested in fixed income investments
- Who will rely on corporate assets to help fund their retirement income
- Who are looking for tax deferral, more tax efficient income and a guaranteed income stream

TAKE ACTION

- Determine the amount of guaranteed income you are looking for from these corporate assets
- Consider using Manulife RetirementPlus to fund part or all of that guaranteed income stream

INVESTMENT OPTIONS WITH MANULIFE

Manulife and its subsidiaries provide a range of investments and services including:

Manulife Segregated Fund Contracts that combine the growth potential offered by a broad range of investment funds with the unique wealth protection features of an insurance contract. With Manulife segregated fund contracts, investors can help minimize their exposure to risk through income, death and maturity guarantees, potential creditor protection features, and estate planning benefits – all from a single product or insurance contract.

¹² The Guaranteed Payment Phase (GPP) occurs when the fair market value is \$0 but there is a positive Total Income Amount or Eligible Total Income Amount. The taxation of these payments is not certain at this time. Please consult your tax advisor for further information. We will report any payments during the GPP based on our understanding of tax legislation and CRA assessing practices at that time. The policyowner is responsible for any tax liabilities arising from any change in law, interpretation, or Canada Revenue Agency (CRA) assessing practices. This example assumes that these payments are considered income and fully taxable. ¹³ Investing with a corporation can be complex. A thorough review of all of the issues is beyond the scope of this piece. Please consult with your tax advisor about the applicability of such a strategy.



FOR MORE INFORMATION CONTACT YOUR ADVISOR OR VISIT MANULIFE.CA/INVESTMENTS



This publication does not provide all features and fees offered by Manulife RetirementPlus. Please read the Information Folder, Contract and Fund Facts for more details. The commentary in this publication is for general information only and should not be considered investment or tax advice to any party. Individuals should seek the advice of professionals to ensure that any action taken with respect to this information is appropriate to their specific situation. Any amount that is allocated to a segregated fund is invested at the risk of the contractholder and may increase or decrease in value. The Manufacturers Life Insurance Company is the issuer of the Manulife RetirementPlus insurance contract and the guarantor of any guarantee provisions therein. The Maturity and Death Benefit Guarantees are reduced proportionally by withdrawals. Exceeding withdrawal thresholds and/or withdrawals taken prior to the Election of Income may have a negative impact on future income payments. Age restrictions and other conditions may apply. Income Credits are not cash deposits, they increase the basis for calculating future guaranteed income. The Income Credit Rate is subject to change. For the current rate please visit manulife.ca/investments or speak with your advisor. Manulife, the Block Design, the Four Cubes Design, strong reliable trustworthy forward-thinking and Manulife RetirementPlus are trademarks of The Manufacturers Life Insurance Company and are used by it, and by its affiliates under license.