

Your Company Name Corporate Insured Annuity

(current date)

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"Changing highly taxed undistributed investment capital into additional retirement income on a tax favored basis!"

Is your corporation's Refundable Tax Account on investment income growing at an alarming rate?

Would you like to reduce the bite of the refundable tax, and increase the asset you can pass on intact to your heirs?

Many people are unaware that:

- * The income tax they will have to pay on excess capital is at the high corporate rate, and is not subject to the small business deduction.
- * The dividend payout is significantly higher with the special tax treatment of an annuity, over an Alternative Investment!
- * The estate benefit payable at death due to the special tax treatment of corporate life insurance is greatly enhanced!

A Corporate Insured Annuity combines two well known financial planning tools, but in a unique way. A "Non-Prescribed Annuity" provides you with a guaranteed income for the rest of your life, and the life insurance policy issued for the same amount of your annuity deposit, guarantees that the original asset will be paid to your corporation as the designated beneficiary at death. This asset is transferred almost intact through the Capital Dividend Account of your corporation to your heirs. Not so of the Alternative Investment, however, which is subject to tax as winding-up dividends.

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When funds within a Canadian-controlled private corporation are in excess of what is needed to carry on its active business in Canada, the description of those funds changes from operating funds to investment funds. Earnings on investment funds, generally referred to as investment income, are not subject to the small business deduction; they are taxed at the high corporate rate. This reduces the amount available to the corporation for pay-out as dividends to its shareholders. The Income Tax Act requires that an extra refundable tax on investment income be collected. The extra rate is 6 2/3% on income from investments and taxable gains. The rate was increased to 33 1/3% in February of 1994 on income from dividends. The tax is credited to a notional tax account called the Refundable Dividend Tax On Hand (RDTOH) account. When the corporation pays taxable dividends to its shareholders, the tax is refunded at a 3:1 rate, regardless of what rate the RDTOH was collected at. RDTOH refunds are limited and can not offset the 4% Corporation Surtax. Furthermore, accountants go through a circular calculation to find the optimal annual dividend distribution. This illustration shows the amount available for payment as a dividend from the "investment income" of a long term Alternative Investment held by a corporation. Corporate Capital taxes, if applicable, are included.

LONG TERM ALTERNATIVE INVESTMENT:

Investment:	:	\$1,000,000
AI Interest:	:	\$60,000
Corporate Income Taxes:	:	\$31,162
Corporate Capital Taxes:	:	\$3,000
Dividend:	:	\$25,838
RDTOH:	:	\$8,613
Total Dividend:	:	\$34,451
Equivalent Gross Rate of Return:	:	8.00%

This illustration shows how the same amount that is invested in the "Long Term Alternative Investment" produces higher dividends for shareholders if it is invested in a combination life annuity and term to 100 life insurance policy. The approach is referred to as Corporate Insured Annuity. Both the annuity and the term insurance policy are taken out on one of the principal shareholders. The investment not only results in higher dividend payments while the principal shareholder is living, it also results in a much higher payout to the estate of the shareholder when he or she dies. The reason is that the combination of interest and principal payments from an annuity are more tax effective than interest only payments from a traditional Alternative Investment. At death the annuity has no value but the life insurance proceeds replace the initial investment in the annuity by the company. Since corporate owned life insurance benefits from favorable tax treatment, the major part of the death proceeds are paid tax-free through the Capital Dividend Account of the corporation. The same is not true for the distribution of capital from the "Long Term Alternative Investment". The heirs can only receive the proceeds through taxable winding-up dividends. They will have to pay taxes on the amount received that may reduce the value by as much as 40%.

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The General Anti-Avoidance Rule (GAAR) in the Income Tax Act may deny a tax benefit that is the result of an avoidance transaction, unless it is undertaken primarily for purposes other than to obtain the tax benefit. Since the main purpose for a corporate insured annuity is to increase income from guaranteed investments, the GAAR rule is unlikely to apply.

NOTE: The corporate tax column on the Insured Annuity Pre-Tax dividend page is calculated as follows:

$$\text{Tax} = (\text{Taxable Portion} - \text{Capital Tax}) \times (\text{Corporate Tax Rate})$$

The capital tax is calculated as:

$$\text{Capital Tax} = (\text{Commuted Value of Annuity}) \times (\text{Capital Tax Rate})$$

The dividend tax rate is calculated as follows:

$$\text{Dividend Tax Rate} = 1.25 \times (\text{Marginal Tax Rate} - 0.2)$$

NOTE: The Adjusted Cost Basis (ACB) shown in this illustration is based on calculations which are based on Net Cost of Pure Insurance (NCPI) figures which have been calculated based on the ILLUSTRATED Net Amount at Risk (Policy Death Benefit less Accumulated Fund Value). If a TERM policy is illustrated, the NCPI figures may not be accurate as the hidden actuarial reserve has not and cannot be accounted for. This is usually only significant for the older years (70 plus); however, since the ACB often goes to zero before age 70, the accuracy of the ACB should not be significantly affected.

This illustration is generic across Canada and assumes an average provincial tax rate of 50%. The tax rate in your jurisdiction may be lower or higher.

This is an illustration only and NOT a Contract. Rates of return and values contained within are projections only and are not guarantees or forecasts of future performance. It must be read in conjunction with a policy illustration from the Life Company.

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CONCEPT ASSUMPTIONS

Insureds

Insured: Retired Business Owner,
Male Age 65 Non-Smoker

Prepared By:

Name: Agent / Broker

Product

Name: Term to 100
Policy Type: Single Life
Face Amount: \$1,000,000
Payment Method: Life Pay

Alternative Investment

Growth Breakdown: 100% Interest
Effective Tax Rate On Interest: 54.67%
Projected Annual Growth Rate: 6.000%

Other Details

Annuity Investment: \$1,000,000
Annuity Income: \$85,734
Annuity Rate: 4.50%
Corporate Tax Rate: 48.00%
Capital Tax Rate: 0.30%

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CASH FLOW ILLUSTRATION SHOWING TOTAL PRE-TAX DIVIDENDS USING INSURED ANNUITY APPROACH

Pol Yr	Age	Annuity Payout	Taxable Portion	Total Tax	Insurance Premiums	Balance	RDTOH	Total Annual Dividend	Equivalent Gross Rate of Return
1	66	85,734	15,898	9,112	30,145	46,477	3,480	49,957	9.91%
2	67	85,734	43,741	22,431	30,145	33,158	10,929	44,087	8.78%
3	68	85,734	42,240	21,665	30,145	33,924	10,552	44,476	8.85%
4	69	85,734	40,709	20,885	30,145	34,704	10,167	44,871	8.93%
5	70	85,734	39,150	20,091	30,145	35,498	9,775	45,273	9.01%
6	71	85,734	37,568	19,287	30,145	36,302	9,376	45,678	9.08%
7	72	85,734	35,963	18,472	30,145	37,117	8,971	46,089	9.16%
8	73	85,734	34,338	17,647	30,145	37,942	8,561	46,502	9.24%
9	74	85,734	32,692	16,813	30,145	38,776	8,144	46,920	9.32%
10	75	85,734	31,025	15,969	30,145	39,620	7,722	47,342	9.40%
11	76	85,734	29,333	15,114	30,145	40,475	7,292	47,767	9.49%
12	77	85,734	27,615	14,248	30,145	41,341	6,856	48,197	9.57%
13	78	85,734	25,871	13,370	30,145	42,219	6,412	48,630	9.65%
14	79	85,734	24,098	12,479	30,145	43,110	5,959	49,069	9.74%
15	80	85,734	22,297	11,577	30,145	44,012	5,498	49,511	9.82%
16	81	85,734	20,464	10,660	30,145	44,929	5,028	49,958	9.91%
17	82	85,734	18,600	9,730	30,145	45,859	4,549	50,409	9.99%
18	83	85,734	16,702	8,785	30,145	46,804	4,061	50,865	10.08%
19	84	85,734	14,771	7,826	30,145	47,763	3,562	51,325	10.17%
20	85	85,734	12,818	6,857	30,145	48,732	3,057	51,789	10.26%

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ILLUSTRATION SHOWING THE AFTER-TAX DIVIDEND AT DEATH USING AN ALTERNATIVE INVESTMENT

Pol Yr	Age	Undistributed Capital Surplus	Taxable Winding-up Dividends	Income Taxes Paid By the Heirs	Refund of RDTOH	Net After Taxes Proceeds to the Heirs
1	66	1,000,000	1,000,000	312,500	6,589	692,030
2	67	1,000,000	1,000,000	312,500	13,178	696,560
3	68	1,000,000	1,000,000	312,500	19,768	701,090
4	69	1,000,000	1,000,000	312,500	26,357	705,620
5	70	1,000,000	1,000,000	312,500	32,946	710,150
6	71	1,000,000	1,000,000	312,500	39,535	714,680
7	72	1,000,000	1,000,000	312,500	46,124	719,211
8	73	1,000,000	1,000,000	312,500	52,714	723,741
9	74	1,000,000	1,000,000	312,500	59,303	728,271
10	75	1,000,000	1,000,000	312,500	65,892	732,801
11	76	1,000,000	1,000,000	312,500	72,481	737,331
12	77	1,000,000	1,000,000	312,500	79,070	741,861
13	78	1,000,000	1,000,000	312,500	85,660	746,391
14	79	1,000,000	1,000,000	312,500	92,249	750,921
15	80	1,000,000	1,000,000	312,500	98,838	755,451
16	81	1,000,000	1,000,000	312,500	105,427	759,981
17	82	1,000,000	1,000,000	312,500	112,016	764,511
18	83	1,000,000	1,000,000	312,500	118,606	769,041
19	84	1,000,000	1,000,000	312,500	125,195	773,571
20	85	1,000,000	1,000,000	312,500	131,784	778,102

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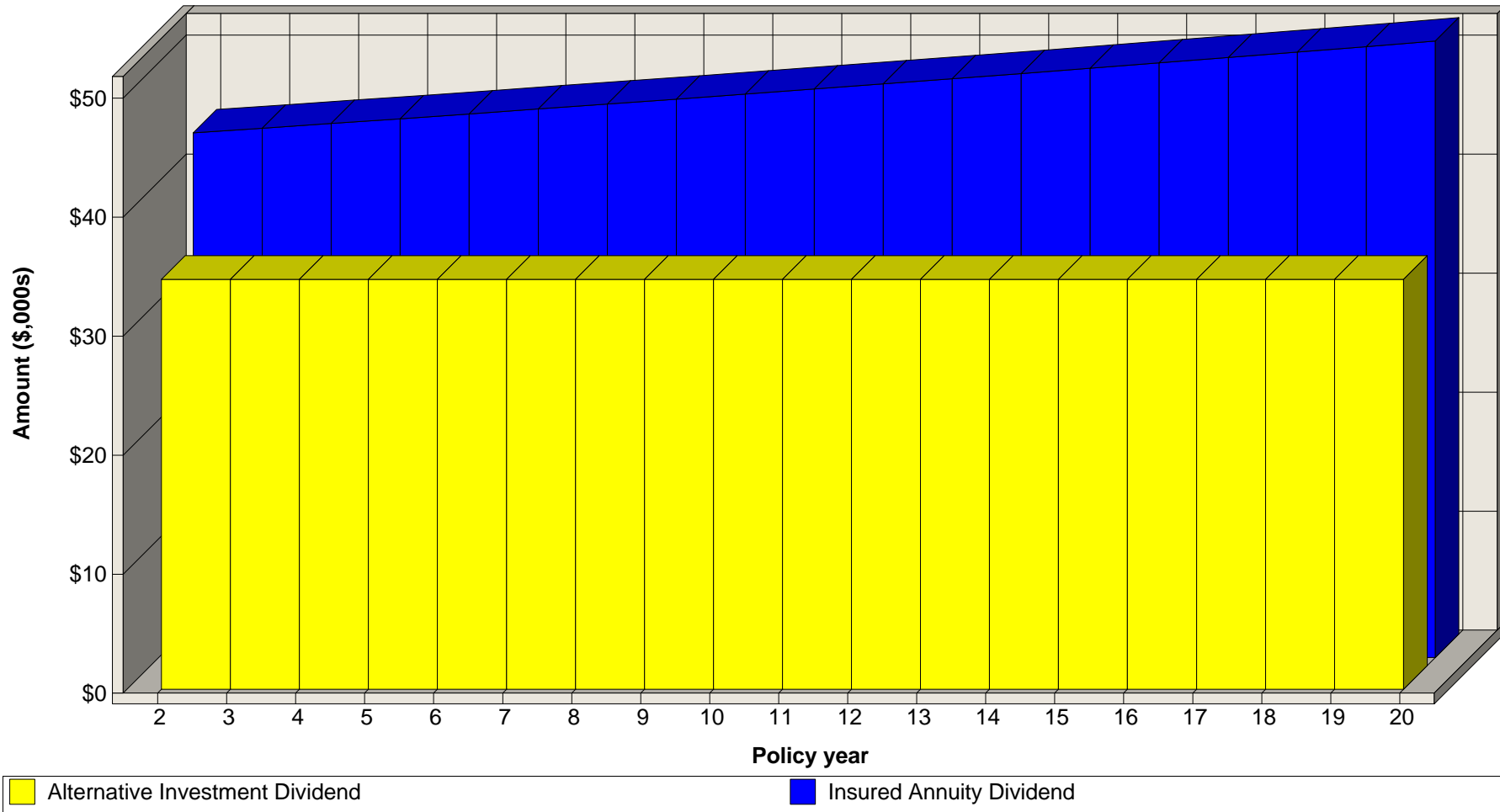
ILLUSTRATION SHOWING THE AFTER-TAX DIVIDEND AT DEATH USING INSURED ANNUITY APPROACH

Pol Yr	Age	Accum. NCPI Share Value Reduct	Life Insurance Proceeds	Credit to the CDA	Taxable Winding-up Dividends [ACB]	Income Taxes Paid By Heirs	Refund of RDTOH	Net After Taxes Proceeds to the Heirs	Diff. in Favour of ANNUITY
1	66	5,640	1,000,000	975,495	24,505	7,658	0	992,342	43%
2	67	18,660	1,000,000	952,730	47,270	14,772		985,228	41%
3	68	41,003	1,000,000	931,908	68,092	21,279		978,721	40%
4	69	74,714	1,000,000	913,131	86,869	27,147		972,853	38%
5	70	121,828	1,000,000	896,389	103,611	32,378		967,622	36%
6	71	184,314	1,000,000	881,616	118,384	36,995		963,005	35%
7	72	264,010	1,000,000	868,681	131,319	41,037		958,963	33%
8	73	362,722	1,000,000	857,552	142,448	44,515		955,485	32%
9	74	482,195	1,000,000	848,168	151,832	47,448		952,553	31%
10	75	624,208	1,000,000	840,563	159,437	49,824		950,176	30%
11	76	790,572	1,000,000	834,769	165,231	51,635		948,365	29%
12	77	983,522	1,000,000	831,210	168,790	52,747		947,253	28%
13	78	1,205,888	1,000,000	830,481	169,519	52,975		947,025	27%
14	79	1,460,871	1,000,000	832,953	167,047	52,202		947,798	26%
15	80	1,752,114	1,000,000	839,068	160,932	50,291		949,709	26%
16	81	2,090,040	1,000,000	855,606	144,394	45,123		954,877	26%
17	82	2,477,107	1,000,000	874,602	125,398	39,187		960,813	26%
18	83	2,915,865	1,000,000	896,148	103,852	32,454		967,546	26%
19	84	3,408,993	1,000,000	920,373	79,627	24,883		975,117	26%
20	85	3,959,092	1,000,000	947,199	52,801	16,500		983,500	26%

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Proposal For: Retired Business Owner Prepared By: Agent / Broker

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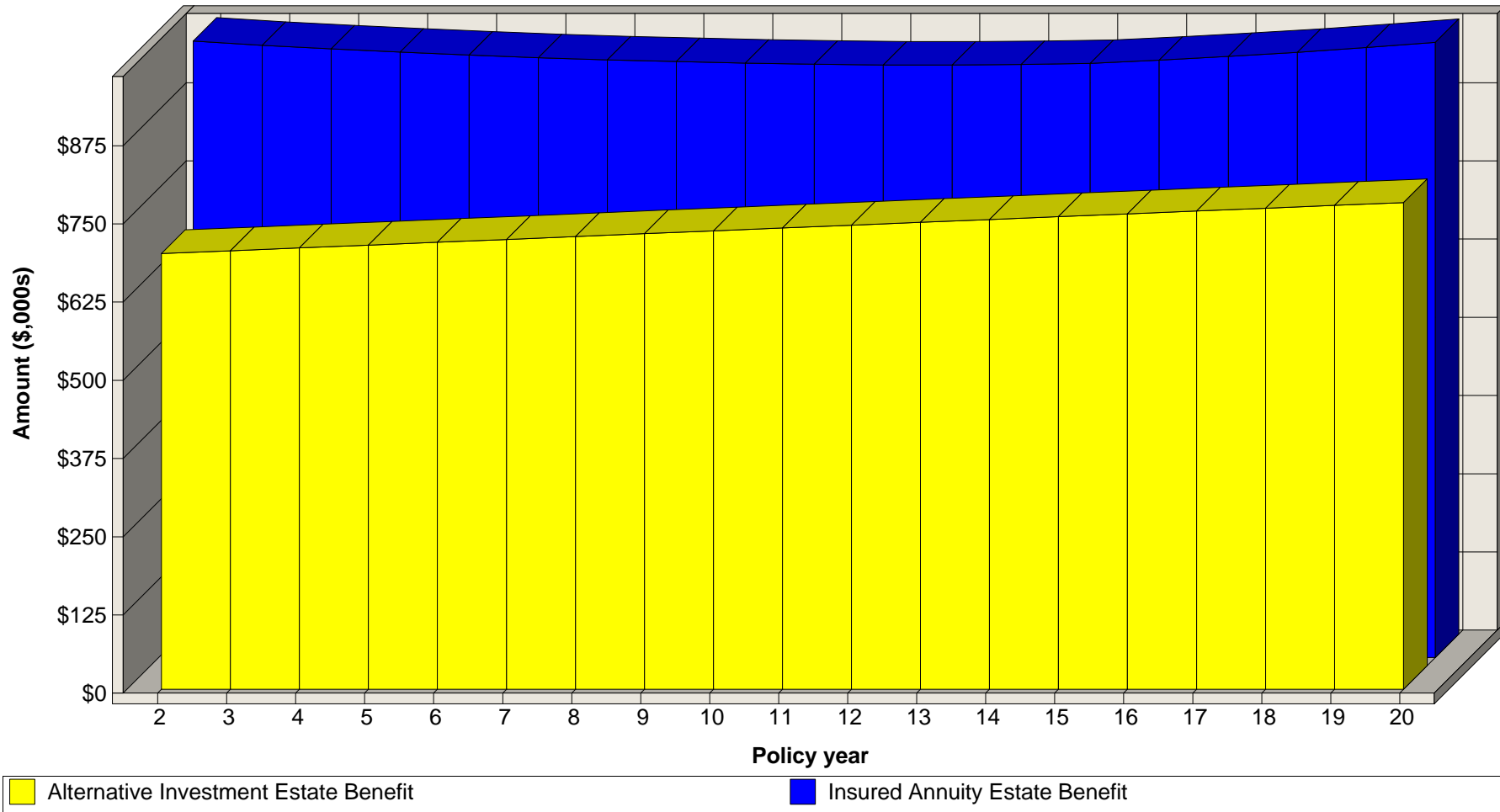


Male 65 NS. PRODUCT: Term to 100. FACE AMOUNT: \$1,000,000. TAX RATE: 45.00%
INVESTMENT: \$1,000,000. CORPORATE TAX RATE: 48.00%. CAPITAL TAX RATE: 0.30%.
NOTE: Must accompany a policy illustration. E.&O.E.

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Proposal For: Retired Business Owner Prepared By: Agent / Broker

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INVESTMENT: \$1,000,000. CORPORATE TAX RATE: 48.00%. CAPITAL TAX RATE: 0.30%.
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