

THE TAXATION OF CRITICAL ILLNESS INSURANCE

Personally Owned Critical Illness Insurance

The Arrangement	<ul style="list-style-type: none"> • The insured individual owns the policy • The Return of Premium on Death (ROPD) should generally be payable to the individual's estate • The Return of Premium on Surrender (or Expiry) (ROPS or ROPE) should be payable to the insured individual
Purpose	<ul style="list-style-type: none"> • The insured individual receives a lump-sum benefit (or partial benefit) upon diagnosis of a covered condition (subject to survival period requirements) • The insured individual has complete discretion as to how the lump-sum benefit (or partial benefit) is spent, including (but not limited to): <ul style="list-style-type: none"> ➢ Paying medical expenses not covered by employer or government plans ➢ Paying off any financial obligations, such as mortgages, lines of credit, credit card balances ➢ Making home modifications (some of which may qualify as medical expenses) ➢ Paying for long-term care • The ROPD benefit will enhance the estate left to beneficiaries • Any ROPS (or ROPE) benefits may also be spent in any manner the insured chooses
Tax Treatment	<ul style="list-style-type: none"> • Premiums are a personal expense and cannot be deducted for tax purposes • The Canada Revenue Agency (CRA) generally accepts that stand-alone CI contracts that do not provide ROP benefits are “accident and sickness” contracts. Thus, lump-sum benefits (including partial benefits) are non-taxable¹ • A return of premiums (where no investment element is added on) should be tax-free² • Lump-sum benefits (including partial benefits) should be non-taxable, even where the CI coverage is obtained as a rider to a life insurance policy³
Additional Considerations	<ul style="list-style-type: none"> • CI insurance provides essential protection. Insured individuals should also review all of their existing insurance arrangements, including those provided via any group and/or association plans or those that are personally owned. They should ensure that the appropriate type and amount of coverage is in place. • Care should be taken in determining the appropriate benefit recipient(s). • Coordinate CI insurance coverage with provisions made in the insured's Will. As it is possible that the recipient of a CI benefit will not be in an ideal position to make financial decisions, put appropriate Powers of Attorney in place.

This analysis is not necessarily appropriate for contracts issued by other insurers, as the product features, etc. are not necessarily identical to those of Standard Life's Protecta contract. It is intended for general information only. It should not be construed as legal, accounting, tax or specific investment advice. Clients should consult a professional advisor concerning their situations and any specific investment matters. While reasonable steps have been taken to ensure that this information was accurate as of the date hereof, The Standard Life Assurance Company of Canada and its affiliates make no representation or warranty as to the accuracy of this information and assume no responsibility for reliance upon it.

¹ CRA has stated that the existence of a ROP feature will not necessarily disqualify a CI from being considered an “accident and sickness” contract. CRA and the Department of Finance (Finance) have not concluded their review. The industry believes lump-sum benefits (or partial benefits) received under a contract with ROP features should be non-taxable. For contracts issued in Quebec, CRA appears to be of the view that under Quebec Law, the contract is an “accident and sickness” contract. Thus, in Quebec, lump-sum benefits are non-taxable, which should not change where an ROP feature is present.

² The industry believes that a return of premiums (where no investment element is added on) should be non-taxable. Again, CRA and Finance have not concluded their review.

³ The industry, in its submissions to CRA and Finance, has argued that whether CI is acquired on a stand-alone basis or as a rider, the tax treatment should not vary. Lump-sum benefits (including partial benefits) should be non-taxable. CRA and Finance have not concluded their review.