Whole Life - Canada vs USA

by Antoine Rempp

The infinite banking concept® is growing in popularity both sides of the border, and while there is now a lot of reading and video material on the American side, the available information in Canada is still very limited, and the little that is available is often misleading. Some of the Canadian 'experts' have not done their homework properly, and are presenting the concept as it works in the States, without consideration for the more restrictive rules in Canada.

This article is a quick illustration of the differences between the American and the Canadian applications of the concept. The real challenge is that you might not see the negative impacts in the early years, but instead you might be very disappointed at retirement to hear how you can, or probably cannot, access your money tax free as you've been told.

The Net Cost of Pure Insurance (NCPI) affects the Adjusted Cost Basis (ACB) in Canada very differently than in the States

The biggest difference, which triggers some of the other points described later in this article, is what CRA (Canada Revenue Agency) defines as the "ACB". ACB stands for "Adjusted Cost Basis". This is a fancy term that CRA created to ensure they get their piece of the pie.

In general, the ACB is designed to measure your cost for tax purposes, and is a term used in many tax situations and calculations (not only insurance). The ACB tells us what portion of an asset should not be taxed further when proceeds are realized. In the case of an insurance policy, the ACB is made up of various components (which are described at the end of this article for those out there who want to know the detailed formula). It will not always stay the same, as it increases or decreases over the life of the policy.

Now, what impact does the ACB have on your policy, and why can it hurt you in the later years if you're not ready? To make it simple, if the amount of money you want to borrow (policy loan or withdrawal) exceeds the ACB, you will have to pay taxes on that excess.

Why haven't you heard about the ACB in all the books available on the concept? Well, in the States, they don't really have to worry about that number, so they don't speak about it. In the States, the NCPI (Net Cost of Pure Insurance) is not used in the formula. This allows the policy owner to withdraw at least as much money as was put in the policy (also called "basis" or cumulated premiums), without having to worry about taxes. Then once they've exhausted all the "non-taxable" amount, they can access money through policy loans, which are not taxed either.

In Canada, this NCPI increases significantly as the insured grows older, and will quickly reduce the value of the ACB, hence reducing the amount of money available tax free (withdrawn directly, or taken as policy loans).

Still not that clear, is it?...
Let's look at an example with some numbers. In the Canadian edition of The Wealthy Physician, we go over the example of a 36 year old male, non-smoker, who decides to fund $50K/year into his policy. Again, his life insurance doesn't cost him $50K/year, instead, his **forced saving account** allows him to **deposit** $50K/year into his system, with the death benefit becoming an additional tax-free bonus to his family should something happen to him.

In the following example, we will look at a smaller premium scenario, as some might not be able to visualize a $50K/year premium.
So let's look at a 26 year old male, non-smoker, who decides to fund $6,313/year into his policy ($526/month).

Note: To understand the study of the following example, I assume you already understand or are familiar with the Infinite Banking Concept®. (if not, please read "The Wealthy Physician – Canadian Edition").

I'm not going to detail the benefits of the policy, as it is covered in the book and most material available on the market. Instead, I'm going to discuss the access to money, which is probably one of the key components of the system, and one of the key differences between the States' and the Canadian's applications.

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Year	Age	Total yearly premium	Total cash value	Total death benefit
1	27	$6,313	$3,829	$272,178
2	28	$6,313	$8,753	$295,056
3	29	$6,313	$14,432	$318,628
4	30	$6,313	$21,026	$342,893
5	31	$6,313	$27,912	$367,846
6	32	$6,313	$34,872	$393,521
7	33	$6,313	$42,349	$419,899
8	34	$6,313	$50,199	$445,830
9	35	$6,313	$58,452	$471,438
10	36	$6,313	$67,141	$496,822
15	41	$6,313	$117,069	$616,397
20	46	$6,313	$180,040	$739,143
25	51	$6,313	$259,863	$863,865
30	56	$6,313	$362,122	$997,635
35	61	$6,313	$491,201	$1,141,223
40	66	$6,313	$651,006	$1,295,739
45	71	$6,313	$844,740	$1,461,905
50	76	$6,313	$1,072,690	$1,639,943
55	81	$6,313	$1,330,581	$1,829,581
60	86	$6,313	$1,618,791	$2,033,216
65	91	$6,313	$1,936,071	$2,250,762
70	96	$6,313	$2,262,604	$2,477,882
74	100	$6,313	$2,665,866	$2,665,866

From Year 4 on:
the annual increase
in the cash value
($6,594 between year 4 and 5)
exceeds the premiums.
Your insurance is pretty much free
from that point on.

Year 9:
you've paid a total of $56,813
in premiums so far,
and you now have $58,452
in your cash value.
You've recovered all your money.

Year 40:
The increase in your cash value
between year 40 and 41
(between age 66 and 67)
is $34,595.

If you take the premiums off that amount, your net profit that year is $28,282.

Now with the introduction of the ACB (which CRA will enforce whether you want it or not)… you will trigger taxation if you borrow or withdraw more than what the ACB is worth.

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Year	Age	Total yearly premium	Total cash value	ACB Adjusted Cost Basis
1	27	$6,313	$3,829	$6,185
2	28	$6,313	$8,753	$12,363
3	29	$6,313	$14,432	$18,531
4	30	$6,313	$21,026	$24,683
5	31	$6,313	$27,912	$30,816
6	32	$6,313	$34,872	$36,926
7	33	$6,313	$42,349	$43,011
8	34	$6,313	$50,199	$49,076
9	35	$6,313	$58,452	$55,115
10	36	$6,313	$67,141	$61,125
15	41	$6,313	$117,069	$90,606
20	46	$6,313	$180,040	$118,273
25	51	$6,313	$259,863	$142,536
30	56	$6,313	$362,122	$160,446
34	60	$6,313	$463,055	$166,845
35	61	$6,313	$491,201	$166,997
36	62	$6,313	$520,586	$166,371
40	66	$6,313	$651,006	$153,455
45	71	$6,313	$844,740	$108,711
46	72	$6,313	$887,671	$95,007
50	76	$6,313	$1,072,690	$21,427
51	77	$6,313	$1,122,042	$0
52	78	$6,313	$1,172,544	$0
55	81	$6,313	$1,330,581	$0
60	86	$6,313	$1,618,791	$0
65	91	$6,313	$1,936,071	$0
70	96	$6,313	$2,262,604	$0
74	100	$6,313	$2,665,866	$0

To reduce confusion, the death benefit column has been removed. The values for the death benefit are the same as the previous table.

Starting Year 8, the ACB is now smaller than the Cash Value. If you were to borrow 100% of the cash value (in Canada we can only borrow 90-95%), the difference between the ACB and the amount of the loan would be taxed at your current Marginal Tax Rate.

Year 15, the ACB is just over $90K, so you could easily borrow up to $90K without having to worry about taxes.
You would want to pay the loan back though, as any outstanding loan would reduce the ACB by that same outstanding value.

In this illustration, the ACB reaches its highest value at Year 35. This means that from that point on, the ACB decreases every year.

Year 51 - Age 77, while you have over $1.1M in your cash value, the ACB is $0. From now on, the entire amount withdrawn/or borrowed will be taxed at your marginal tax rate. This is where having a LOC at the bank using the policy as collateral allows you to avoid the huge taxation on those dollars.

At age 100, your cash value equals your death benefit. The ACB is $0.

Again, the concept makes huge sense. Not only can you access the cash value in the early years when needed, but because of the nature of the premiums, people don't question their importance or the requirement to deposit the money in the policy, turning it into a forced savings account with some amazing benefits (one being the death benefit).

Just make sure you find a good banker to work with, who will allow you to open and increase the total amount of the LOC that will use the policy as collateral as the years go by.

Please don't hesitate to contact us at antoine@remppfinancial.com should you have some questions regarding this ACB and how it might impact your existing system, or future system if you're considering starting a policy.

Detailed Formula of the Adjusted Cost Basis (ACB):

Premiums Paid	+ Increase ACB
NCPI (Net Cost of Pure Insurance)	- Decrease ACB
Excess Premium Reduction	- Decrease ACB
Cash Withdrawals	- Decrease ACB
Excess Gain	+ Increase ACB
Withdrawal Repayments	+ Increase ACB
ADJUSTED COST BASIS	$ xxxxxxx