

**Corporate Critical Illness Plan cost compared to
Interest Earned less Tax payable on Interest & Dividends**

Example Age 45 CI Term to age 65 (or 15 years)

DRAFT

Step 1. Interest earned within the company

Assumptions

nominal interest rate	5%	
less corporate taxes paid on interest	13%	
inflation	2%	
After tax real rate of return (net of taxes and inflation)	5% 87%	Nominal interest rate x After tax return
	<u>4.35%</u>	
Real Rate of Return (after inflation)	2.30%	= (4.4% - 2%) / 1.02
Annual PMT Amt	\$ 6,430	Paid at the beginning
Years	15	
Future Value	\$ 116,290	
Less Capital	\$ 96,450	PMT x 15 yrs
Net interest earned	<u>\$ 19,840</u>	after tax and inflation

Step 2. Base premium (no interest) withdrawn from company as dividends
(not tax deductible)

		Non-Eligible Dividends	Eligible Dividends
Annual Premium x 15 years	\$ 6,430		
Taken out of corporation as	15		
Non-eligible Dividends	\$ 96,450		
Gross-up	117%	\$ 112,847	138% \$ 133,101
Federal + BC MTR	38.29%	\$ 43,209	\$ 50,964
Assume \$100K annual net income			
Dividend Tax Credit	10.50%	\$ (11,849)	15.02% \$ (13,976)
Net Tax Payable on Dividends		<u>\$ 31,360</u>	<u>\$ 36,989</u>
Less potential interest lost		\$ 19,840	\$ 19,840
Tax Payable net of interest lost		<u>\$ 11,520</u>	<u>\$ 17,149</u>
Net taxes saved by Corporate CI plan compared to earning interest then paying capital as dividends		<u>\$ 11,520</u>	<u>\$ 17,149</u>
% of capital (annual premium x 15 yrs)		<u>11.94%</u>	<u>17.78%</u>