

The Executive Benefit That Pays for Itself If Nobody Gets Sick

Critical illness insurance with return of premium — a retention tool that doubles as forced savings.

THE PROBLEM

- Top executives are expensive to lose and hard to replace on short notice.
- A cash bonus to retain them gets taxed at their marginal rate and, honestly, just gets spent.

HOW IT'S STRUCTURED

- **Corporate-owned key person CI:** the corp owns and pays for CI on a key executive. If that person is diagnosed with a covered illness, the tax-free benefit goes to the corporation to cover replacement costs.
- **Shared ownership + ROP:** split the same policy. The corporation owns and funds the base CI benefit (its protection). The executive owns and funds a Return of Premium on Cancellation/Expiry rider — typically exercisable around the 15-year mark.
- Healthy at that point? Both sides cancel, and the executive gets every dollar of their own premiums back — a forced savings account that sits outside the business.
- Diagnosed instead? The corp collects the base benefit; the executive's ROP contributions are forfeited. It only ever pays one side.

TAX NOTES

- CI premiums aren't deductible to the corporation — they're paid with after-tax dollars at the corporate rate.
- The base benefit is received tax-free by the corporation.
- CRA hasn't issued firm guidance on the ROP portion under shared ownership — it may land as a taxable shareholder/employee benefit, or as a tax-free return of the executive's own premiums. Structure and document the split carefully.
- Because the ROP asset isn't carried on the company's books, it doesn't count against the “active business asset” test for the lifetime capital gains exemption — worth knowing if purification is already on your radar for that client.

WHERE YOU COME IN

- If a client is building an executive comp package and a bigger bonus cheque is the only lever being pulled, this is worth a conversation before that cheque is cut.