IG WEALTH MANAGEMENT

Why affluent Canadians buy permanent life insurance

Popular wisdom suggests that as people accumulate wealth their need for life insurance decreases. However, permanent life insurance is a financial tool with unique tax benefits. Many affluent families find significant value by using life insurance to protect and even enhance their wealth.

People buy life insurance either for temporary income protection or for long term wealth preservation.

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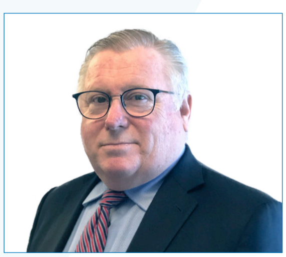

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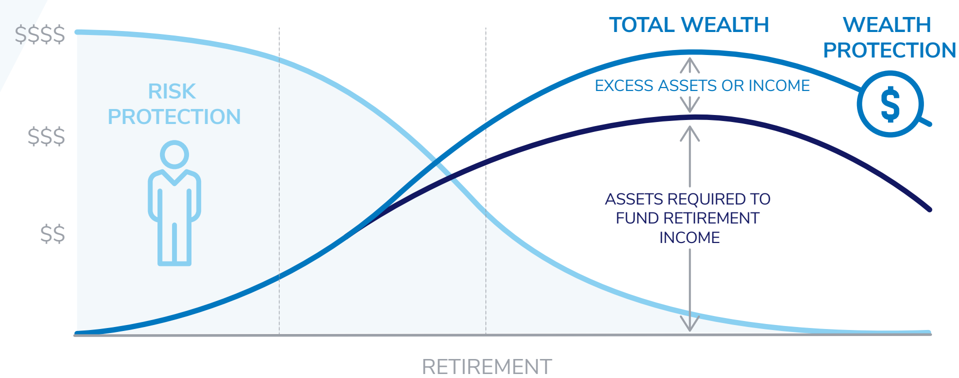


When you are young, life insurance is used to protect your family by providing money to replace your income. However, as we approach retirement our need for income replacement lessens and the focus switches to wealth protection.

Wealth protection is a long-term concern, so it requires permanent solutions. Permanent life insurance is a tax efficient tool that many Canadians use for one of the three following concerns:

1. Estate Preservation
2. Estate Equalization
3. Estate Maximization

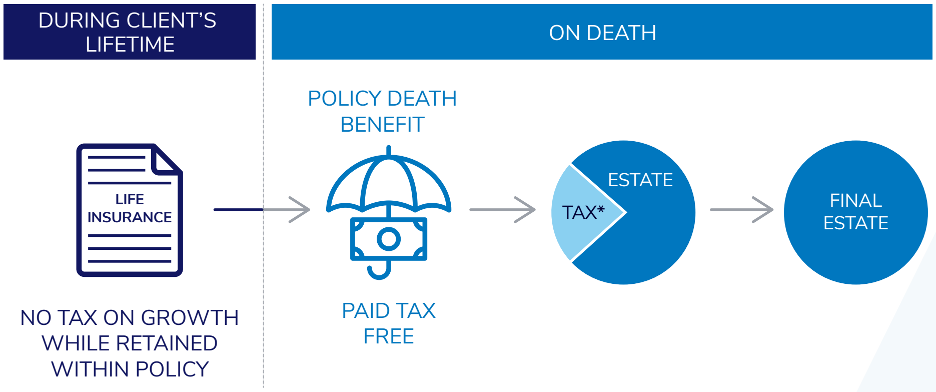
ESTATE PRESERVATION

Some Canadians have built up significant wealth in certain assets (such as RRSPs, second properties, businesses, etc.) that may trigger significant tax liabilities when those assets transfer to the next generation. Where does the money come from to pay that tax bill? Your beneficiaries could liquidate some of your assets or borrow the money. Or, prior to your death, you could try to save the additional funds required.

What if you funded that tax bill with insurance? Insurance is typically the most efficient and effective solution as the money arrives tax free when needed most. If you are concerned about a large tax bill when you pass away or that your beneficiaries may have to sell off estate assets to fund it, then you should consider an **Estate Preservation Strategy**.

With this strategy, exempt permanent life insurance proceeds are used to fund taxes and other estate costs in a tax effective manner to preserve the value of your estate.

Insurance will help provide the liquidity needed at the time of death to help pay the tax bill.



* Tax on registered assets and/or deferred capital gains on; non-registered investments, shares in a family business, revenue and/or vacation properties

Private corporations in an estate situation can trigger double taxation to the family. Proper tax planning and insurance combined can help mitigate the tax cost of this situation.

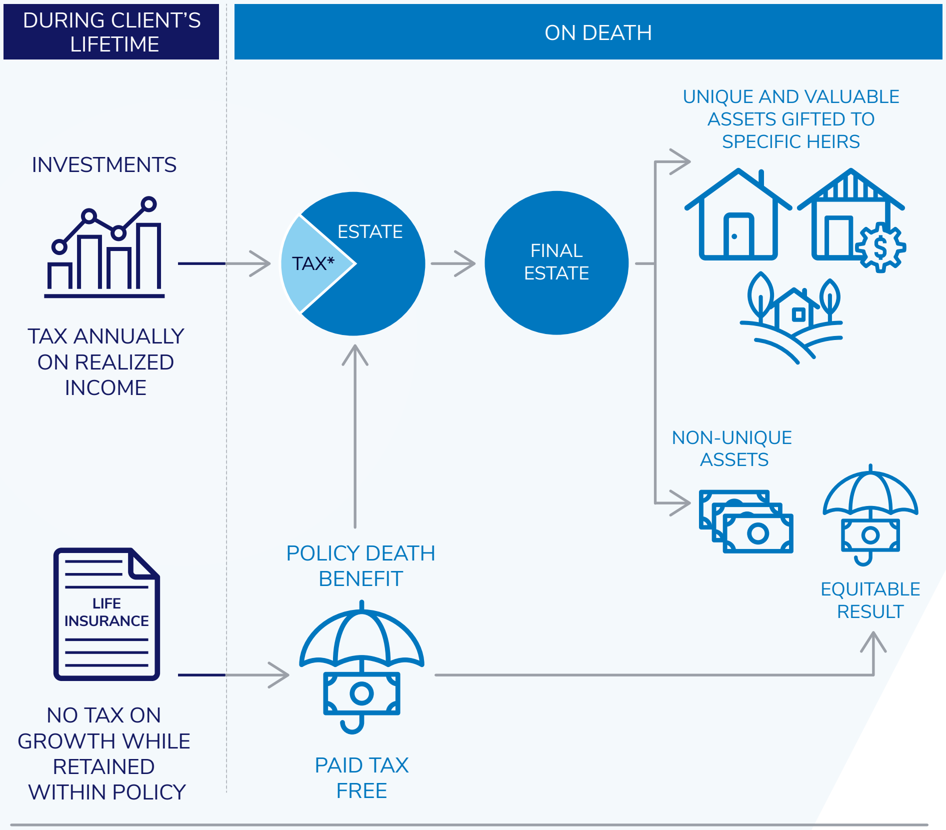
You will have lifetime insurance protection and, depending on the type of policy, potential tax-deferred policy growth throughout life. This could provide accessible cash values if required for financial opportunities or unanticipated expenses during your lifetime. On your death a tax-free lump sum death benefit is payable to your named beneficiaries, bypassing the estate and avoiding any associated probate fees.

> *If you are concerned about the complexities of distributing your estate equitably, consider an Estate Equalization Strategy.*

ESTATE EQUALIZATION

Some Canadians have built significant assets that they will leave equally to their beneficiaries. Others may have certain assets which are unique and destined for only one beneficiary (or a group of beneficiaries). Blended families also often require estate equalization strategies to ensure each family line is protected and treated fairly. Even if estate preservation has been addressed, the nature of some assets can make it difficult to divide equally among your heirs. Leaving certain assets to specific heirs is also likely to create inequality and friction.

To address these complexities, most affluent families find that life insurance is a cost-effective way to provide the liquidity needed to make estate values more equitable. This solution is even more effective where a private corporation is involved. With an **Estate Equalization Strategy**, the tax-free life insurance death benefit proceeds provide liquidity which helps balance out estate values while still achieving your asset distribution goals in a cost-effective way.



* Tax on registered assets and/or deferred capital gains on; non-registered investments, shares in a family business, revenue and/or vacation properties.

You will have lifetime insurance protection to help equalize your estate without needing to liquidate other assets. Depending on the type of policy, there is potential tax-deferred policy growth throughout life. This could provide access to cash values, financial opportunities, or income needs during your lifetime. On your death, a tax-free death benefit is payable to your named beneficiaries, bypassing the estate and avoiding any associated probate fees.

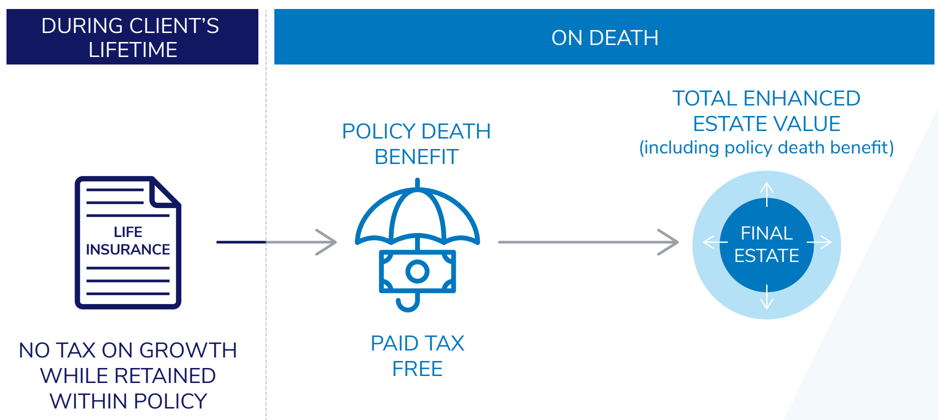
ESTATE MAXIMIZATION

Some Canadians have more income and/or assets than they will need for retirement and have a strong desire to leave a legacy. Most people assume that investments are always the best way to increase the value of their estate. Others believe real estate or business ownership are the solution. While all of these are useful, they do come with tax implications.

What if you were to move some of that excess money that may be attracting annual taxation into a life insurance contract?

An exempt permanent life insurance policy provides tax-deferred policy growth while you are alive and pays out tax-free on death to your named beneficiaries (or estate). If maximizing the size of your estate is important, then you should consider an **Estate Maximization Strategy**.

With this strategy, you increase the size of your total final estate by moving surplus funds, which may be currently exposed to tax, into an exempt permanent life insurance policy. You can potentially reduce the amount of taxes payable during your lifetime, avoid associated probate fees on the death benefit amount and create a larger pool of tax-free money at death, thereby maximizing your estate values.



You will have lifetime insurance protection and, depending on the type of policy, potential tax-deferred policy growth throughout life. This could provide accessible cash values if required for financial opportunities or unanticipated expenses during your lifetime. On your death a tax-free lump sum death benefit is payable to your named beneficiaries, bypassing the estate and avoiding any associated probate fees. This option may provide a superior Internal Rate of Return (IRR) on the net estate value when compared to other traditional lower volatility and highly taxed non-registered investment options such as bonds or GICs. In most cases a strategic reallocation to permanent insurance can be the most efficient method of enhancing estate values. This is especially true if the assets are held in a private corporation by using tax free capital dividends at death to distribute the death benefit.

The decision to own life insurance personally or corporately has several unique considerations, so remember to speak with your IG Consultant.

THE DECISION TO OWN PERMANENT LIFE INSURANCE, PERSONALLY OR CORPORATELY

At IG Wealth Management we have a team of professionals who assist our consultants with tax and estate planning for our clients. It is important to get proper advice when dealing with insurance and corporations. In general, here are some of the key considerations for people between corporate or personally owned life insurance.

Personally owned

- Creditor protection available if structured properly
- Simple and easy to administer

Corporately Owned

- With corporate tax rates being lower than personal there are more corporate dollars available to pay premiums – the concept of cheaper after-tax corporate dollars
- Exempt Income earned on growth of permanent insurance is not subject to corporate taxation
- With growth not subject to corporate income tax it may reduce a corporation's passive investment income and the reduction of the Small Business Deduction.
- The Cash surrender value of the permanent policy is an asset of the corporation
- Ability to use the Capital Dividend Account to pay out the life insurance proceeds to shareholders as a tax-free dividend

As you can see, life insurance is an important financial tool, with unique tax benefits, used by many affluent Canadians. Particularly when looking to optimize their overall estate plan. For more information, speak to an IG Consultant – we will recommend clear and straightforward solutions to help maximize your estate's value, while helping to ensure your beneficiaries will receive everything you've planned for them.

ABOUT THE AUTHORS

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Mike joined London Life in 1992 as an advisor and joined Investors Group as an Insurance Manager in 1995. Mike was appointed to the role of Vice President, Insurance Distribution for Investors Group in September 2011 and has responsibility for the Insurance Planning Specialists across the country. He is located in Toronto. Mike is a graduate of the University of Toronto and has a Bachelor of Commerce degree. He has completed numerous industry designations including the Chartered Financial Analyst (CFA), CERTIFIED FINANCIAL PLANNER (CFP), Chartered Life Underwriter (CLU), Trust and Estate Practitioner (TEP).

Ken Greenfield,
BA, CPA, CA
Director,
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Ken was appointed to the role of Director of Tax and Estate Planning in January 2013. He is located in the Oakville region office and provides tax and estate planning support for consultants across the country. Ken has over 20 years of experience in the insurance industry, beginning his career in 1995 in the insurance industry with a major life insurance company. He also spent several years prior working in Public Accounting for Chartered Accounting firms that focus on owner-manager situations. Ken is a graduate of the University of Waterloo with a Bachelor of Arts Degree. He also has his CA designation from the Institute of Chartered Accountants of Ontario and has completed the CICA Indepth Tax Course.