RBC Dominion Securities

The Third and Most Powerful Pool of Capital for Retirement & Estate Planning

We are all very aware of two pools of capital that are essential for wealth accumulation and income enhancement. They are the RRSP and our non-registered investments.

Typically, most individuals will maximize their deposits into their RRSP's to receive a deduction against income and to benefit from tax-deferred growth. However, at age 69, statutory requirements dictate that we must all mature our RRSP's to derive an income. At that time we are punished with the fact that all the income generated is taxable. What is worse, is that at death, all of our accumulated wealth will be taxed (unless we have a surviving spouse), and in most cases, at the highest marginal rate. At the end of our days half of our portfolio is lost to Canada Revenue Agency (CRA).

The second pool of capital is, of course, our non-registered accounts. For most individuals, this will include their bank account, RBC Dominion Securities cash account, real estate, shares in their private corporation and perhaps their mattress/cookie jar account. If we were to break this account down with respect to how it is taxed, we will find only three elements; interest, dividends and capital gains. At the very least we will be taxed as we hold these assets and taxed again when we dispose of them.

Tax is the single largest factor eroding the performance and ultimate accumulation of our pools of capital.

The third pool of capital is like no other. It is considered the most powerful tool for asset accumulation and wealth preservation and transfer for Canadians that exist today! The benefits are numerous:

- Creation of an instant estate
- Tax sheltered accumulation
- Potential access to tax-free income
- Tax-free estate benefit upon maturity
- Creditor protection for individuals and investment holding companies
- Probate avoidance
- Minimization of tax and legal fees due upon death

This pool of capital is called *tax-exempt life insurance* and is only available to those who qualify based on a number of criteria. However, we are not alone in our conviction for this type of planning…

"Life insurance is still an excellent investment tool…one of the few investments that allows for a tax-sheltered accumulation of funds and at the same time covers the risk of death. The pre-tax compounding effect and the tax-free access to this accumulating fund are two of the attractions of life insurance. The tax-free maturity on death is the ultimate plus."
CA Magazine published by The Canadian Institute of Chartered Accountants

"The life insurance industry has developed attractive and highly sophisticated products that can help you meet two planning objectives at once: having insurance coverage and providing retirement income from tax-sheltered growth. If you have maximized your RRSP contributions, this type of life insurance policy may provide another opportunity for you to shelter your savings from tax. Most policies today are structured so that if you can commit to a 10-year program, you will probably fare as well as you would by investing the same funds in a unsheltered product."
KPMG Tax Planning For You And Your Family 2001

Deposits into these plans can be made from excess income or transferred from an existing non-registered tax exposed pools. All transferred funds will accumulate on a tax-sheltered basis and are managed in a manner similar to that which you have grown accustomed. No tax slips (T3's, T4's, T5's, etc…) are issued. The tax-sheltered account can be accessed directly by withdrawal or through the innovative strategy of utilizing the bank for tax-free loans. Again, at the end of our days, the death benefit can be used to fund the income tax and capital gains tax due from the other two pools of capital. Any remaining funds can be directly transferred to a named beneficiary, charity or foundation.

Ultimately, tax-exempt life insurance, based on your objectives, can be a solution for a number of estate and tax planning issues.