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AN UPDATE ON "CORPORATE LIFE INSURANCE" and 2017 CHANGES:

I have enclosed several excellent reviews on the different types of Corp Life Insurance policies (CLI) such as Whole Life and Universal Life Insurance, and how they are being used by the WEALTHY to protect their assets and pass them on in a tax-free environment to the next generation of kids and grandchildren.

I did a comprehensive review on this topic in my 2013 NeuroApproach Newsletter and circulated it to all Clients (and it is attached below) BUT it is now time to revisit this topic.

NEW LEGISLATION will come into effect in 2017 that will make these insurance tax sheltered investment vehicles LESS attractive, so I wanted to make sure that I pointed this out to all my wealthy clients.

WHY CONSIDER CORPORATE LIFE INSURANCE

1. The Tax-Free Growth:

-these policies allow you to contribute more money (usually annually over ten years) than is needed to cover the insurance needs and these excess funds are called "surplus", "residual value", or "cash surrender value", and these funds are allowed to grow tax-exempt or tax-free inside the policy, and over 10-20 years this compounding offers a huge advantage to funds sitting in a fully taxed Corporate investment account

2. The Tax-Free Lump Sum Payout to the Estate-Kids-Grandkids:

-upon your death the Corp receives the insurance payout + any surplus residual value and most/all of this can then be paid from the Corp to the kids or grandkids (via the Capital Dividend account) in a tax free manner!

3. Cheaper Cost:

-the annual premiums paid through the Corp account are usually cheaper than through a personal account

4. A Fixed Income Alternative:

-for those “wealthy” clients who are sitting on “excess funds” in the Inc. which are invested in low paying fixed income instruments ---this is a logical alternative as it is also guaranteed and over the long term will pay much higher returns to the estate because of the tax free growth on the surplus or residual assets (recall fixed income typically only getting 3-4% these days and is then fully taxed every year!) which is a significant advantage year over year

WHO SHOULD CONSIDER CORPORATE LIFE INSURANCE?

1. Wealthy Affluent Clients Mainly

-Ideally you want to have more money than you can spend (in most cases)!! And ideally a lot of this “cushion money” is sitting in fixed income obtaining low returns AND high taxation such as non-RRSP accounts like Inc. or Holdco investment accounts

-So what is wealthy—tuff question as there is the survival factor—do you see age 80 or 90 or 100 (100 requires a large nest egg) and also how much cash do you burn through in retirement each year???? But a rough rule is that you should have close to $3mill in liquid assets so the first $2 mill comfortably covers a long and prosperous retirement and the extra $ 1 mill is just sitting around waiting to be passed on to the kids or grandkids (or the charity), AND you will most likely never need these “cushion” dollars in your life time.

(PS—the $3 mill is my figure—I am sure others would lower this dollar value as many retiring docs-dentist-buss owners only need $1.5 million in liquid assets to safely retire but there are many variables as stated above including the value of non-liquid real estate assets that will be sold off eventually, etc.)

2. You Want to Pass On Your Wealth In A Tax Efficient manner

-Some wealthy folks believe that they will leave enough for their kids so they have no desire to leave even more through this method…BUT if you are trying to optimize the wealth transfer to the next generation then this should be reviewed, especially in this low yielding fixed income environment that we are living through where your AFTER-TAX returns are now so low

3. There will be No Liquidity Crunch

-you do not want to have to regret giving this money to the insurance company in 5 years over a liquidity crunch i.e. you need to be safe and WEALTHY and 99% sure that you will never need this ‘cushion” money

(PS-however--you can pull the surplus residual cash out later in the plan or get a loan against it if need be but not in the first 5 years or so)

4. Those With Huge Tax Bill at Death

-So if you have huge a capital gains bill for the estate (on stocks or real estate) to pay at your death or a huge RRSP tax bill (recall that at death the RRSP is all taxed at highest rate as income in that year) then this Corporate Insurance may make sense for the estate

5. Estate Equalizer

-e.g. If one kid gets the cottage and then this is a good way to evenly treat the other kids

CONCLUSION-SUMMARY

The rules are changing for this type of tax shelter and wealthy clients need to be aware of this so PLEASE have a look at the enclosed reviews.

They are all very good and I have arranged them from simple reads to more complicated reads—everyone should read the #1 MD Management review, #2 Tim Cestnick Globe review and the very well written review by #3 Warren Mackenzie, as well as the changes that are coming.

If you're not wealthy (by my definition) and still have some interest in these policies then you should also read my enclosed review from 2013 which is detailed and long but covers MOST angles—good and bad!

Terry