



Wealth  
Management



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# Top 10 wealth management strategies using insurance

Achieving financial security while maximizing income and reducing the impact of taxation

Insurance strategies have gone from being mostly about security to being seen as very flexible and versatile tools that may offer immediate tax, investment and income uses for you, your family and your business. While the protection element of life insurance remains of critical importance, modern insurance policies combine both protection and investment attributes and can be used to provide policyholders with a variety of planning strategies and options for now and later.

Below is a “Top 10” list of insurance planning strategies, highlighting how insurance helps to solve a number of potential estate planning and succession planning pitfalls down the road, while offering you an alternative investment tool with significant guarantees and an extra level of comfort in your long-term financial plan.

## 1. Estate tax funding

Insurance can be a cost-effective and tax-efficient means of satisfying future tax obligations at death. Insurance can provide immediate and tax-free liquidity to satisfy estate obligations including taxes, probate and estate settlement costs. These obligations can be satisfied on either a single life or joint last-to-die basis, as circumstances may require.

## 2. Dependant support

In the event of premature death, insurance proceeds can ensure that your dependants (such as your spouse and children) are financially protected. Low-cost term insurance may be the most appropriate type of insurance for this purpose.

## 3. Estate equalization for business-owner families

Insurance can be useful in circumstances where you operate a business and only one of your children is involved in the business but you still wish to treat your heirs equitably. In these circumstances, the business often represents your most significant asset. Here, insurance can solve the problem of treating your heirs equitably. You can gift the



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business assets to your heirs working in the business and the uninvolved heirs can receive cash proceeds from an insurance policy, tax-free, to equalize the inheritance.

#### **4. A tax-efficient alternative to fixed income**

Insurance can be seen as a separate asset class. Estate-bound assets can be invested in a tax-efficient, tax-sheltered insurance contract. On the personal side, the insurance contract may offer the potential for asset protection (see below) and can avoid probate. In the corporate context, a capital dividend account (CDA) credit creates a conduit to take advantage of:

- tax-sheltered growth
- tax-free proceeds
- a conduit to distribute the proceeds tax free through CDA

#### **5. Utilizing insurance assets for retirement**

One concern that some policyholders express is that investments in the insurance policy are “gone” and beyond the reach of the owner.

Through strategies, such as IRPs and corporate IRPs, funds accumulate on a tax-sheltered basis inside a life insurance policy.

Through strategies, such as Insured Retirement Plans (IRPs) and corporate IRPs, funds accumulate on a tax-sheltered basis inside a life insurance policy, and can be accessed in a tax-efficient manner during your lifetime via loan strategies.

#### **6. Insured Annuities for retirees**

Insured Annuities and corporate Insured Annuities are unique vehicles for seniors, designed to provide policyholders with an alternative to traditional fixed-income investments. By combining a life insurance policy and a life annuity, it is possible to create a fixed-income investment with returns guaranteed for life, at rates that may be better than those available through traditional fixed-income investments and with less tax payable, as a portion of the income paid is a return of capital. Corporate Insured Annuities (available to insurable seniors with a corporation) can do the same but provide additional post-mortem planning benefits through a capital dividend account (CDA) credit and a reduction of corporate values for purposes of the deemed disposition of capital property at death.



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### 7. Buy-sell funding for business owners

Shareholder agreements are fundamental for any corporation with multiple owners. Most such agreements contain mandatory buy-sell obligations in the event of the death or disability of a shareholder. Prudent planning requires such agreements to be funded with life insurance so that, in the event of the death of a shareholder, funds will be available to satisfy the buy-sell obligation. Structuring the buy-sell to take maximum benefit of all available tax-relieving rules (including the capital gains exemption, loss carryback planning, spousal rollover provisions, etc.) is critical to maximizing shareholder value and minimizing disruption to surviving stakeholders.

### 8. Collateral insurance

Normally, insurance premiums are non-deductible for tax purposes. The major exception to this general rule is the collateral insurance deduction in the Income Tax Act [Paragraph 20(1)(e.2)]. This provision allows a full or partial deduction of insurance premiums where a policy is collateral for a loan and the specific requirements of the

provision are satisfied. In appropriate circumstances, this deduction can allow for reduced cost of funding an insurance policy, satisfaction of significant debt obligations in the event of the death and, in the corporate context, added post-mortem planning benefits through a CDA credit.

### 9. Charitable insurance

As part of estate planning, many individuals focus on philanthropy in addition to providing for their families. The main strategies are either:

- Gifting insurance proceeds to charity by designating a charity as the beneficiary of a policy, and receiving a charitable receipt for the year of death to reduce estate tax liabilities
- Gifting an insurance policy to charity and obtaining a receipt for the annual premium payments to reduce ongoing tax liabilities

Either way, the charity will receive a significant future gift. Variations to charitable insurance include estate replacement strategies and utilizing corporate vehicles to enhance the tax benefits.

Under provincial insurance legislation, personally-owned insurance policies generally receive a special level of protection from creditor claims.



When used properly, insurance can help to enhance your family's overall planning strategy.

Ask us for more information on insurance solutions to reduce the impact of taxation and secure your wealth.

### 10. Asset protection

Under provincial insurance legislation, personally-owned insurance policies generally receive a special level of protection from creditor claims. For example, where there is a named family class beneficiary, the insurance proceeds do not fall into the estate of the deceased and are thus not subject to the deceased's creditors.

In the case of a preferred beneficiary designation or an irrevocable designation, the insurance policy is generally beyond the reach of the insured's creditors during the

insured's lifetime. Note that it is essential that you speak to a qualified legal advisor regarding any asset protection options available to you.

At one time, life insurance was viewed as a pure protection instrument, the sole purpose of which was to provide funds at a particular point in time to satisfy certain liquidity needs that may arise upon death.

Today, when used properly, insurance can help to enhance your family's overall planning strategy.