Insurance Planning for Your Golden Years and Beyond

Things that we cherish most – from our own health to the beloved family cottage – become increasingly harder to protect as we get older. Planning ahead to ensure that the right financial resources are in place to protect ourselves, aging parents or children from costly burdens is an extremely important consideration.

To safeguard you and your family from the potentially devastating impact a critical illness can have on your financial plan, critical illness insurance and long-term care insurance can offer the protection, and peace of mind, you're looking for – beyond that covered by government and employer health plans.

Along with your health, protecting the family cottage or vacation property abroad may be of utmost importance to you as you become older. There are various essential tips to consider for dealing with capital gains tax on your family vacation property, designing a succession plan for future ownership or dealing with U.S. estate tax on U.S. vacation properties.

Critical Illness Insurance

Today, with advances in medical science, we are surviving illnesses that probably would have resulted in death in the past. While people are surviving, their finances may not. A critical illness such as cancer, heart attack or stroke can have a devastating impact on your financial plan. You may be unable to work and medical bills not covered by government and company health plans can mount up quickly. There may also be unexpected expenses you incur throughout your illness and recovery that traditional health plans don't cover.

Once diagnosed with a critical illness, your critical illness insurance policy pays (typically about 30 days after the initial diagnosis and assuming you survive) a tax-free cash benefit which is equal to the amount of insurance you purchased. You can use the benefit to take a sabbatical and recuperate, pay off your mortgage, make renovations to your home or car to accommodate any special needs, inject money into your business to keep it going while you're recovering or even pursue private medical treatment outside Canada. How you use the money is entirely up to you.

Long-term Care Insurance

Long-term care (LTC) insurance, which can complement critical illness coverage, is designed to help people maintain their independence by providing the financial resources needed to control how and where they choose to live. While critical illness insurance helps to alleviate financial worries during recovery, long-term care insurance provides the financial support to live life on your terms.

Long-term care insurance provides a daily tax-free benefit to cover the costs of a nursing home or professional in-home care. To receive benefits, a person must be unable to perform two or more Activities of Daily Living (ADLs). Common ADLs are bathing, eating, dressing, toileting or transferring. An example of transferring would be rising from a chair unassisted.

It's worth exploring how these important types of insurance may benefit you and your family. For more information, contact your BMO Nesbitt Burns Investment Advisor who will refer you to an Estate and Insurance Advisor* from BMO Nesbitt Burns Financial Services Inc.

Protecting the Family Cottage – Succession Planning

It's a perfect day at the cottage – the summertime retreat owned by your family for years – sitting on the dock in your favourite deck chair with a refreshing drink and bestseller to pass the time. It doesn't get any better than this, and you hope the cottage can stay in your family for generations to come.

But will it? Without a proper succession plan in place, passing on the ownership and enjoyment of the family vacation property to the next generation may be stifled. Instead, a well-thought-out plan for succession of ownership ensures all family members clearly understand your wishes for the property, alleviates any disputes in the future about ownership and makes certain it stays in the family for generations to come.

Of course, designing a succession plan can be challenging, especially since the property holds tremendous sentimental and monetary value. In addition, it is likely that more than one child may want to own it; however, the asset cannot be divided. As a result, the desire to keep the vacation property in the family may be impractical or inconsistent with your other estate planning goals.

First and foremost, get input from your family. Parents often agonize over a complex succession plan only to learn later that some or all of their children have no interest in owning the property. If your children are unsure, or their lives are unsettled, your succession plan for your vacation property needs to be flexible.

Covering Future Cottage Tax Liability

The primary concern about transferring the cottage to the next generation is the capital gains tax due when the cottage is sold or inherited. You need to assess whether your cottage appreciated in value or if your estate will be able to cover the tax liability? You can defer the payment with a spousal rollover upon your death. However, at your spouse's death the Canada Revenue Agency will want to be paid.

All too often, families are discovering that the tax owing is so high that they end up having to sell the cottage in order to pay the tax. Fortunately, there are other ways to fund the capital gains tax liability.

1. **Pay the tax now –** You can choose to trigger the capital gain now by transferring the cottage to a family trust. Remember, however, your family will have to pay the tax on any future gains in value (trust rules stipulate that property held in a trust is deemed to be disposed of every 21 years).

2. **Set aside the funds to pay the tax later –** Estimate the potential gain and establish a fund where you and/or your heirs deposit money to cover the future tax liability.

3. **Use a life insurance policy –** The tax-free death benefit proceeds can be used to pay off the capital gains taxes due. If you have a spouse you may be able to reduce the costs of insurance by purchasing a joint second-to-die policy. The insurance pays out on the second death which is when the money is needed. The use of life insurance may result in the preservation of assets which otherwise may have required liquidation.

4. **Provide for liquidity if necessary –** Most people apply the Principal Residence Exemption to the family home and have their estate pay any capital gains tax with respect to a recreational property after their death. However, if your estate has a shortfall of liquid funds to pay the capital gains tax, you'll need to consider ways to provide additional funds in your estate for this purpose. Instead of gifting the property, you can give your children the option to purchase it from your estate, after your death. Your children can use all or a portion of their cash inheritances to fund the purchase. The proceeds of the sale will then be available to the estate to pay taxes and distribute the balance to your beneficiaries.

The end result: Parents or grandparents have peace of mind knowing that they have not left their heirs with a looming tax liability. The tax can be paid using the proceeds from the life insurance policy. The cottage will be passed on as they had intended. Keeping the cottage in the family requires some careful pre-planning. To review these options for your family, contact a BMO Nesbitt Burns Investment Advisor who will refer you to an Estate and Insurance Advisor* from BMO Nesbitt Burns Financial Services Inc.

Estate Tax on U.S. Properties

For U.S. tax purposes, the Canadian owner of U.S. real property may also be subject to U.S. estate tax on that property if the individual has U.S. situs assets in excess of US$60,000 and the value of their worldwide assets is in excess of the exclusion amount in the year of their death. In 2014, the exclusion amount is US$5.34 million.

U.S. situs assets include real property located in the U.S., stocks, options and mutual fund units issued by a U.S. entity. Instead of imposing tax on the unrealized gain, the U.S. will impose U.S. estate tax on the fair market value of the property at the time of death.

However, there is some relief provided in the Canada/U.S. Income Tax Treaty which allows a credit against Canadian federal income tax for U.S. estate tax payable on property that is located in the U.S. This credit can significantly reduce the Canadian income tax applicable to that property.

Getting Started

Making sure that what you value most is fully protected – as you and your parents head into your golden years – starts with contacting your BMO Nesbitt Burns Investment Advisor, who can recommend a BMO Nesbitt Burns Estate and Insurance Advisor* from BMO Nesbitt Burns Financial Services Inc. These specialists can help evaluate all aspects of your insurance portfolio and recommend solutions to mitigate unintended financial consequences your future generation of inheritors may face.

*In Quebec - a Financial Security Advisor

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