Registered asset preservation plan

If you are without a plan, the largest beneficiary of your estate may be the government. In fact, if you fall within the highest marginal tax rates then your estate could lose up to half of the value of your RRSP or RRIF in one year.

The prospect of losing that much value in any kind of investment is quite disturbing.

Do you want the Canada Revenue Agency to be the beneficiary of up to half of your estate?

A Typical Scenario
You are already receiving RRIF or RRSP income above what you need to live and your future income requirements will be more than adequately met through pension and investment income. However, you are also interested in preserving the entire balance of your RRIF or RRSP for your estate or family on death.

- At your death, the remaining fair market value of your RRSP or RRIF is included as income on your final tax return and is subject (in most cases) to the highest marginal tax rate.*
- If your spouse is the named beneficiary of your RRSP or RRIF a tax-free rollover is available to your surviving spouse.
- At your surviving spouse's death any remaining value is fully taxable as income in his or her final tax return.

It's not a question of liquidity – this is assured through your RRSP or RRIF proceeds – it's more a question of preservation of capital despite the taxes which have to be paid. Life insurance can be the ideal preservation plan for registered assets.

The life insurance solution

Life insurance can help you preserve your capital by providing funds to pay any taxes due at death. Assuming you are insurable, you can purchase enough life insurance to cover the value your RRSP or RRIF portfolio might trigger on the death of both spouses. Ideally, life insurance is suited for individuals who have surplus income in retirement and who wish to maximize the value of their assets tax-free to their beneficiaries. For most people, the annual cost of insuring their life for an amount equal to the value of your RRSP or RRIF – depending on product chosen, age, sex, health and smoking habits – can be quite reasonable.

John and Mary's case

(example for illustrative purposes only)

John and Mary, both age 50, have accumulated a total of $500,000 in their RRSPs. By the time they are ready to retire, their RRSPs could be substantially higher taking into account additional RRSP deposits and the growth in their investments. A life insurance policy would ensure that funds needed to pay taxes are available, helping to preserve the estate. If they purchase an insurance policy with a face amount of $500,000 for an annual premium of $4,480[1] it would be less than 1% of the current value of their RRSPs. When the second of John and Mary pass away, the policy will pay out $500,000 tax free, which can be used to pay any taxes owing and any remaining balance would increase the value of the estate.

For more information, speak with your BMO financial professional who will refer you to an Estate & Insurance Advisor (Financial Security Advisor in Quebec) from BMO Estate Insurance Advisory Services.

BMO Estate Insurance Advisory Services

*Visit cra-arc.gc.ca (Canadian income tax rates for individuals – current and previous years) for more information.

[1] BMO Life Universal Life, Joint Last to Die, with Male, Age 50, Non-smoker and Female, Age 50, Non-smoker minimum-funded annually. Rate quoted as at January 3, 2017.