Insurance Strategy – Transferring Your Wealth Efficiently

Many parents and grandparents have already accumulated wealth. They would like to help their children or grandchildren financially as they move forward in life. They often invest in a Registered Education Savings Plan ("RESP"), or Tax-Free Savings Account ("TFSA") or non-registered investment account as a way of transferring wealth to their children or grandchildren. They look for ways to transfer their wealth in a way that maximizes the impact and value. They have another alternative to consider: The Wealth Transfer Strategy.

The Wealth Transfer Strategy: An option to lend a helping hand

- RESPs and TFSAs have contribution limits, and some investment vehicles are subject to tax or may not be flexible or liquid.
- The Wealth Transfer Strategy uses a permanent life insurance policy – and the tax preferred treatment that it has – to effectively transfer wealth to children and grandchildren.
- It allows the parent or grandparent to maintain control of the wealth until they decide it is time to transfer it.

Advantages this strategy offers:

- Life insurance protection for the child or grandchild;
- Can be fully paid up in as little as 8-10 years;
- Tax-sheltered growth of cash values;
- Tax-free payout on death;
- Tax-free rollover on transfer of the policy to the child or grandchild in the future;
- Flexible access to the cash values during their lifetime for expenses including funding university education, help financing the purchase of a home, a supplemental source of retirement income, provide security, maintenance and support for future generations; and
- After transferring the policy, cash withdrawals are taxed in the child's or grandchild's hands – usually at a lower tax rate than the parents or grandparents.

How the Wealth Transfer Strategy works

The parent or grandparent reallocates some of the wealth that they have accumulated, that is not needed for their lifestyle, to purchase a permanent life insurance policy on the life of their child or grandchild. They own the policy, pay the premiums and control the policy until they transfer it to the child or grandchild at some point in the future. In addition to the insurance death benefit, the policy is geared to grow tax-sheltered cash values over time. When they decide to transfer the policy, it may be done as tax-free rollover, and the child or grandchild becomes the owner of the policy. They can then have access to the cash values – and it is not limited to education costs – it could be used to help purchase a home, or start a business, or simply used to supplement other income sources.

Assuming the child is 18 or older when they access the cash values, if there is any taxable gain in the policy it will be considered income to the child or grandchild. Their marginal tax rate is likely to be significantly less that the parent or grandparent at that time.

As the new owner of the policy, the child or grandchild can name a beneficiary of their choice – someone important to them – and the policy becomes part of their overall financial security planning.

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How the Wealth Transfer Strategy can "Lend a Helping Hand"

The Wealth Planning Strategy can provide a tax effective way of transferring wealth.

Example

Who owns the policy?	Grandparent
Who is the life insured?	Grandson, age 3 years
What is the product used?	Participating Whole Life Insurance – current dividend scale*
How much insurance is there?	$250,000 initial death benefit
How long to deposit?	Until grandson is age 19 (about to start university) – 16 years
How much deposit per year?	$5,000

*The policy will be transferred to the grandchild when they reach the age of 19. Sun Life, Par Accumulator II, standard rates – February 2023.

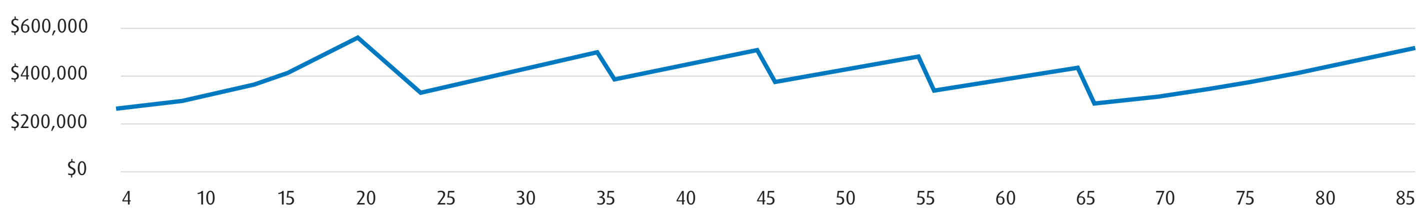
As owner of the policy the grandchild decides to access the policy's cash values to help fund their university education, and again every 10 years – starting at age 35 - to help with home purchase, home improvements and to cascade their wealth to their children in the same manner their grandparent did for them.

Cash withdrawals

Education funding (for four years) starting at age 19	$9,400 per year x 4 years
Help with down payment for a home (age 35)	$30,000
"Cascade" wealth to their own children (age 45)	$50,000
Supplement lifestyle and renovate home (age 55)	$70,000
Supplement retirement income (age 65)	$100,000
Total Cash Withdrawals	**$287,600**

This planning strategy has an underlying permanent insurance policy. The grandchild has that protection for life, and once they are the owner of the policy, they can choose their preferred beneficiary. Providing protection against debt, lost income and leaving a legacy for their own family.

Total Death Benefit



The death benefit and cash values grow over time, and the values reduce when the grandson makes cash withdrawals, but even with the withdrawals for education, home down payment, gifting to their own children, and supplemental income for themself, there is still a $500,000 death benefit to their beneficiaries. A wonderful legacy that their grandparent used surplus assets to provide to them and their family.

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