

INSURANCE

Life insurance is a do-it-all tool for the wealthy

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It's hard to think of an advantage that average folks might have over the ultra-wealthy. But buying life insurance may be one.

For most of us, a doctor's visit and a lifetime of affordable premiums give our loved ones some financial security upon a parent's or spouse's death. For high-net-worth people, more complicated finances and a riskier lifestyle can make life insurance more complex.

Broker Terry Zive, who has been in the business for more than 30 years, has found it not uncommon to work on policies for \$20-million or \$30-million, and even \$100-million.

"In this market you really need to know what you are doing," said Mr. Zive, who is president of Toronto-based Zive Financial Inc. "You not only need to understand the nuances of dealing with high-net-worth clients, but you need to understand the technical aspects of securing the coverage. If you make a mistake it can have significant repercussions."

Mr. Zive, who is usually brought in on a referral basis by a client's lawyer or accountant, says the goal is to develop what he calls "an attractive planning structure for the client. Each plan is unique."

Insurance companies, meanwhile, are looking at more than the client's general health.

"They will want to know that you have a certain level of net worth, a certain level of income, that there will be a certain level of economic loss associated with your death," Mr. Zive said. That means providing plenty of documentation so the insurance carrier knows that the amount of insurance being applied for is a realistic number.

"Simply because you want to buy it doesn't mean it's necessarily available to you," he said.

What's more, the medical part can also be more complicated.

Many millionaires pay special attention to their health and often visit private clinics and world-class medical specialists, Mr. Zive said. The underwriting process takes much longer, he said, "because you have to collect all these reports from these doctors who have seen them."

A wealthy person's lifestyle also can be problematic. Fast cars, off-the-beaten-track vacations and sports activities such as scuba diving, bungee jumping and mountain climbing present hazards that concern insurance companies. High-net-worth individuals also might travel more for business and to riskier countries such as Iraq, Brazil and China.

As a result, putting a policy in place can take as long as nine months, Mr. Zive said.

For very high insurance amounts, in the range of \$50-million to \$100-million, carriers need to find secondary market companies to spread the risk. That means three or even four firms need to be satisfied with the application.

Yet life insurance remains an important financial tool for the super rich.

It's a tax-shelter investment, said Mark Halpern, chief executive officer of WealthInsurance.com Inc. based in Markham, Ont. "Not only does the insurance get paid out tax-free – so especially in a corporate setting, it is a way of getting money out of the company tax-free – but if you have the type of policy that accumulates, the accumulation also grows tax-free."

While the tax benefits of some insurance strategies will diminish on plans implemented after Dec. 31, 2016, when new federal rules take effect, Mr. Halpern considers life insurance as "a sophisticated investment in the scheme of a financial planner's overall estate planning," he said.

If policy-holders need to take cash out of their plans, say for an emergency or to start a business, they can do so tax-free – making it a solid investment for younger clients, too, he said.

"Here are these guys in their 20s – what do they need insurance for? But we might put a whole bunch of term insurance in there because some professional athletes and entertainers, in the future, could become uninsurable through drug use, lifestyle or financial problems," he said. "At least having a hedge in place guarantees something for them to access and use to their benefit at some future point."

Other examples of where high-net-worth individuals use insurance include debt repayment, charitable bequests or so that family members won't have to liquidate assets. It can also be used to leave one child a fair inheritance if a sibling takes over the family business.

Probably one of the most common uses, however, is to help offset tax liabilities upon the holder's death, such as on capital gains.

So while it may seem like an innocuous purchase, for the ultra-wealthy life insurance is a key business investment.

When he started in the insurance business, Mr. Halpern said he wondered why a multimillionaire with the best consultants and advisers money can buy would need someone like him.

"But I have found out in my 25-plus years that that is not the case," he said, "and that 80 per cent of the time, because they are very busy and doing what they do best, those people do not have things organized. What they really need is somebody who is going to be looking at things from 30,000 feet."