The TaxLetter®

Vol. 32, No. 10 | Your Guide to Tax-Saving Strategies | October 2014

TAXSTRATEGY

Insurance alternatives: strike 'uninsurable' from your vocabulary

Insurable

Mark Halpern, CFP, TEP

I still recall the wisdom imparted by an insurance trainer when I began my career: "Money," he explained, "will pay for your clients' insurance premiums, but it's their health that buys it."

As it turns out, that was an understatement. People are rejected by insurance companies for many reasons other than personal or family health history.

Those "other" reasons can include a criminal record, a history of speeding tickets, dangerous hobbies, foreign travel and financial skeletons in the closet. People with flawless health profilces and impeccable lifestyles are sometimes unable to get the right kind or the right amount of coverage.

It is always important to work with a knowledgeable and experienced insurance professional with cultivated relationships within the industry to make the underwriting experience a success. The right advisor will assist in many ways, ensuring you (and your family) have the necessary coverage in place for final expenses, to pay estate taxes, provide income replacement, fund shareholder agreements, provide keyperson coverage or to fund charitable planned giving arrangements.

Getting a client from 'uninsurable' to insured

Take the example of a 60-year old executive who sought my help getting life insurance coverage. Every major Canadian life insurance company quickly rejected him due to a heart condition known as cardiomyopathy. We managed to get him the insurance he needed (from a company that rejected him previously!), albeit at a higher than normal rate. That policy was subsequently replaced in the U.S. with a lower premium than what he was paying here.

Rich or poor, life insurance should be a cornerstone asset in your financial plan to ensure a measure of tax-effective financial comfort for your family in case of death. Disability insurance and critical illness insurance are especially important in homes with only one wage earner—to allow your family to maintain their lifestyle while you recuperate.

'Special risk' protection ...

Unique specialty carriers provide "special risk" protection at both ends of the spectrum; simple coverage for the "uninsurables" and customized policies with much higher limits for people with high income or high net worth. Such companies usually have greater underwriting flexibility and higher limits.

... including for the 'uninsurable'

For the "uninsurable," these special policies do provide real coverage and peace of mind, though they are often more costly than regular insurance. Several Canadian insurance companies will insure your life with a guaranteed-issue, no-questions-asked policy. Canada

Mark Halpern, Certified Financial Planner (CFP), Trust and Estate Practitioner (TEP) is the Founder and President of illnessPROTECTION.com. Mark is one of Canada's top life insurance advisors with special expertise for business owners, entrepreneurs, medical professionals and high-net worth individuals and families. He can be reached at 905-475-1313.

mark@illnessPROTECTION.com

Protection Plan offers up to $300,000 of life insurance to those previously rejected and hard to insure, like overweight smokers who don't want to go through a medical exam. It may not be the huge benefit you had hoped for, but it will help pay some bills on death.

Disability benefits have improved substantially

High-income earners are delighted to learn that specialty insurers can now provide up to $75,000 per month, and sometimes more, in disability benefits. This is substantially more than regular insurance companies with standard limits of under $15,000 per month.

Often overlooked, accidental death coverage should be considered to cover off external events like car accidents, drowning and plane crashes. Whatever the payout is (they can range from very small to many millions), these policies provide an option for those who cannot get insurance any other way.

Life insurance: What to do if you develop health issues

If you buy a term life insurance policy and subsequently develop a health problem, do not let your policy lapse. Continue paying your premiums or your insurance will be cancelled. Most term policies allow a conversion to permanent insurance—all of it or just a portion—without medical evidence because the policy is based on the original underwriting.

Check your group benefits plan before you embark on a new job because you may be able to convert your group policy to a personal policy.

Life insurance: A way to pass on funds tax-free

A huge benefit of life insurance—if not "the" best—is the unique ability to pass funds on to your beneficiaries tax-free. Life insurance proceeds bypass probate and are not taxed, if set up properly.

This is especially important as 49 per cent of your hard-earned retirement savings will be taxed on the death of the second spouse. People with company assets or accumulated capital gains from investments, real estate and/or business equity will join the ranks of the heavily taxed after the death of both spouses.

Life insurance is the most tax-efficient and cost-effective way to satisfy the insatiable tax department when you pass on. It is preferable to seeing almost half your savings disappear, or forcing your beneficiaries to borrow the money to pay your final tax tab (which can get expensive), or forcing them to sell assets to pay the taxes. Nothing else comes close.

Donations can reduce your final tax bill to zero

Assets inside a Universal Life or Whole Life insurance policy will accumulate tax-free. Donating all or part of those policies to a registered charity can reduce your final tax bill to zero and allow you to be remembered for your philanthropy instead of what you left for the tax department—leave nothing for the tax department, a bigger estate for your family and loved ones, and significant gifts to your favourite charities.

The tax benefits of wage loss protection plans

Some companies have a wage loss protection plan that allows employers to provide disability income protection for specific employees—usually executives or high-income earners. The company converts what would normally be a personal expense for the employee into a tax-deductible savings for the business. The plan combines the tax savings with possible discounts, creating a benefit plan for employees in a cost-effective manner. In some cases, only two employees need to be classified as being in the same group. With these plans, employees do not contribute to the premiums so the plan is not considered a taxable benefit to the employee, and disability benefits are paid directly to the employee tax-free.

Why you should set up critical illness insurance in the most tax-efficient way

Company owners or shareholders should consider shared ownership of critical illness insurance, a policy that pays up to $2 million if you get sick and returns all of the premiums just for staying healthy. More than two dozen illnesses are covered. Heart attack, cancer and stroke account for almost 80 per cent of payouts to date. If set up properly, all the insurance premiums can be paid for by the company with the opportunity to refund those premiums back to the employee, tax-free.

Get professional advice

Always seek professional tax and legal advice before implementing any insurance or estate planning strategy.

There are many cases in which life and disability insurance can be purchased even after some of the regular insurers turn you down. A knowledgeable advisor, particularly one trained in insurance, tax and estate planning issues, can first help you define what your needs are and therefore what plans would serve you best.

You may want to consider the U.S. markets to help get insurance coverage. Having a U.S. business interest, recreational property or family in U.S. can open up a market of many more insurance companies to help you get the coverage required.

So do not be disheartened if you have been turned down by some insurers for either life or disability insurance. Strike "uninsurable" from your lexicon when working with the right professional advisor. ❐

Get your FREE Estate Planning Toolkit at: www.illnessPROTECTION.com/estateplanning-toolkit.php. The expanded toolkit now includes: Estate Directory Estate Planning Checklist, Executor Duties Checklist, Business Owners Planning Guide. Visit www.MarkHalpernBlog.com and sign up for free updates.