

# The TaxLetter®

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Your Guide to Tax-Saving Strategies

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## TAXSTRATEGY

**Take the time to review your finances.  
Tips to help find, save and make money in**

# The new year

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THE HOLIDAY SEASON IS A JOYOUS time of year to share with family and friends. Many people celebrate by over-eating and over-spending. As always, though, we still need to be keep an eye on our finances: the glitter and good cheer can dissipate quickly once the bills arrive.

As we head into a new year, I'm using this article to convey several easy ways to help you and your family find money, make money and save money to improve your financial situation.

You will be able to find some of the money online without help; other funds are available from the government in the form

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of grants and matching contributions; other options will require the help of an experienced financial planner.

Below are some of the ways you can find, save or make money.

### Bank accounts

At last count, more than half a billion dollars (i.e., \$500 million) has accumulated in thousands of individual unclaimed and dormant bank accounts across Canada. The money gets transferred to the Bank of Canada from all the financial institutions when accounts have been inactive for years and after the banks have tried to contact the client without success.

In many cases, elderly people, or those who move frequently, simply forget the accounts. In other cases, the depositor passes away, and no one in the family knows about the accounts.

These unclaimed and dor-

mant accounts may hold not only cash, but also certified cheques, money orders, guaranteed income certificates (or "GICs"), term deposits or positive credit card balances. It's easy to check online if you or a relative has any unclaimed funds. Visit this website ([http://ucb-swww.bank-banque-canada.ca/scripts/search\\_english.cfm](http://ucb-swww.bank-banque-canada.ca/scripts/search_english.cfm)) and, with luck, you could find a bundle.

### Chequing accounts

Most Canadians have a chequing account. And we know the days of receiving a decent return on these accounts have long expired.

What really gets many chequing account holders riled is that they get nothing for leaving their money in a financial institution that has free use of their money, but (with the exception of some seniors) they are required to pay fees for everything from writing cheques to making "too many" withdrawals of their own funds every month.

So what's the solution? Look for a financial institution that will actually pay you interest on your chequing account.

Manulife Bank is one of the few companies that pays 1.45 per cent on all funds in the account, with no minimum deposit. Business accounts earn 1.25 per cent.

Interest is paid on every single dollar in the account and you can move your money in

both directions between Manulife Bank and your current financial institution: easily, online and without fees.

Our clients enjoy personal concierge service to open an account and get to deal with a real person, right here in Canada.

### **Critical illness insurance**

I often call critical illness insurance the Rodney Dangerfield of insurance products because it doesn't get the kind of respect it deserves. Less than 10 per cent of Canadians have a critical illness policy and the vast majority of insurance advisors have never sold a policy.

Critical illness insurance is available up to \$2 million and pays a tax-free lump sum 30 days after you get diagnosed with any one of more than two dozen conditions. Heart attack, cancer and stroke account for about 90 per cent of all claims paid.

Unlike life insurance, which pays out when you die, critical illness policies pay out when you get sick. And you decide how to use the benefit—no strings attached.

Here's the interesting twist on critical illness insurance: you can get back all of your premiums, in full, if you don't make a claim and simply stay healthy for 15 years.

As a company owner or shareholder, additional benefits are available to you.

This is how it works. Use the SOS Shared Ownership Strategy to get the critical illness insurance and have the company pay all your insurance premiums. After 15 years, if you haven't made a claim, you can get back all those premiums that the company paid on your behalf—all tax-free.

Business owners and incorporated professionals appreciate

the opportunity to get money out of the corporation with no taxes payable.

If you do make a claim with critical illness insurance, the amount you collect always far exceeds whatever you have paid in.

One of our clients, who is a very healthy doctor, purchased a critical illness policy. He did this because, as a physician, he knew the kind of financial and emotional devastation serious illness causes in families.

He recently required heart valve replacement, and received a cheque for \$250,000 following his successful surgery. That money easily offset the time he had to take off work, allowing him to concentrate on his recovery instead of worrying about money.

Is it any wonder that doctors and healthcare professionals are the most avid buyers of critical illness insurance? They have inside information and know we are all just a moment away from unplanned sickness or accident.

Some people want to buy critical illness insurance, but don't have the cash at hand. But consider this: you might, for example, have a guaranteed investment certificate earning interest at historically low levels—not even enough to keep up with inflation. When the GIC comes up for renewal, use some of those funds to pay the premiums for the critical illness policy, and get all your money back with the forced savings of returned premiums.

Many investors use a critical illness policy as portfolio protector: it ensures they will avoid the need to liquidate investments if illness strikes.

### **Registered Disability Savings Plans**

The federal government has set up Registered Disability Savings Plans (or "RDSPs") to help parents and other family members provide for the longer-term needs of a disabled child.

There is a \$200,000 lifetime limit and those making the contributions don't receive a tax deduction. However, in many circumstances, their contributions are matched by Ottawa. As well, investments in an RDSP grow tax-free, just as they do in a Registered Retirement Savings Plan (or "RRSP").

### **Registered Education Savings Plans ... and Free Money**

Registered Education Savings Plans (or "RESPs") help parents, family and friends save towards a child's future post-secondary education. As with RDSPs—and in contrast to RRSPs—RESPs are not tax deductible; however, the money inside RESPs earns tax-free income and gains until the money is withdrawn.

Here's where the "free" money part comes in: Ottawa adds a Canada Education Savings Grant worth 20 per cent of what you put in—up to \$500 a year—for a lifetime maximum of \$7,200 for each child. Parents with lower incomes can receive a higher grant.

### **Life insurance as an asset**

Most people think of an asset in terms of real estate, mutual or segregated funds, stocks, bonds or cash—and overlook the importance of life insurance as an asset.

However, treating life insurance as an asset can balance the

risk in your portfolio with the peace of mind that comes with ensuring your heirs and other beneficiaries are looked after.

Permanent life insurance, particularly participating—or “par”—life insurance policies hold professionally managed funds that often outperform balanced mutual funds.

Par accounts also pay dividends from earnings that accumulate in life insurance policies. You can use these “free” dividends to help pay for the premiums of the life insurance policy, buy additional coverage or leave the dividends in a special savings account where they can earn tax-sheltered interest.

Moreover, as with all life insurance policies, a par account will pay out tax-free to beneficiaries without the hassle and cost of going through probate.

On the corporate side, insurance proceeds also create a credit to the capital dividend account of a private corporation and is paid to the deceased’s estate or shareholders with little or no tax.

### **A second opinion on your term life insurance**

Term life insurance is less expensive to buy today than it was 15 years ago. So if you are nearing the end of a 10-year term plan or in a new renewal past your first 10-year term period, you should ask your advisor to get the insurance reviewed. You may enjoy a cheaper rate, get more coverage with the premium you are currently paying

and also get more flexibility in your plan. Don’t be shy: asking questions is free.

### **Estate planning toolkit**

We are very proud to offer anyone who comes to our website a free, four-part estate planning toolkit. The web access details appear in the box below this article.

Part one is an Estate Directory. If something should happen to you, will your spouse or child know where to find all your important documents? This includes where you keep your will, your powers of attorney, life insurance and bank accounts, complete with access numbers and digital passwords. Completing your Estate Directory will ensure that your back accounts don’t end up in the “Lost and Found Department” at the Bank of Canada described earlier.

The Estate Planning Checklist helps you organize your estate efficiently and gives you some ideas and strategies to eliminate taxes.

The Executor Duties Checklist includes the duties of an executor, which should be kept with your will.

The Business Owners’ Planning Guide will help you develop a contingency plan to ensure both continuity and value in your business if something happens to you.

Don’t put off using the Toolkit. It will take some time and effort on your part, and it will be well worth it for all concerned.

### **No obligation consultation**

Putting together a customized insurance and tax and estate package for yourself, your family and or your company requires professional help. Feel free to get in touch with me for a no-obligation consultation. It’s really important to work with someone who knows the ins and outs of the industry to help avoid any nasty surprises in the future.

### **Charity**

Please use the ideas above to make more money, reduce your tax bill and, perhaps, access funds you have forgotten or never knew about. And, if you want to, go ahead and use some of this “new” money to splurge. But please also remember the many worthwhile organizations out there that are in need of funding. Be generous to the child you help, the project you support, and the researcher developing a cure for an illness. They may not know you directly, but they are all silently thankful for your kind donations and thoughtfulness.

Enjoy the holidays and stay healthy. ☐

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