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Your Guide to Tax-Saving Strategies

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ESTATEPLANNING

12 Ways to Use Insurance

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*“You Must Pay Taxes.
But There’s No Law That Says
You Have To Leave A Tip.”*
— Morgan Stanley

Successful Canadians with high incomes lose a huge chunk of their earnings to taxes. In Ontario, for example, people earning \$220,000 annually see 53.5 percent of their earnings consumed by federal and provincial income taxes. Additional taxes (like sales tax, property taxes, land transfer taxes, etc.) make things worse.

People need to know how to preserve and protect their family wealth from the many taxes and related expenses -

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whether on investment income, capital gains, or on death – that can be legally avoided now with proper planning.

Life Insurance can be the most versatile and reliable financial asset in your portfolio, but most people don’t know how it can be used to preserve their hard-earned money and achieve desirable tax outcomes. Nor do they know that it’s available to everyone.

Life Insurance enjoys unique treatment under our Income Tax Act. Consider using it to reduce or fund your taxes, leaving more money for family and favourite charities.

Health and disability insurance will protect your earnings if you get sick and can provide access to the finest medical care in the world. Property and casualty insurance products protect your business, home and tangible assets.

In fact, there has never been a better time to review your insurance needs. Here are a

dozen ways to benefit from insurance of all kinds.

1. Estate Preservation

A principal goal of estate preservation is to minimize the tax burden at death.

To do this properly, start by developing a robust financial plan with your financial advisor, who will ask you what you want to do in retirement and where you want your money to go after you die.

If you own shares in a private holding company or investment corporation, proper planning now can reduce or eliminate the double taxation that will result from the deemed disposition of the shares at death and the tax liability on the final distribution of the assets out of the corporation.

Read my October 2020 article “Private Company Share Donation Strategy”.

2. Funding Buy/Sell Agreements

Life Insurance is an ideal funding solution for buy/sell agreements. When a partner dies, for example, it provides the funds necessary to pay the estate of the deceased partner.

3. Estate Equalization

When a family enterprise passes on to the next generation, the owners’ kids want to receive their ownership share but don’t want to work in the business. Instead of leaving equal shares to all the siblings, which is unfair to the sibling working in the business, Life

Insurance can be used to offset the imbalance caused by leaving the business to interested kids only.

4. Key Person Insurance

The loss of a key employee can be costly and disruptive.

A business can suffer greatly until a replacement can be recruited and trained. This important coverage can defray those costs.

5. Life Insurance as an ideal investment

If you are like every person I meet, you want to leave as much as possible for your family (and hopefully your favourite charity) and as little as possible to the government. Canadians who die without a spouse or financially dependent child or grandchild, unwittingly leave the government up to half of the value of their Registered Retirement Savings Plans and Registered Retirement Income Funds.

A further tax of 26 per cent (in Ontario) is payable on the growth of your non-registered holdings like investment real estate, appreciated securities and your private business equity. And there are still estate costs that have to be paid.

Life Insurance can mitigate those losses by providing tax-free funds to the estate and its beneficiaries when needed most. Read my January 2022 article “Cash-Value Life Insurance. What’s In It For You?”

6. Wealth Transfer

While many people believe they can only buy Life Insurance for themselves or as part of a joint last-to-die policy, it’s also possible to transfer wealth by acquiring a Life Insurance policy on a child or grandchild.

As the owner of the policy, you pay the premiums and if you

pay more than what is needed you create “equity” in the policy, known as cash surrender value.

When the policy is transferred to the child in the future it may qualify as a tax-free rollover and the child will have access to the cash value at their marginal tax rates. If you transfer the policy to the child once he/she is 18 and there is a policy gain, that income is attributed to the child, not you. Read my article December 2015 “Melt & Cascade: An effective way to stream wealth tax-free”.

7. Immediate Financing Arrangement (IFA)

A leveraging strategy can allow you to obtain a Life Insurance policy in a cash flow neutral way by leveraging the cash value in a policy as security for a loan. This can set up a cash flow neutral event and vastly increase the value of your estate while your own money continues working for you in your business or investment portfolio.

IFA policyholders pay only the interest cost on the borrowed premiums for a permanent or whole Life Insurance policy. The loan can be paid off from the ultimate death benefit payout. Along the way, the interest paid is deductible. Read my March 2016 article “Leverage and Life Insurance”.

8. Disability Insurance

Successful Canadians who check the fine print of their company benefits booklet are usually surprised to learn that while they enjoy a healthy annual compensation package, their long-term disability coverage is insufficient and possibly taxable. It’s an important exercise to have someone review your employer’s benefits and make sure there are

no gaps in your planning.

Of note, high-limit disability insurance is now available with coverage of up to \$150,000 a month or \$2 million per year.

9. Critical Illness Insurance

This is a fantastic product that is often confused with Disability Insurance and one that gets too little attention. Protect yourself financially against more than two dozen critical illnesses with a policy that pays you a lump sum of up to \$2 Million, tax-free, upon diagnosis.

Use the money as you wish – to pay off debts, stop working, take a long vacation, early retirement - it’s up to you.

Critical Illness policies are guaranteed by the largest insurance companies in Canada.

Here’s the best part: If you stay healthy, you can get back every dollar of premium paid, in full.

The Return of Premium option is unique: If you die of any cause that isn’t covered, all premiums paid are returned to your estate.

10. Long-Term Care Insurance

The biggest and fastest growing demographic in Canada – and most of the world – is seniors.

Costs at the highest rated long-term care facilities now eas-

Please visit our new website
WEALTHinsurance.com

Watch “The New Philanthropy”, my recent “Ted Talk” at Moses Znaimer’s ideacity conference
<http://bit.ly/MarkHalpern>

Mark’s corporate goal is the creation of \$100 million in new charity each year working with clients, generous donors of non-profits and collaborating with allied professionals.

ily exceed more than \$10,000 a month and rapidly deplete retirement savings, putting a financial strain on a spouse or family.

Recognizing that the cost of long-term care or suffering a critical illness can be significant, successful people buy policies that include a return of premium option, and if no claim is made they get back all of the premiums paid.

You can also purchase joint last-to-die insurance that will enable you to enjoy your retirement years without worrying that you won't be able to leave something for children or a favourite charity.

Read my article from May 2019 "Long Term Care Insurance"

11. Best Doctors Insurance®

We live in a great country, with a health care system that provides universal coverage (and long wait times for treatment) through our taxes. But all those taxes aren't enough to get you the specialized care you need as quickly as you want it.

Best Doctors Insurance® provides immediate access to the finest healthcare at Centres of Excellence around the world with a \$5 million lifetime fund to cover treatment costs.

A "healthcare concierge" helps you navigate the system, from diagnosis to treatment and recovery, and looks after everything from scheduling a doctor's appointment to arranging travel and accommodation. No doctor's referral note is required.

Service providers are paid directly (it's not a reimbursement plan) for tests, procedures, treatments and surgeries not available in Canada.

12. Leave a Legacy

Many people have a favourite charitable organization near and dear to their hearts, whether it's an organization devoted to an illness that afflicted a family member or a school that helped them get to where they are today.

As a parent/grandparent/-great-grandparent, you can set up a strategy that will provide ongoing giving through an endowment in the form of an irrevocable gift to a private foundation or a donor-advised fund (DAF) in a public foundation.

A DAF requires that a board of directors be set up to distribute the funds. Often, adult children or grandchildren join the board to keep their family's name alive and be aligned with a specific cause.

If the decision is taken to provide for a charity through Life Insurance, the proceeds are usually many times greater than the policy premiums and the family name will be remembered as a generous one that gives back to the community. It's also a great way to instill a love of philanthropy in the family, especially by having young family members involved in the process. Read my March 2017 article "Maximize Giving, Minimize Taxes".

Note to reader: From a very young age, I loved the concept of a 'baker's dozen' when buying cookies or donuts, so I can't resist adding another example to the list.

13. CPP Philanthropy™

Many fortunate readers who collect Canada Pension Plan benefits don't need their monthly stipend to pay bills. It's "never spend money" that only gets

taxed, invested and taxed again. We call that "The Tax Grind". The CPP Philanthropy™ strategy uses government supplied funds to make large charitable gifts, eliminate taxes and leave more for your family using Life Insurance.

Read my article from October 2017 "CPP Philanthropy™"

Get Professional Help

Don't go it alone. Get the benefit of experience and knowledge from a team of seasoned insurance professionals who can assess your needs and suggest appropriate strategies. Simply getting insurance in place isn't enough – get the right types of insurance in the right amounts, with the help of professionals who will be there to advocate for you in the event a claim is made. □

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He guides successful business owners, professionals, and affluent families through the complex process of ensuring the people and organizations they care about are taken care of. If you are like his other clients, you are looking to reduce your tax obligations, preserve your wealth and leave a legacy.

Mark collaborates with your professional advisory team to achieve your desired outcomes. His simple approach makes sure what is important to you gets done. He will suggest appropriate strategies to get your financial affairs meticulously organized, help you take action, and simplify the complicated so you and your family can rest easy. Mark can be reached at 416-364-2929, toll-free at 1-866-566-2001 or Mark@WEALTHinsurance.com

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The 2021 Toolkit now includes:

- Estate Directory
- Estate Planning Checklist
- Executor Duties Checklist
- Business Owners Planning Guide

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