# The TaxLetter®

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**ESTATE**PLANNING

## 9 Generous Ways to Use CPP Benefits

# Utilize your CPP

**Mark Halpern,** CFP, TEP, MFA-P

***Message to readers:***

*Time flies!*

*This marks the 100th time that the TaxLetter® has published an article of mine since October 2011.*

*For 10 years it's been my pleasure to inform you about tax-saving strategies available to preserve your wealth for family and the causes you care about.*

*During that period, readers from every province have contacted us for a free personal consultation. We have advisors in every province. This national publication has enormous reach – we even heard from a subscriber in Iqaluit, the capital of Nunavut!*

*I am looking forward to sharing more wealth-preservation ideas to protect your hard-earned money and encourage you to contact me if you have any questions.*

*Thanks in advance.*

*Mark*

Mark Halpern is a Certified Financial Planner (CFP), Trust and Estate Practitioner (TEP), Master Financial Advisor - Philanthropy (MFA-P) and one of Canada's top life insurance advisors. He is CEO of WEALTHinsurance.com® and illnessPROTECTION.com®, with special expertise for business owners, entrepreneurs, medical professionals and high-net worth individuals and their families. He can be reached at 416-364-2929, toll-free at 866-566-2001 or mark@WEALTHinsurance.com.

Working Canadians begin to see their pay packets shrink at the age of 18 when their employers begin to deduct Canada Pension Plan (CPP) contributions. We become so accustomed to salting away that money for retirement during our working years that it's almost a surprise when suddenly, decades later, we become eligible to take the money. Time flies.

Many fortunate TaxLetter® readers don't really need those government-supplied funds to pay their bills. It's money that's not essential to theirretirement. It just gets invested, taxed, reinvested, and taxed again. With more money than they will ever need or want to spend - what we call "never spend money" - they are custodians of wealth for future generations.

You can leave your money to family, charity, or the tax department, and you can choose two of those beneficiaries. The decision is easy for most of us, especially those who are philanthropic. (You don't have to be rich to be a philanthropist).

It's your money, and if you prefer make charitable gifts instead of sending it to the tax department, this article presents several ways to make excellent use of those funds.

Read "CPP Philanthropy," my TaxLetter® article from Oct 2017.

**How Much CPP Are We Talking About.** Allow me to introduce a happily married couple, Sue and Alan Jones. They are both 65 and receive monthly CPP benefits of about $1,100 apiece, a total of about $26,000 annually. They live in Ontario and enjoy considerable income from other sources, so they pay tax at the highest marginal tax rate of 53.53 per cent. We'll use their situation as an example.

### The Tax Grind

After tax, their $26,000 shrinks to $12,000. When they invest the leftovers they pay tax again on the income earned. "The Tax Grind", my

TaxLetter® article from June 2016, explains how income taxes compromise investment portfolios, and how those taxes often leave investors with less money than they started with. Here are some suggestions on how to use that money.

**#1 Give the CPP to family.** Sue and Al can put the money aside for their children or grandchildren to use when they get older and help pay their university tuition fees, or a down payment on a home. It currently costs about $6,500 - $7,500 a year to take an undergraduate program – without residence costs. Going to graduate school easily doubles that cost.

Their children get the financial benefits of their generosity and are hopefully inspired to be generous to their own children and grandchildren in years to come.

**#2 Donate the monthly benefit to charity.** You may already know that I'm a big believer in philanthropy. If you haven't seen it already, please watch my 'Ted Talk' from Moses Znaimer's ideacity conference. My talk, "The New Philanthropy" was in the Disruptors category. I explained that you don't have to be rich to be a philanthropist, and how anyone can be a philanthropist by converting taxes into charity. Here's the link:

*http://bit.ly/HALPERN*

The pandemic hit charities across the country, from the biggest to the smallest. Our weakened and uncertain economy slashed donations while governments shut down large social gatherings, eliminating fundraising events. Despite cost cutting, closing offices, and laying off staff, they are stretched further, as demand for their services soars.

Better Ways To Donate Most people donate using cash, cheque or credit card--the least cost-effective ways to be generous. There are many better ways of being charitable that are more cost and tax-effective, enabling a charity to receive more money than the net cost to the donor.

Giving cash has after-tax cost of 49 cents for each $1 donated. Stocks mutual funds, segregated funds and ETFs, have an after-tax cost of 25 cents per $1 donated and a gift of Flow Through Shares has an after-tax cost of 15 cents for every $1 donated.

Al and Sue can donate a new Life Insurance policy at a net cost of 12 cents for every $1 donated. So instead of making a cash gift of $10,000 annually, those same dollars can be used to buy and donate a life insurance policy. They receive a tax receipt of $10,000 in both cases, but the charity will receive a much larger sum than the aggregate of their annual gifts.

**#3 Donate a Life Insurance Policy Owned Personally, Tax Savings Later.** Use the $26,000 CPP benefits to pay the premiums on a joint-and-last-to-die life insurance policy for $1.4 million. The charity, as beneficiary, will receive the insurance payout on the death of the second spouse. The Jones estate will receive a donation receipt for $1.4 million and save the family about $700,000 in taxes.

**#4 Donate a Life Insurance Policy Owned by Charity, Tax Savings Now.** As above, create a charitable gift of $1.4 million using joint-and-last-to-die life insurance, this time with the charity as owner and beneficiary of the policy. Use the CPP benefit to pay the policy premiums and receive an annual charitable donation receipt of $26,000, mitigating all of the tax payable on the pension benefit and replacing it with a large gift.

**#5 GiftMAXIMIZER™.** Use this strategy to make a generous transformational gift of Permanent Cash Value Life Insurance that will provide ongoing cash flow to the charity while Al and Sue are alive. In addition, the charity will receive a large legacy payout after they die.

Money can be paid to the charity as early as the first year the donation is made. Instead of using dividends from the policy to add more coverage, the money is paid to the charity as early as the first policy year, and the dividend is non-taxable, since the policy is owned by a charity. The annual dividend increases every year, and if the charity waits to begin getting those funds, the greater the amount it will receive every year. Read my TaxLetter® article from March 2020 "Maximize and Preserve. Do Good and Do Well."

**#6 PolicyPRESERVER™.** About $7 billion worth of term life lnsurance policies lapse every year. Those policies are most frequently owned by people who can no longer afford the premiums or don't need the coverage. Many of those policies can be very valuable for charitable purposes, especially if the health of the insured person has declined.

An actuary provides a policy valuation based on contract details and life expectancy of the insured. The policy is donated to charity, and the donor receives a valuable charitable donation receipt that typically ranges from 20 to 60 per cent of the policy face value.

**#7 Donate RRSP/RRIF By Will or Beneficiary Designation.** Those retirement funds will be fully taxed as income (at 54 per cent) on the second death. A $1-million RRSP/RRIF will only be worth approximately $460,000 to the Jones family, after taxes. This strategy designates a charity as beneficiary of the RRSP/RRIF, which mitigates the RRSP/RRIF taxes. To replace the $460,000 that would have gone to the family, use some of the CPP benefit to fund a $500,000 life insurance policy to fund the tax liability, or use the entire CPP benefit to purchase a $1.4 million joint-last-to die insurance policy, with the family/ estate as the beneficiary.

On the second death, the life insurance policy pays out $1.4 million tax-free to the family. This represents an additional $940,000 for the family (compared to $460,000) and a large gift to charity.

**#8 Immediate Financing Arrangements (IFA).** This strategy is used by wealthy clients to buy life insurance without tying up their money, while securing their tax, estate planning and philanthropic needs. It gets permanent cash-value life insurance at a fraction of the premium cost. An IFA is involved when the majority of very large life insurance policies (annual premiums of $1 million and up) in Canada are acquired.

The insurance policy cash-surrender values serve as collateral to secure a loan with a Canadian chartered bank. Client pays the premiums with his or her own money, then uses the policy cash value, and sometimes some additional collateral, to secure a loan to reinvest in their business, securities, real estate or private equity. Client pays only the loan interest, which is tax-deductible and the NCPI (net cost of pure insurance) is also deductible. It represents a small amount when younger, but much a larger one for older ages. The loan is typically paid off at death with the life insurance proceeds. The balance goes to family and charity, virtually tax-free.

**#9 Get Long-Term Care Insurance.** Use the CPP to acquire some Long-Term Care Insurance. Al and Sue's savings and inheritance to their family are at risk if one (or both) of them gets sick and requires long term care. The cost of care, per person, can range between $4,000-$12,000 per month! This insurance protects Al and Sue as well as their assets. A "Return of Premium" rider is available on some policies. It returns every dollar of premium paid if no claim is made. Just by staying healthy, the Jones' estate value will not be diminished by those premiums.

Don't Do This Alone. There are many strategies to help reduce taxes now and for the future, but they require comprehensive estate planning and working with experienced, knowledgeable people. Our advisors across the country are available to help you – on the phone, or through Zoom. Do not hesitate to contact us for a no-obligation consultation. Stay safe. ❑

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Mark Halpern is one of Canada's top life insurance advisors, a Certified Financial Planner (CFP), Trust and Estate Practitioner (TEP), Master Financial Advisor-Philanthropy (MFA-P) and CEO of WEALTHinsurance.com

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

Get your FREE Estate Planning Toolkit at WEALTHinsurance.com/toolkits.html

The 2021 Toolkit now includes:

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

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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.