

# The TaxLetter®

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Your Guide to Tax-Saving Strategies

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## ESTATEPLANNING

### What Do You Own?

# Audit Thyself

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Welcome to 2021 – the year when we all hope the world rights itself from the pandemic that has taken so many lives and cost so many people their businesses and caused extreme anxiety. With at least two effective vaccines slowly becoming available around the world, we hope everyone has access to them soon, making COVID-19 a plague of the past.

During 30 years of professional practice, I have been telling people that they need to get appropriate life and health insurance protection in place. Now is the perfect time to make sure that what you own matches your unique circumstances, and that you are well protected in

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terms of coverage in the most tax-efficient method possible.

Consider getting a no-obligation policy audit and review. Include all of your life and health policies – such as long-term care and critical care insurance.

Depending on your needs, the audit may include specialists from different insurance arenas, in addition to accountants and financial advisors. After all, you get your car tuned up a couple of times a year, visit the dentist twice a year, maybe even see your doctor for an annual checkup. Getting a financial audit should be put on this same to-do list.

### A Professional Assessment

We have special expertise to get you the audit. Let me introduce you to our team member Jeff Cait, MBA, CFP, CLU, CH.F.C. and TEP, a life insurance expert who does not sell any products. With his extensive product and contract knowledge, Jeff will determine whether the products you have now meet your objec-

tives. He examines the fine print of insurance contracts with one main goal -- to give you the understanding you need to make an informed, money-saving decision about new or existing life insurance policy contracts and their applications.

A well-detailed Jeff Cait audit will inform you in his straightforward manner of any deficiencies in your policy, identify what you still need or do not need and confirm the appropriateness of what you already have. A recent client referred to us by his banker thought he had \$5 million in permanent insurance, when what he really had was \$2.5 million of 20-year term insurance.

In another case, a busy dentist who sought our help had eight different policies in his portfolio. He hadn't looked at them since buying them in the 1980s. It's too easy to just buy it and file it away. We made sure he had what he really needed.

Here are some other areas worthy of examination.

### Should you pay premiums monthly or annually?

Many insurers allow you to pay for your life insurance premiums in monthly installments, but while that may sound attractive from a budgeting perspective, the insurers don't tell you about the costly financing rate.

According to Ami Maishlish, an insurance expert and president of CompuOffice Software Inc., most insurers charge

interest at an annualized financing rate of more than 17 per cent, just for the ease of paying your insurance premiums monthly. He reports that one insurer's effective annualized rate exceeds 34 per cent!

Use this free online tool to calculate the costs at different insurers: <http://www.theinsuranceforum.com/pages/aprcalc.html>

If you have enough money in the bank or access to an inexpensive line of credit, consider paying the premiums with a single payment and save yourself some money. If your cash flow changes in the future, you can always switch to the costlier monthly payment plan.

Most of us keep better control over regular, recurring monthly payments. Jeff warns that if you choose to pay annually, there's a greater likelihood you might forget to make your payment. Many life insurance policies "lapse" – or are cancelled by the insurance company if you are two months late on a payment.

### **Term life insurance vs Permanent (Whole) life**

Term life insurance is sometimes compared to "renting" versus "owning" the plan. Regardless, a term policy can be very flexible. Some policies, for example, allow you to exchange 10-year term coverage for a new 10-, 20- or 30-year term coverage with no need to requalify medically or show new proof of insurability.

It should also be clear to a potential purchaser that term plans are usually much more affordable than whole life insurance when you first take out the policy – but they gradually increase in cost come renewal

time. The renewal premiums of term policies can go up by five to 10 times, making them expensive to keep. Read my TaxLetter® article of July 2019 "Life Insurance Options: Borrow, Rent or Buy."

Many of our clients hold a combination of different life policy contracts in a diversified protection portfolio. This is an excellent way to reduce current cash flow requirements while keeping all your options open.

While each person has his or her own reasons for wanting to buy life insurance, the most common objective is to provide liquidity on death. Policies with a cash value that accumulates tax free can be used to earn passive income inside a company, and the owners can enjoy access to that wealth and transfer it tax-efficiently to surviving beneficiaries.

There are now only four asset types that escape the tax bite: the sale of your principal residence, lottery winnings, tax-exempt life insurance and your TFSA. But you can only contribute \$6,000 a year to your TFSA.

Imagine getting a TFSA with no limits where your money can grow tax advantaged and usually passed along tax free. That's what you get with permanent insurance.

Recent changes in the tax and interest-rate environment have made life insurance with cash value more effective as an accumulation vehicle than low-yield, highly taxed traditional investments.

### **Don't cancel -- yet**

If you own a term policy and become sick, continue to pay the premiums or your insurance will

get cancelled.

Most term policies have an option to convert all or some of the policy to permanent insurance. It will be more expensive than term, but at least you have coverage for when it's needed most.

### **Policy lapses**

The one thing you certainly do not want to do without professional advice is incur a life insurance policy lapse that makes the coverage inactive. A lapsed policy means this: no death claim payments will be made if an insured dies, no policy changes can be made, and there is no cash surrender value at this point. Even if you move or change your banking, you must inform the insurance company.

### **Are the original beneficiary designations still appropriate?**

Have you divorced, remarried or had a child since taking out your current policy? You need to update your beneficiary designations. Caution rules here. Many people think that only requires sending the new beneficiary's details to your insurer. But it can be more complicated than that. Clarity is critical. Distribution of the life insurance proceeds will likely not occur for, say, 30 or 40 years. So much will have changed. We recommend a Letter of Direction focused on secondary (contingent) beneficiaries, so the owner's intentions are clear.

Did you know that if you have named your two children as beneficiaries and one of them dies, the insurance proceeds are payable 100 per cent to the survivor? If you want to leave

money to the deceased child's family, you must make that clear in a Letter of Direction.

While here should be no surprises when reviewing existing life-policy contracts, keep in mind that they do arise.

### **Can you reduce your premiums?**

Have you lost weight, quit smoking, or stopped participating in dangerous sports like skydiving or bungee jumping? Get your policy contract reviewed. The premium may be reduced and the rating lowered or even removed altogether.

If you quit smoking, you need to sign a non-smoking declaration that you've been a non-smoker for the last 12 months.

In 2018, Canada legalized cannabis. Many insurance providers have updated their policies concerning marijuana, and don't view it as high-risk as tobacco smoking. That said, it can still impact your premiums, as smoking cannabis is not considered completely risk-free. Nowadays, most insurers will allow you to smoke up to two joints a month and still consider you a non-smoker.

Healthy weight loss can also lower life insurance rates, but how much weight and how long it's been off are all part of the rate calculation that determines how much you will benefit financially.

Expert knowledge with respect to medical underwriting should be an industry-wide requirement for those who sell life insurance. Jeff suggests that part of the audit be a review of the original application and makes sure the life insurance proceeds will be payable under

different circumstances.

### **Unexpected value for the uninsurable or those who no longer want a policy**

There are times when people no longer want to pay the premiums on their insurance policy. But that doesn't mean the end to your policy. A major part of Jeff's audit is to show and measure any exit strategies available under current tax rules. There are valuable options buried in older policy contracts like "cash optimization" and "substitute life provisions." It takes a professional who has been on the inside of the life insurance company to locate, identify and measure the value of each option.

Here's an example: A generous client we'll call Jennifer wanted to support her alma mater but didn't have enough liquid assets available to fund the size of donation she wanted to give. She was in her early 60s, financially comfortable with pensions and fixed-income investments and anxious to make a meaningful donation while she was alive.

Jennifer no longer needed her \$300,000 term policy and was considered uninsurable.

We were able to convert the policy into a permanent insurance plan with no medical evidence and arranged for an independent actuary to provide a current market valuation, which was set at \$175,000.

She gifted the policy to a university foundation and received a tax receipt for the total \$175,000, giving her tax savings of \$87,500 over the next five years.

The university arranged for another generous graduate,

Sam, to pay the ongoing premiums on the donated policy and will get another \$300,000 on Jennifer's death.

Sam will get a tax receipt every year for the full amount of the premiums he paid, reducing his taxes annually.

Both donors were recognized for their generous legacy gifts when they were alive.

### **Tell someone**

Make sure you tell someone, especially your executor, where all your insurance information is kept. Use the link at the bottom of this article to obtain your free Estate Planning Toolkit - read it and use it. If you are an executor, check out Canada's OmbudService for Life and Health Insurance to search for unclaimed life insurance policies.

Every detailed life insurance policy contract audit should include a detailed "holding statement" that provides complete policy details and suggested strategies that are available in any specific situation. The final step of the audit should be to share the life-insurance holding statement with your executor and any other trusted advisors. This valuable asset is then properly documented.

### **Work with experienced people**

Many people are great at do-it-yourself projects, but this isn't one of them. This industry can be very complex and it's tough to make a decision without good and objective information.

Don't hesitate to contact us for a complimentary consultation. Our advisors across Canada are available to help you get the peace of mind that comes from knowing your planning is in order.

We wish you all the best for 2021. Please stay safe. 

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.

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Get your FREE Estate Planning Toolkit at [WEALTHinsurance.com/toolkits.html](http://WEALTHinsurance.com/toolkits.html)

The 2020 Toolkit now includes:

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

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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.