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ESTATEPLANNING

COVID

This Too Shall Pass

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We are living through unprecedented times. An invisible bug disrupted our economy and transformed the world while shredding the values of most portfolios.

We've been jolted into social distancing, a new term in our lexicon. Many of us now work from home, away from family, friends and colleagues, as we witness a meltdown of our investment portfolios. The recent oil price spat between Russia and OPEC made gas cheap (but no one's going anywhere).

And despite all of this, we cannot panic. When markets get uneasy, investors tend to want to do something, anything, to keep their capital safe. This is totally understandable.

But this is the time for calm. In the past, markets have always bounced back and anyone who held on to their investments benefited. It may be a matter of weeks until this ends and markets turn around. Or, it could take months and yes, even years. But if history is any lesson, it will rebound and be stronger than even before.

From Offense to Defense

As it now stands, until they are sold, any investment losses are just on paper. When times are good, we ignore worst-case scenarios, and focus on ways to obtain more income and grow savings at the best tax rates available. This new COVID-19 reality flipped investment postures from offence to defence.

One (the only) good thing about the current situation is spending a lot more time with family and appreciating what we have.

More than ever before in my lifetime, people are acutely aware of their mortality and sensitive to the need to be better organized with updated wills, insurance protection, shareholder agreements etc. in place to protect family if anything happens to them.

From an estate planning perspective, when we do get to the other side of this (and we will) investors will be looking for safe places to put their money. It will be the first time in a long time they will recognize the importance of buying tax-exempt life insurance and how it shines as an alternative to low return, highly taxed fixed-income investments. And unlike dividends that get taxed when received, corporate- owned life insurance is paid out virtually tax-free to beneficiaries.

Life Insurance in 15 Minutes

This crisis abruptly changed the way new life insurance policies get underwritten across Canada, as insurers are currently unable to collect and evaluate blood and urine samples from applicants. Due to the lack of paramedical services, insurers have become lenient, with requirements relaxed.

Getting new life insurance

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has never been easier - with no medical required and no visits from a nurse to obtain your vitals, blood and urine samples. You can get up to $2 million in life insurance and $250,000 of critical illness insurance in about 15 minutes, just by answering a few questions on the phone. No in-person meetings with an insurance advisor, underwriting completed quickly, policy issued within 72 hours.

Higher limits up to $5 million are available with more evidence requirements but still very much streamlined.

Many of our clients are using this period of relaxed underwriting to get $1 million of coverage for spouses, children and grandchildren to guarantee their insurability and for estate planning purposes.

The death benefit paid from a life insurance policy is a tax-free, lump-sum amount that can be used to replace your income or pay off debts so that your family can maintain its standard of living and provide for children or dependents. The funds can also be used to pay funeral expenses.

If you make a charity one of your beneficiaries, your estate will receive a tax receipt for that amount, helping to lower your final estate tax bill.

Business owners will also see the great benefits that come from buying life insurance. Corporate-owned life insurance policies, whether they are whole life, universal life or term to 100, can be relied upon to help accumulate and preserve wealth inside a private corporation. It is a tax-effective way to accumulate passive wealth inside a company, enjoy access to that wealth and transfer it virtually tax-free to surviving beneficiaries.

Life Insurance is often the key component of a good shareholder agreement. A properly crafted agreement using life insurance will help provide for a guaranteed buyer and market for all the equity you have put into your business over the years. It can also be used to fund taxes due on death. If one shareholder dies, the life insurance proceeds are paid to surviving shareholders who then use those proceeds to buy the deceased's shares. The death benefit must be equal to the value of that shareholder's shares, which is calculated or stipulated in the agreement.

People are now giving serious thought to acquiring critical illness insurance. It covers more than two dozen conditions (heart attack, stroke, cancer, organ transplants, and more) and pays out a tax-free lump sum of up to $2 million 30 days after a diagnosis. The money has no strings attached and can be used to pay your bills or for any purpose you choose. If you select the Return Of Premium option, and just stay healthy, all of the premiums paid can be returned to you, in full and tax-free after 15 years.

A Second Look

Interest rates are now at a record low. The life insurance you previously purchased at a time of higher interest rates should be reviewed now, as the death benefit may not generate the income you anticipated. Consider this a timely opportunity for a second look at your insurance. How much insurance do you have? Have your children had children that you now want to include as beneficiaries? Do you need more insurance? What kind?

Many people thought their investment portfolios were sufficient to produce a certain level of income for the family when they pass away. But the markets have tumbled, creating a timely opportunity to bolster the risk side with additional life insurance. One more thought…I predict that life insurance premiums will increase sharply because low interest rates eat into the operating profits at insurance companies.

Aside from the value of your investments and insurance portfolio, your family and executors must know the whereabouts of all your important documents and information.

At the very bottom of this article you'll see a reference to our free Estate Planning Toolkit, a must-have set of documents that included an Estate Directory, Estate Planning Checklist, Executor Duties Checklist and Business Owners Planning Guide.

If you haven't made a will yet, please do so asap. About 40 per cent of Canadians die without a will, or intestate as the courts call it. But a will is the bedrock of your estate planning and informs your executor(s) how you want your assets distributed after you die. Without a proper will, your estate will be diminished by otherwise avoidable legal, accounting, and probate fees and more taxes. If you die without a will in Ontario the Ontario Succession Law Reform Act governs how your property will be divided and distributed – not how you want it done.

If you already have a will, please review it. Most people don't want to leave a portion of their estate to an ex-spouse or ex-partner instead of a new spouse – or fail to include a newborn child or grandchild.

Be sure to appoint an executor, the person who will have the legal responsibility to settle your estate after you die. You must trust this person and be confident that he/she will be able to handle financial issues and remain calm when dealing with emotional family members and other beneficiaries.

Thankfully, the federal government has brought in some relief for retirees who have seen their portfolio values plummet. With increased longevity and yields on safe investments low (and getting even lower) many retirees were in danger of depleting their retirement savings.

The federal government announced a reduction of the minimum withdrawal rate for registered retirement income funds (RRIFs) by 25 per cent for this year. This falls short of a recommendation made by the C.D. Howe Institute to suspend minimum RRIF withdrawals altogether for the time being, but something is better than nothing. Similar rules will apply to those receiving variable benefit payments under a defined contribution registered pension plan, according to the Department of Finance.

From Investing to Planning

Some of these rules are resetting the bar as we move from investing to planning. This really cannot be done alone. You need a professional, someone who can give you an unbiased first or second opinion to ensure you are on the right track. The one thing you mustn't do is ignore it. Your planning needs attention now - more than ever - to protect you and your family.

One of my teachers taught me that there are three P's when it comes to life.

1. Stay Positive. That may be hard to do right now, but a quick inventory of what and who we have in our lives will make us more positive.

2. Persevere. There are many things you can still do even if you are at home self-isolating or in quarantine. Make plans for that up-to-date will, the insurance policy and power of attorney. Every estate-planning professional we know is working from home, meeting with clients via Skype, Zoom, phone, etc.

3. Patience. We must let COVID-19 work its way out of society before we can get to the other side.

Please keep these three P's in mind as we go through the COVID-19 pandemic. Above all, I hope you all stay healthy both in body and in mind. Reach out to those who are elderly, single or need help. There's no better investment than the one you put into your family, community and friends. Even though we can't see them in person, we can always call and help.

Hopefully, we will all get through this safely and become an even more sensitive, sensible, responsible and realistic society when we do get to the other side.

Don't hesitate to contact me to arrange a no-cost, no obligation conference call, Zoom or Skype meeting with one of our advisors across Canada to ask any questions you may have on insurance and estate planning issues. We look forward to helping you.

Stay safe and healthy ❑

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He guides successful business owners, who are already challenged for time, through the complex process of ensuring the people and organizations they care about are taken care of.
If you are like his other successful business owner clients, you are looking to reduce your tax obligations, preserve your wealth and leave a legacy. Incompletions rob us of energy. Mark collaborates with your professional advisory team to achieve your desired outcomes. His approach is simple. He makes sure what is important to you gets done. He gets you organized, provides a big picture view of your financial affairs, determines your strategy and helps you take action. He will simplify the complicated, so you and your family can rest easy. He can be reached at 416-364-2929, toll-free at 1-866-566-2001 or Mark@WEALTHinsurance.com.
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