

# The TaxLetter®

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Your Guide to Tax-Saving Strategies

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## ESTATEPLANNING

### *Found Savings*

# Hidden Treasures

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Not long ago, a close friend was helping her mom transition from a condominium to a senior's residence. Rummaging through the cupboards and closets she discovered \$4.73 in coins, stale chewing gum and hard candies, and an old brooch with a broken clasp. Her mother told her to keep it as it wasn't worth anything.

Out of sheer curiosity, she decided to have it appraised, and much to her delight, the "glass crystals" turned out to be real diamonds and the "red ones" were real rubies, all set in genuine gold. When informed of the good news, her mother insisted she keep it.

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If only life was always like this. People often don't realize or appreciate the hidden values of overlooked assets, often right under their noses.

In almost 30 years of professional practice, we regularly uncover hidden treasures of which our clients were blissfully unaware. Those overlooked assets are now put to good use in tax-friendly strategies that help preserve our client's wealth for their families and the causes they care about.

Consider these 5 hidden treasures recently unlocked for the benefit of our clients.

**1. Existing Cash Value Life Insurance.** At a recent luncheon meeting with a dozen top investment advisors in downtown Toronto, I explained the strategic uses of life insurance for affluent investors and recommended an important change to their "onboarding" process when they

first take on a client.

In addition to collecting the usual demographics and details of investments and other assets, they should also determine whether the client has life insurance, specifically life insurance with any cash value. This kind of policy can be leveraged several ways for the clients' benefit.

I explained how permanent life insurance consists of two parts. The first is the death benefit which I always liken to the market value of real estate. The second component, cash value, is like the equity in your home. When you make premium payments on a cash-value life insurance policy, a portion of the payment is allocated to the policy's death benefit. As you continue to pay premiums on the policy and earn more interest, the cash value continues to grow.

The big 5 Canadian banks, and the lesser known Manulife Bank, are eager to make such loans and will lend up to 100 per cent of the Cash Surrender Value (CSV) of a permanent life insurance policy.

Those sophisticated lenders regard the security value of insurance policies from tier one insurance companies more highly than stocks, bonds or real estate. Cash value is always vested and only increases – it never goes down.

These policies are boring, no-drama, secure investments that combine important insur-

ance protection with a versatile financial instrument that can be used in many ways.

### **2. Borrow to invest and deduct the interest**

Borrow money to make an investment, using the policy CSV as collateral. The interest cost, usually at prime or slightly above, is fully tax-deductible, because you are borrowing to invest. With current interest rates of approximately 4 per cent, the real net interest cost is 2 per cent.

Invest the borrowed funds in a reliable mortgage income fund consistently earning as much as 8.5 per cent annually. As you can see, the spread in this case is 6.5 per cent. You then have two assets instead of one with your cash value working for you tax-effectively while you are alive.

### **3. Acquire a new asset without tying up your money**

People who already own permanent cash value insurance, and those who don't, can use a leveraging strategy called Immediate Financing Arrangement (IFA) to acquire a new policy without using their own funds to pay for the insurance.

Leveraging is an excellent means of deferring tax on interest earned, a method often used in retirement.

Many of our clients use this strategy. Simply put, they pay the premiums and immediately borrow back those funds. The borrowed funds are reinvested in their business, real estate or investment portfolio.

They get life insurance at a fraction of the true premium cost, and without reducing cash available for other uses, they enjoy tax benefits and sharply increased estate values.

The policy's cash value surrender (CSV) serves as collateral to secure the loan with a Canadian chartered bank. Policyholders pay only the interest cost on the borrowed premiums. The loan can be paid off at any time during their lifetime or from the ultimate insurance death benefit. The balance goes to family and charity, tax-free.

Along the way, all the interest paid is tax-deductible, and the real after-tax interest cost on a \$100,000 insurance premium amounts to just a few thousand dollars in the current rate environment.

This doesn't mean that your insurance is totally free, but it is a way to keep your money working for you in the investments of your choice.

When the borrower dies, the life insurance policy's death benefit will repay the collateral loan. All the remaining death benefit will be paid to the beneficiaries designated in the insurance policy.

### **4. Convert an Existing Insurance Policy with No Medical Evidence**

People who buy term insurance sometimes become uninsurable after the policy has been issued. Many term policies allow for conversion to permanent insurance with no medical evidence required. In most cases, the new permanent insurance is more expensive, and paying the higher premiums is a challenge.

Charitable people can get an actuary to value their policy and donate that policy to a registered charity or foundation. They will receive a large charitable receipt that will offset current taxes. Depending on the age of the insured, a charity might consider funding that policy itself, know-

ing that a much larger death benefit will be received down the road. Many charities are delighted to recognize a donor's gift of life insurance while they are alive.

### **5. Avoid Hidden Finance Charges**

Some insurers may suggest you pay your term-insurance or whole-life insurance premium monthly, but seldom do they tell that you they are adding a big chunk of financing premium – often over nine per cent.

The result is that you pay the equivalent of an extra month's premium, unnecessarily, for the modest benefit of cash flow management.

If you have money in the bank or access to an inexpensive line of credit, pay the annual premium in a single payment and save your money. If your cash flow changes in the future, you can always revert to the monthly payment plan.

Now that you know, contact your insurer or financial advisor. Depending on the type of insurance and insurer, you can probably eliminate those financing charges at any time during the year.

### **What are your hidden treasures?**

When considering estate planning strategies, it's important to realize that no two situations are alike. Valuable and reliable information is available only from experienced professionals who can provide you with the facts and figures you need to make an informed decision.

Proper estate planning is a process, not an event. Get help from a Certified Financial Planner or Trust & Estate Practitioner to guide you along the way.

Your financial architecture of many years ago looks very different today. The financial furniture you acquired back then may not line up with your current situation today. We can help find your hidden treasures to ensure that you and your family are well looked after in the future.

Our team of experienced advisors is available across Canada. Call us for a consultation,

we'd love to help. □

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

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. Incompleteness 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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