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*FINANCIAL*PLANNING

How and why
Wealthy Canadians use Insurance

Ten things to know

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"Yes, taxes are a necessity in today's world, but please sir: no more!"

That's what many wealthy and high-income Canadians (especially the ones who lose a huge chunk of their income to taxes) are saying, thinking and hoping. But the truth is that many taxes and related expenses - whether on investment income, capital gains, or on death - can be legally avoided now with proper planning.

Insurance can be the most versatile and reliable financial product in your portfolio. Many Canadians don't know how to use it 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 eliminate your taxes, leaving more tax-free funds to family and favourite charities. Health and disability insurance will protect your earnings if you get sick and provide access to the finest medical care in the world, while property and casualty insurance products protect your business, home and tangible assets.

In fact, there has never been such a good time to buy insurance. Here are the top 10 ways to use insurance of all kinds to your benefit.

1. Life Insurance as the 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 - ideally nothing - 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 25 per cent is payable on the growth of your non-registered holdings like real estate and bonds. 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.

2. Estate preservation

The main 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 dis-

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position of the shares at death and the tax liability on the final distribution of the assets out of the corporation.

3. 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 buying 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 cash 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. 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.

4.Immediate Financing Arrangement (IFA)

A leveraging strategy can allow you to obtain a life insurance policy without having to use your own funds to pay the premium. You can enjoy all of the tax benefits 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 gets paid off from the ultimate death benefit payout. Along the way, all of the interest paid is tax-deductible and the tax savings can be used to reduce the outstanding balance on the line of credit. The after-tax interest cost on a $100,000 insurance premium is usually just a few thousand dollars in the current rate environment.

5. Is your will up to date?

While insurance can go far in helping to preserve your estate, all will be for naught if you don't have a will. More than half of Canadians do not have an up-to-date will.

Your will is the very heart of estate preservation, ensuring that your assets will go to your heirs or a charity beneficiary according to your wishes.

Without a will, your estate will be administered by a bureaucrat according to applicable provincial law. Most provinces grant a preferential share of the estate to the spouse and the rest gets split between the spouse and children.

Certain assets, like private company shares, don't have to go through probate and should be dealt with in a secondary will.

6. 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 may only pay out to a maximum of $10,000 a month, all of it fully taxable.

High-limit disability insurance is now available with coverage of up to $150,000 a month or $2 million per year, all non-taxable.

7. Long-Term Care Insurance and Critical Illness Insurance

The biggest and fastest growing demographic in Canada – and most of the world – is seniors. Statistics Canada predicts more than seven million seniors by 2021.

Long-term care facilities now cost about $4,000-$10,000 a month and can 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, wealthy 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.

8. 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 doctor's appointments 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.

9. 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) within 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.

10. Property and casualty insurance

Above and beyond customary property and casualty insurance like house and car coverage, other aspects of your life deserve appropriate protection.

Your office is your second home and should have coverage that includes potentially costly flood damage and business interruption insurance. The latter compensates for lost income resulting from catastrophes like a major weather event (ice or snow storm) that prevents you and your staff from going into the office.

Directors and Officers insurance protects you from lawsuits brought by investors, employees or customers. This insurance will pay for legal fees, settlements and other costs. Professionals like doctors, engineers and architects also need Errors and Omissions coverage in the event of a suit for errors or negligence.

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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