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# GETTING PERSONAL CANADA: Using Estate Bonds As Investments

By Caroline Van Hasselt    Of DOW JONES NEWSWIRES

TORONTO (Dow Jones)--The saying, "everything old is new again," applies to an old insurance concept that is once again becoming popular. It's called an estate bond that uses the tax benefits of life insurance to maximize your estate.

An estate bond is increasingly being used as part of the financial-planning process to increase by more than 100% the amount of cash that will go to your heirs. It's also a smart way of reducing your taxes, says Mark Halpern, a Toronto-based certified financial planner.

"It's really an alternative investment strategy," says Halpern, president of illnessprotection.com. "The first thing is, whatever you know about life insurance, you have to press control alt-delete. You've got to think of it as an investment just like any other investment."

An estate bond moves savings from a tax-exposed investment, that is, your non-registered retirement savings plan, to an exempt life insurance policy. A universal life insurance policy gives you immediate life insurance protection and an investment within the policy that accumulates on a tax-free basis, Halpern says. When you die, your heirs receive the proceeds tax-free. So, you're not only increasing the size of your estate, you're also reducing your taxes.

"Instead of going offshore, here's something that you can do in Canada that's legislated," he says. "It has a tremendous wealth creation opportunity."

Plus, if you do need the money, you can always access it, he says.

The returns are guaranteed and aren't tied to the equity markets, or interest rates, he says. You avoid money managers altogether.

The product works best for people with money socked away in long-term investments that they never plan to spend. Think of putting your non-registered retirement savings in three buckets: short-, medium- and long-term investments, he suggests. For long-term investments, which will eventually be passed on to your heirs, charities or used to pay taxes, you're paying taxes on the capital gains. But with an estate bond, there's a way of doubling, tripling or even quadrupling the size of your estate while reducing the amount of tax you pay, he says.

In an estate bond, you're using an insurance policy - a universal or a permanent whole-life policy.

Here's how it works:

Take a 52-year-old couple, putting C$45,000 away in a bond fund, and getting a 6% return. After tax, the return's really just 3.4%. If they do that every year, until life expectancy, say, age 85, they'd have C$2.7 million after tax in their portfolio.

But, for C$45,000, they could have purchased a C$10 million joint last-to-die life insurance annuity. By the time they reach 85, their estate would be worth C$10 million.

Halpern says you can lower your taxes even more if you hold the estate bond inside a corporation because the dividends are taxed at a lower rate. You can also borrow against the estate bond, assigning the policy to the bank to get a loan. "It's a way for you to have your cake and eat it too," he says.

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