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How affluent Canadians use life insurance

Insurance is an asset class that's not correlated to the market

For affluent families wishing to leave a legacy, life insurance can provide unmatched certainty to preserve and build wealth over generations. Unrealized capital gains triggered upon death can result not only in taxes but the untimely sale of family assets. While liquid, stocks and bonds do fluctuate in value and are subject to volatility and market risk; a diversified investment portfolio that includes some life insurance can better protect against these risk factors. Unlike many other classes of investments, life insurance benefits are guaranteed. Similar to a bond, premium deposits provide the required investment capital in exchange for a minimum guaranteed benefit paid on maturity.

Below is an example of a $1 million permanent life insurance policy for a 60 year old couple. Both individuals are non-smokers with standard health and annual premiums are $13,600.

Year	After Tax Internal Rate of Return
20	12%
25	8%
30	6%
35	4%

Minimize taxes over your lifetime

The special tax-exempt nature of life insurance enables investment to occur within a properly structured permanent policy. In most provinces, the top individual and corporate tax rate on investment income is over 50%. By investing within a permanent life insurance policy, you can shelter an additional part of your personal or corporate investment portfolio from taxes. In addition, premium deposits can create cash value that grows over

Wealth planning advice for physicians

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time, by investing in either mutual funds, GICs and ETFs, or by participating in policy dividends. Although investments grow tax-exempt, provided they remain within the policy, CRA does limit the amount of investment that can occur. Since insurance proceeds are tax free, each type of investment would need to deliver the following returns pre-tax, assuming the top marginal tax rate, not including investment fees.

Equivalent pre-tax rates of return to a life insurance policy

	Non-Registered Account		
Life Insurance	**Interest**	**Eligible Dividends**	**Capital Gains**
4%	8.60%	6.59%	5.46%

Based on 2018 individual top marginal tax rates in Ontario.

Transfer your wealth tax-free to the next generation

For owners of a private corporation, life insurance provides a unique way for wealth accumulated within a corporation to be transferred tax-free to the surviving shareholders. Generally, income paid to shareholders of a private corporation are taxable and many owners of a professional practice may find their savings "tax-trapped" inside their corporation. Tax-trapped savings can also create additional tax liabilities upon the death of the shareholder(s), however life insurance enables the tax-free transfer of corporate savings to the next generation or to existing shareholders.

Conclusion

Life insurance remains one of the most important strategies utilized by many affluent Canadian families to create, preserve and transfer wealth. Because of the many unique features of life insurance, it is an asset class unlike any other. If your needs extend beyond the ordinary, consider how insurance can become a part of your overall investment portfolio and tax planning solution. Speak to your Richardson GMP advisor to learn more.

Tax & Estate Planning

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