Canaccord Genuity Wealth Management

Four Insurance Strategies for High-Net-Worth Investors

High-net-worth (HNW) investors can have more complex needs than the average investor. For many, the focus is not just on growing funds, but also on preserving and protecting wealth to pass on to future generations. Often, HNW investors have maximized contributions to their tax-preferred accounts like the Registered Retirement Savings Plan (RRSP) or Tax-Free Savings Account (TFSA) and have sufficient savings to finance their retirement income needs. As such, opportunities to minimize the tax burden associated with non-registered accounts becomes important.

This is where permanent insurance can play a role. Given historically low interest rates, life insurance is increasingly being considered as an alternative to low-risk, fixed-income investments. For example, with participating whole insurance, the majority of assets held in a separate participating investment account (managed by the insurance company and for which proceeds are paid alongside the death benefit) are often predominantly longer-term debt instruments, so performance tends to be stable. Permanent insurance can also offer tax benefits: tax-preferred growth of the policy's cash value, as well as a tax-free death benefit paid to beneficiaries, and the opportunity to avoid estate settlement costs,[1] such as probate fees, where applicable.

As such, insurance may sometimes be viewed as an alternate asset class within a wealth strategy. It not only provides ongoing life insurance protection, but it can also produce rates of return that may be greater than traditional low-risk fixed-income alternatives due to its preferential tax treatment.

Here are four insurance strategies that may be considerations for HNW investors:

Cascading Life Insurance Strategy – This may be a tax-efficient way to accumulate and transfer wealth across multiple generations. It involves investing in a permanent life insurance policy on the life of a child/grandchild and naming a grandchild/great-grandchild as the policy beneficiary. Upon your death, the policy's ownership would be transferred to the child/grandchild on a tax-free basis and when they pass away, the grandchild/great-grandchild would receive the death benefit on a tax-free basis.

Back-to-Back (Insured) Annuity – This involves the purchase of a prescribed annuity and an exempt life insurance policy with the death benefit equal to the amount of the annuity investment (to preserve estate capital). While the annuity continues to make payments over your lifetime, part of this payment is a return of principal so only the income portion is subject to tax annually. This can result in a higher after-tax cash flow relative to comparable low-risk fixed-income investments held in a non-registered account. From a Canada Revenue Agency (CRA) perspective, the annuity and the life insurance contract must be subject to a separate underwriting process and be considered as separate, so please seek the advice of a professional if considering this strategy.[2]

Joint Last-to-Die Policy – This policy can help control taxes or maximize an inheritance. A single premium insures the lives of two people, usually spouses, and the benefit is not paid until the last insured person's death. The proceeds can offset future tax liabilities, including those that beneficiaries may not be able to cover, which may include but is not limited to, capital gains from business interests, real estate portfolio or vacation properties.

Corporate-Funded Insurance – For business owners, the after-tax cost to fund policy premiums is often lower if paid by the corporation in a situation in which the corporation tax rate is lower than the personal tax rate. Holding an exempt permanent life insurance policy until disposition within a corporate structure can allow for tax-deferred growth of the cash value of investments, which may be advantageous in consideration of the small business passive income rules. As well, all (or a significant portion[3]) of the death benefit can be distributed tax free to company shareholder(s) through the capital dividend account.

We Are Here to Help

Have you considered the use of insurance as part of a larger diversified plan?There are many compelling strategies available for the high-net-worth investor. For more information, please don't hesitate to get in touch with us.

1. When the insurance proceeds are passed along outside of an estate.
2. Otherwise, the CRA may consider the two contracts as a single, non-exempt contract, which will significantly impair the effectiveness of the strategy.
3. Review the applicable CDA credit on the insurance illustration with your advisor.

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