



Life Insurance and Your Estate: A Primer

Life insurance can play a valuable role in planning for your estate, protecting your family's finances, including helping to preserve your existing estate assets or providing assets to pass along to your heirs. It may also present a tax planning opportunity. The benefit paid to the estate or a beneficiary is not subject to income tax.

There are different types of insurance that can help support estate planning. As we are often asked about the different forms of insurance, here is general overview:

TERM INSURANCE

Term insurance provides protection for a specific period of time and only pays out a benefit if you die during the term of coverage. Term insurance is often used to cover a shorter term need, such as income replacement for your family or debt coverage, as some examples, usually a 5-, 10-, or 20-year term (after which it may be possible to renew the policy at a new rate). Term insurance is generally the least expensive form of life insurance as it provides coverage for only a limited period, however each renewal becomes increasingly more expensive.

Term insurance is typically used to fund a short-term estate need, such as paying off an outstanding mortgage, protecting the estate from an immediate shortfall, or preventing financial hardship through income replacement.

PERMANENT INSURANCE

Permanent insurance provides protection for your lifetime and pays a death benefit as long as premiums continue to be paid. Many forms of permanent life insurance are considered tax exempt policies and have a cash value (also termed the "cash-surrender value"), allowing additional funds deposited into the policy to grow tax-free. Here are some forms of permanent insurance:

Term-to-100 – This product is unique to Canada. It provides long-term protection in a "straightforward" manner. Premiums stay the same for your entire lifetime, never going up or down. The death benefit also remains level and never changes. Unlike other forms of permanent insurance, there is no cash value component to the plan. Term-to-100 is commonly used in estate planning for those looking to purchase lower-cost insurance to cover estate expenses, such as taxes, funeral expenses and bequests. This is often used when the future or current need may be fixed in value.

Whole Life – Whole life insurance generally offers a guaranteed minimum death benefit and cash value. Generally, the premiums paid for participating whole life policies are deposited into a participating account, which is managed by the life insurance company. This account is impacted by returns earned on investments, death benefit claims and expenses. Earnings within the account, are credited back to each policy owner as a dividend payment (usually annually). Dividends can be kept within the insurance policy and accumulate to eventually be paid out at death on a tax-free basis. Other options may be to use dividends to reduce future premiums or can be taken as direct cash payment. If required, this cash value of the policy may also be accessible during your lifetime in a number of ways such as direct taxable cash withdrawals or a tax-free line of credit.

Universal Life – Universal life offers a combination of life insurance coverage and a tax-deferred savings component that is managed by the policyholder for the potential to achieve long-term estate growth. Generally, with each premium paid, the insurance company deducts the amount needed to cover the costs of the policy and the rest is considered the “account value”. The account value is a savings component. This savings component can then be managed and invested by the policyholder. Over time, the premiums may also be increased to raise the amount of tax-deferred savings (within certain limitations). If required, the cash value of the policy may be accessible during your lifetime.

For Estate Planning: Permanent insurance is the preferred option when using insurance for estate planning purposes. It can be used to help to cover estate liabilities, such as taxes, mortgages or debts on assets like a cottage or business, so that the assets do not have to be sold and can be passed along to beneficiaries. Permanent Insurance can also be used to diversify your investments through tax advantaged strategies. Permanent insurance can help to establish a fund to provide income for spouses, children, grandchildren, facilitate business succession planning or estate equalization. Additionally insurance may also be used to facilitate a tax-deductible charitable donation.

SEEK ADVICE

The type and amount of insurance coverage required to support your estate planning needs varies depending on each individual's situation and objectives. We can help provide suggestions, so please let us know if you would like to have a discussion.

Why work with us?

Life insurance plays a very important role in your estate planning. In the event of your death, your loved ones will have to cover funeral expenses, pay off your financial liabilities, and need to replace your income that was supporting your loved ones. Having adequate insurance and the right type of coverage means that your debts will not burden your family members. Most importantly life insurance will let your spouse and children replace your lost income, which will continue to support their lifestyle, family goals and protect their financial future.

Life insurance is also an effective financial tool for protecting your business. It lets you ensure you and your loved ones' financial security should something bad happen. A premature death could have a major impact on your company, its employees and it's resale value. This can be used to cover your business debt, hire a replacement employee or provide funding for a buy-sell agreement.

It's important to work with the right team of experts, who can review your individual, family and business needs holistically and ensure you have the best solutions and strategies in place to protect your family.

For more information, contact your Canaccord Genuity Wealth Management Investment Advisor today.