Insurance

'Insure' a Fresh Start for the New Year

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Many people typically focus on the end of the year as the time to do last minute tax and financial planning. What is ironic about this yearly ritual is that with a few exceptions, it is usually too late to do anything meaningful by the time the end of the year is upon us. A brand new year, however is a completely different story; with it brings the chance to consider strategies that will result in our personal financial situations being better than they previously were.

Depending on what stage of life you are in, and what your short and or long-term goals may be, there are various products and strategies that can be used to accomplish what you want to accomplish. Insurance is one often overlooked product, but is an important element of any sound financial plan. The different types of life insurance products can protect you and your loved ones in different ways against the risks of premature death, disability or illness. However, if you think of insurance not in the traditional sense of protecting against life's uncertainties, but instead as a means of arriving at some of your long-term goals, you may be surprised to learn of the various results it can achieve. When properly incorporated into a financial plan, certain life insurance strategies can help to enhance or preserve your wealth, that will carry on to those you love most.

Enhance Wealth

Whether time, former investment decisions or other circumstances have kept you from accumulating the value of assets that you wish to leave to your loved ones, certain strategies exist that can enhance your estate:

- **Accomplish Tax-Advantaged Growth**

Tax-exempt insurance policies such as Universal Life or Whole Life are ideal if you have already maximized your RRSP contributions and are looking for another means of tax-advantaged growth. These policies allow for the cash value to grow on a tax-sheltered basis, and at retirement, can even be accessed to provide you with a tax-free income. Insurance policies are paid out to your named beneficiaries, tax-free and avoid the costs and delays of probate and executor fees.

- **Reallocate Your Assets**

Reallocating a portion of your assets into a tax-exempt life insurance strategy can greatly enhance the value of your estate by leaving more assets than could have otherwise been attainable through a taxable investment strategy or product. By depositing a lump sum once or over the course of a number of years, premiums will be withdrawn to cover insurance and policy costs, while the remainder can grow tax-sheltered over the course of time. Through the years, as your policy grows, your ultimate estate benefit builds as well. Ultimately, the proceeds are distributed tax-free to your beneficiaries, at death.

Preserve Wealth

Once you have built up a substantial amount of wealth, you want to preserve that wealth and ultimately pass it on to those that you care about most.

- **Protect Your Estate From Taxes**

Life insurance can play an important role in retaining your net estate value. You can create a fund that can be used to pay taxes owing at death. This strategy involves estimating what the final tax bill will be, and redirecting money that you do not require for living or lifestyle expenses to an insurance contract. The insurance then pays your taxes, greatly reducing the tax burden on your estate and your heirs. The most cost-effective policy is "second to die insurance", which covers both you and your spouse, and pays the death benefit only when the second death occurs, which is when the tax liability becomes due. The cost for this "second to die insurance" is usually 1% to 2% of the death benefit, annually, and will depend on your age, gender, smoking status and overall health.

- **Maintain Your Wealth While Securing a Lifelong Income Stream**

Many say: "You can't have your cake and eat it too." The insured annuity strategy dispels this way of thinking, since it allows you to use your capital to secure an income stream for life, as well as preserving the value of your capital for your beneficiaries! The arrangement involves the purchase of two contracts: a permanent life insurance policy and a prescribed life annuity. This combination results in a guaranteed, lifetime rate of return. If you are between 60 and 85 years of age, this could be anywhere from 7 to 10%. This is an attractive solution if you are risk averse but are looking to maximize income which may not be achievable from other low-risk investments.

Next Steps

Book an appointment to speak with your life insurance licensed ScotiaMcLeod advisor to learn more about these strategies and see how they could fit within your existing, or newly completed financial plan. With proper planning and the use of some of the insurance strategies mentioned above, you may be able to fulfill some financial goals that you may have thought were otherwise unattainable. It's a New Year's resolution worth keeping.

Every individual situation is different and professional advice should be sought before any final decisions are made, but there are some general ideas and techniques that are extremely effective. Rates of return will vary by situation, and are dependent on such factors as age, spouse's age, health, and the amount of insurance needed.