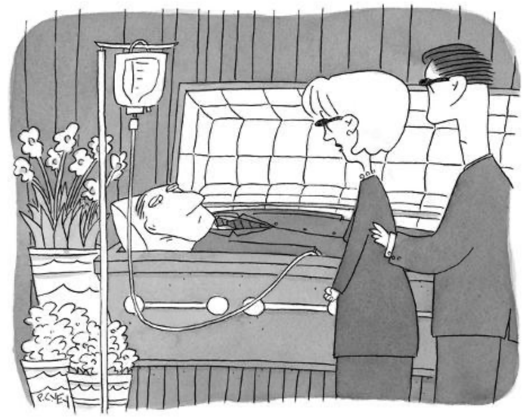
FIRST CAPITAL FINANCIAL



"He had great health insurance."

A great deal of attention has been spent on the topic of wealth management, but there's a flip side to this coin, namely risk management. Risk management is about protecting wealth, and one of the best ways to do this is Permanent Insurance. Unlike term insurance, which is designed to provide protection for a specified period of time only (such as the duration of a mortgage), Permanent Insurance is there for life and is most commonly used to both minimize tax and maximize Estate values at life expectancy.

Permanent Insurance generally is classified as either Whole Life or Universal life and the differences go beyond the scope of today's Around the World blog (ATW). What is common to both through, is the ability to accumulate savings tax exempt inside Permanent Insurance policies. There are limits to how much of course, but they are significant, as is the ability to access these savings on a tax advantaged basis if needed. All the while this is happening, there is a tax-free death benefit which is paid to named beneficiaries, outside of the Will. This avoids Probate, while effectively is a tax of 1.5% on assets that are probated.

Sound dull? Well maybe, but there's nothing exciting about one's Estate paying hundreds of thousands of dollars of tax unnecessarily, particularly where there exists a solution that works in any eventuality. Let's consider Bob and Sally, married and both aged 50 with two children. Let's also assume they have accumulated an impressive $800,000 between them in their RRSPs ($400k each). In the scenario where Bob passes on, his RRSPs will transfer to his surviving spouse. Under the Income Tax Act, RRSPs can transfer to spouses without triggering tax. But at life expectancy (whenever that happens), Sally is deemed to have disposed of her registered assets and they are subject to the progressive tax rates -provincial and federal combined. The top marginal rate in Ontario is 53.5%, more than half. Which means that on a net-after-tax basis, Sally's Estate would be leaving less than $400,000 of her retirement savings.

So a big win for the taxman, at the expense of Bob and Sally's kids and a lifetime of systematically putting money aside. Here's where Permanent Insurance comes in. They take out a joint-last-to-die policy (because that's when the tax is due, on 2nd death) with a death benefit of $400k. The premiums here range from $7k to $10k a year -an investment in the future. These premiums are invested by the insurance company and grow in value over time. This ensures an increasing death benefit that keeps pace with the tax liability on registered assets, with the net effect being that whether sooner or later, all RRSP will be transferred ***tax free to the next generation***.

This is intelligent use of the Income Tax act and the use of Permanent Insurance maximizes their Estate, and ensures their savings go to their family, not CRA. Should Bob and Sally need some of the cash value in their policy, they can do so, with minimal tax implications.

Look for more posts on this topic, including illustrations that put more meat on the bone of this ever-important topic. Building wealth and preserving wealth go hand-in-hand and the use of Permanent Insurance is an integral part of a household's financial plan.

Be safe, be well!

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