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life

Life Insurance Legacy Option

Transferring Wealth Using Joint, Last-To-Die Life Insurance

A Quick Overview

Joint, Last-To-Die Insurance was designed to protect family assets for the beneficiaries of a couple's estate. It is designed to pay a ***tax-free*** benefit upon the death of the ***last*** surviving spouse.

When one dies, it is deemed for tax purposes that their assets are sold, which creates a taxable event. The value of the taxable assets are included in the deceased's income for the year of their death. Some assets excluded from income taxes such as the value of the principal residence and assets that have been incurring taxes on an on-going basis such as non-registered investments - for example, a savings account. A non-registered stock will be deemed to have been sold and 50% of the capital gain will be added to income in the year of death. The full value of assets such as RRSPs/RRIFs is taxed as income.

When one has a spouse, the assets can be transferred at death to the name of the surviving spouse tax-free, thereby delaying the inevitable income tax bite until the death of that surviving spouse. Couple that have significant balances in RRSPs/RRIFs or business interests and/or own vacation properties are very concerned about the depletion of their estate (could be as much as 40% - 50% depending upon the mix of assets) when the last spouse dies. They worked hard in building up an estate and don't wish to see it eroded before being passed on to the beneficiaries.

Many a cottage has been lost to the children as it had to be sold to pay the income taxes on the estate. For example, let's say a couple purchased a cottage 30 years ago for $100,000 as a vacation property and invested another $100,000 over the years to improve the property. At the death of the last spouse the property is deemed to be worth $700,000, then a capital gain of $500,000 ($700,000 - $100,000 - $100,000) would be realized and 50% of that, $250,000, would be added as income for income tax purposes to the terminal tax return of the deceased. At a tax rate of say 40%, approximately $100,000 would be owing on this transaction. It's worse with RRSP and RRIF balances.

To avoid the depletion of estate values and to prevent such situations where a family cottage must be sold to pay the income taxes on the estate, Joint Last-To-Die Insurance is an effective and affordable solution.

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Example

The following page illustrates an example of the cost assuming a male age 60 and a female age 58 both in good health and non-smokers. They purchase $250,000 of insurance payable only at the death of the surviving spouse with children as beneficiaries.

$250,000 of Joint, Last-To-Die Life Insurance with a level premium for lifetime protection and payable only at the death of the surviving spouse:

Annual Cost = $2,400

To illustrate the affordable nature of this product, if this same couple purchased a Joint, First-To-Die policy where the proceeds are paid out to the joint holder at the first death, the annual cost is:

Annual Cost = $7,900

If one purchased the insurance in their name alone to be paid to the spouse or beneficiaries at their death, the annual cost is:

Annual Cost = $5,600

Conclusion

Joint, Last-To-Die Life Insurance is the most effective and usually least expensive way of ensuring that your beneficiaries will receive the ***full*** value of your estate upon the death of the last surviving spouse. What the Government taketh, this insurance giveth back, if done correctly.

There are other ways of protecting estate values such as Trusts and Joint Ownership with the beneficiaries but you must be careful and deal with professionals to ensure that whatever method you use and that it does protect as you wish. It is important to plan ahead if your goal is to preserve your assets for your children, your grandchildren or other beneficiaries. Using life insurance will help grow and preserve estate values while eliminating creditor risk.

Let me help you design a plan for you and your family.

The Life Insurance Legacy Option

Cost Illustration Summary

Client/Objective:

1. Establish a Guaranteed source of tax free capital to be used by Executor/Children to pay all estate settlement cost. (Funeral, legal, accounting, tax, probate, etc.)

2. Leave behind a financial legacy for the benefit of your children/grandchildren on a guaranteed basis.

Cost Example

Age M/F	**$150,000**	**$250,000**	**$500,000**	**$1,000,000**
50	$139.41	$216.45	$416.20	$808.23
55	$151.81	$232.50	$465.00	$902.62
60	$169.23	$261.20	$522.39	$1,015.60
65	$241.64	$378.73	$757.46	$1,476.68
70	$317.25	$502.16	$1,004.32	$1,955.72

Notes:

- Monthly premiums are guaranteed level cost for life
- Both individuals are insured on the policy with the ultimate tax free estate benefit being paid out on the death of the last insured on the policy contract
- Internal rate of return (IRR) on death benefit assuming age 86 life expectancy (LE) and a $500,000 benefit is above 5%. For example if policy started at the following ages: Age 55 IRR = 6.71% Age 60 IRR = 7.7% Age 65 IRR = 8.4%
- (Insurance rate as of 23/04/2015 - *Manulife Financial*)