

THE WEALTH TRANSFER STRATEGY + YOUR MONEY = A HAPPY MARRIAGE

Paul remembers his wedding vows as if he said them yesterday. In fact, it's been 41 years since he said "I do" with Susan. What Paul remembers most is the "for richer or poorer" part.

"We were poor. We were getting married because we were in love and that's what you did in those days. But we had very little money and we were young and naïve and thought we could make it on love alone. I remember looking at Susan and her looking at me when the minister said 'for richer or poorer.' We almost laughed out loud."

What makes this a funny story for Paul to tell isn't what happened during the wedding, but what's happened now. The end of the story is that Paul did very well in business and he and Susan are not only still in love, but they have a lot of money. So much money, in fact, that they need some help so they can transfer some of this wealth to their children or grandchild without paying a lot of tax.

Paul and Susan contact their advisor, Steven, for advice. He tells them they have several options: they can give money to their children or grandchild by investing in a Registered Education Savings Plan

(RESP), a Tax-Free Savings Account (TFSA) or a taxable investment of some kind. While these work well, they may have contribution limits or be subject to tax, and they don't provide a lot of flexibility.

Steven then tells Paul and Susan about another option called the Wealth Transfer Strategy. He explains that it uses a permanent life insurance policy as a tax-effective way to transfer wealth to heirs – and it allows them to control their wealth until it is transferred.

HOW IT WORKS

The Wealth Transfer Strategy starts with Paul and Susan buying a permanent life insurance policy

on the life of their grandchild. Paul and Susan would be the owners and, as owners, they can put money into the policy in excess of what is needed to pay for the insurance. The extra money in the policy is called "cash value."

At some point in the future, they can transfer ownership of the policy to their grandchild, who will now have all the rights of the policy and assume all the obligations under the policy. This transfer may qualify as a tax-free rollover under rules set out in the *Income Tax Act*. As the new policy owner, their grandchild, Daniel, can access the cash value to meet his current or future cash needs. He's only eight years old

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right now, but he'll be attending university in about 10 years and that cash will come in handy.

Steven explains to Paul and Susan that the benefit of transferring the policy ownership is that as long as Daniel is 18 or older when he accesses funds from the policy, if a policy gain arises it will count as income for Daniel – not for them. Another benefit of this strategy is that once Daniel is the owner of the policy, he can name a beneficiary important to him and the insurance policy becomes an important part of his financial plan.

Steven gives Paul and Susan a graph that shows how the Wealth Transfer Strategy provides an effective method of transferring wealth (see figure at right).

As the new policy owner, Daniel could consider withdrawing funds from the policy's cash value as follows:

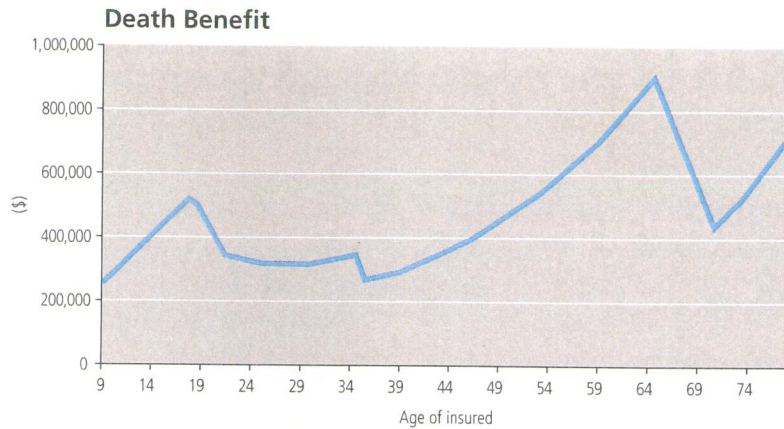
- Education fund (starting at age 19): \$5,000² annually for four years
- Help to purchase a new home (at age 35): \$15,000²
- Retirement income benefit (starting at age 65): \$50,000² annually for six years

Paul and Susan can see that the \$250,000 death benefit grows to over \$500,000 by the time Daniel is 72 (his life expectancy), even after the withdrawals for education, a home purchase and retirement income.

They are impressed with this strategy and decide to go ahead and purchase the life insurance policy. And, when they sign on the dotted line, they look over at each other and laugh out loud. •

Policy owner: Paul and Susan
Life insured: Grandson Daniel, age 8
Product: Permanent whole life insurance¹

Initial death benefit: \$250,000
Planned deposit time: 10 years
Planned deposit amount: \$5,000
Personal tax rate: 30 per cent



For Illustration purposes only.

¹ This example uses Performax Gold at the Current Performance Credit Rate. The example also assumes the policy will be transferred to the grandchild when he reaches age 18. ² Amounts shown reflect after-tax amounts.

