Estate preservation case study: impact of the tax liability

A husband and wife, both age 50, have two children. The couple have combined RRSPs of $450,000, non-registered investments worth $150,000, and a cottage currently valued at $150,000. Until retirement, they'll make annual investments of $10,000 to RRSPs and $2,000 to their non-registered portfolio. Here's what their estate will look like at age 85:

TAX LIABILITY ON ESTATE AT AGE 85

Asset	Value	Original Cost	Taxable Amount	Tax Payable
RRIF	$1,051,000	n/a	$1,051,000	$472,950
Equity Funds	$750,000	$250,000	$500,000	$112,500
Cottage	$422,000	$125,000	$297,000	$66,825
Total	**$2,223,000**	**n/a**	**$1,848,000**	**$652,275**

The couple want their children to inherit the full estate of $2,223,000. But it will be reduced by a $652,275 tax bill. The solution? Purchase a life insurance policy with an affordable annual premium that pays out tax-free proceeds to cover the tax liability. For example, a permanent life insurance policy with a $3,300 annual premium would cover the $652,275 tax liability.

Case study based on investments returning 6% annually, real estate appreciating 3% annually, a 45% marginal tax rate, and a joint last-to-die Term to 100 insurance policy.

Talk to your Assante advisor

Do you want to ensure that your children inherit your assets, not a tax liability? You may be interested in further information on life insurance for estate preservation. Talk to your Assante advisor to find out more.

Assante provides integrated wealth management solutions to simplify and enhance your life. Your Assante advisor will assess your financial requirements in order to choose the best solution for you from a number of leading financial service providers.

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Be well-advised.

USING LIFE INSURANCE FOR ESTATE PRESERVATION

Ensure that your heirs retain the assets they inherit

ASSANTE ESTATE AND INSURANCE SERVICES INC.

ENSURE THAT YOUR HEIRS RETAIN THE ASSETS THEY INHERIT

Are your children going to inherit a considerable tax liability?

You've worked hard all of your life and you're proud of everything you have achieved for you and your family.

Naturally, some of your success is reflected in the assets and wealth you have accumulated over the years – your RRSP, investment portfolio, and the family cottage.

You recognize that you must begin looking at these assets as components of your estate and, of course, you want your children to inherit the wealth you have built.

But are you aware of the tax that eventually becomes payable on your assets?

Often, close to half of the total value of your RRSPs or RRIFs will be paid in income taxes. Then there's capital gains tax on such assets as stocks, bonds and the family cottage. There could be a tax bill of hundreds of thousands of dollars.

In some cases, children have actually sold the cherished family cottage to pay the tax bill.

Have you thought about how your heirs will pay the taxes on your assets?

Your solution? Use life insurance to protect the value of your estate

You purchase a life insurance policy that will pay an insurance benefit equal to the amount of your future tax liability and name your children as beneficiaries. They can use the insurance benefit to pay the tax bill, leaving the estate intact.

You can use traditional permanent insurance or universal life insurance. Permanent insurance is extremely straightforward – you choose the coverage you need and pay the premiums. Universal life insurance gives you more flexibility, plus a tax-deferred investment component.

Here's one way universal life works for estate preservation.

First, you choose an amount of insurance that matches the current tax liability on your assets. That way, should you pass away prematurely, your heirs receive tax-free insurance proceeds to cover the tax bill.

Then, as you make regular deposits, a portion pays for your insurance coverage and the rest goes to the tax-deferred investment component.

Your investments are designed to offset the future growth of your tax liability, as current assets increase in value and you accumulate more assets. Ultimately, your heirs receive a tax-free insurance benefit comprised of both insurance and investment proceeds, which offsets the tax liability on your estate.

WHY LIFE INSURANCE IS YOUR BEST SOLUTION FOR ASSET PROTECTION

Here's why life insurance is the popular choice, compared to the alternatives:

> **Use cash or sell assets** – To cover taxes, your children could use cash from the estate or sell some estate assets. But they would just be reducing the value of the estate. And selling assets means the future return on these assets is lost forever. Also, your children may get less than the full market value selling under time constraints, and may be forced to sell cherished assets such as a family cottage.

> **Borrow funds** – Your children may not be able to borrow all of the funds required or may be burdened with loan payments and non-deductible interest charges. Also, repaying loans with estate funds reduces estate value.

> **Start a separate investment account** – You could make deposits to another investment vehicle designed to cover the future tax liability. But this may not meet your family's needs if you pass away prematurely. Also, you may end up having to use the investments for other needs.

Life insurance offers numerous advantages:

Cost-effectiveness – annual premiums are low compared to the eventual tax payable.
Estate protection – funds from the estate are not needed to help cover the tax liability.
Dependability – tax-free proceeds are guaranteed to be available when needed.
Peace of mind – you will know that your heirs can enjoy all that you have built.