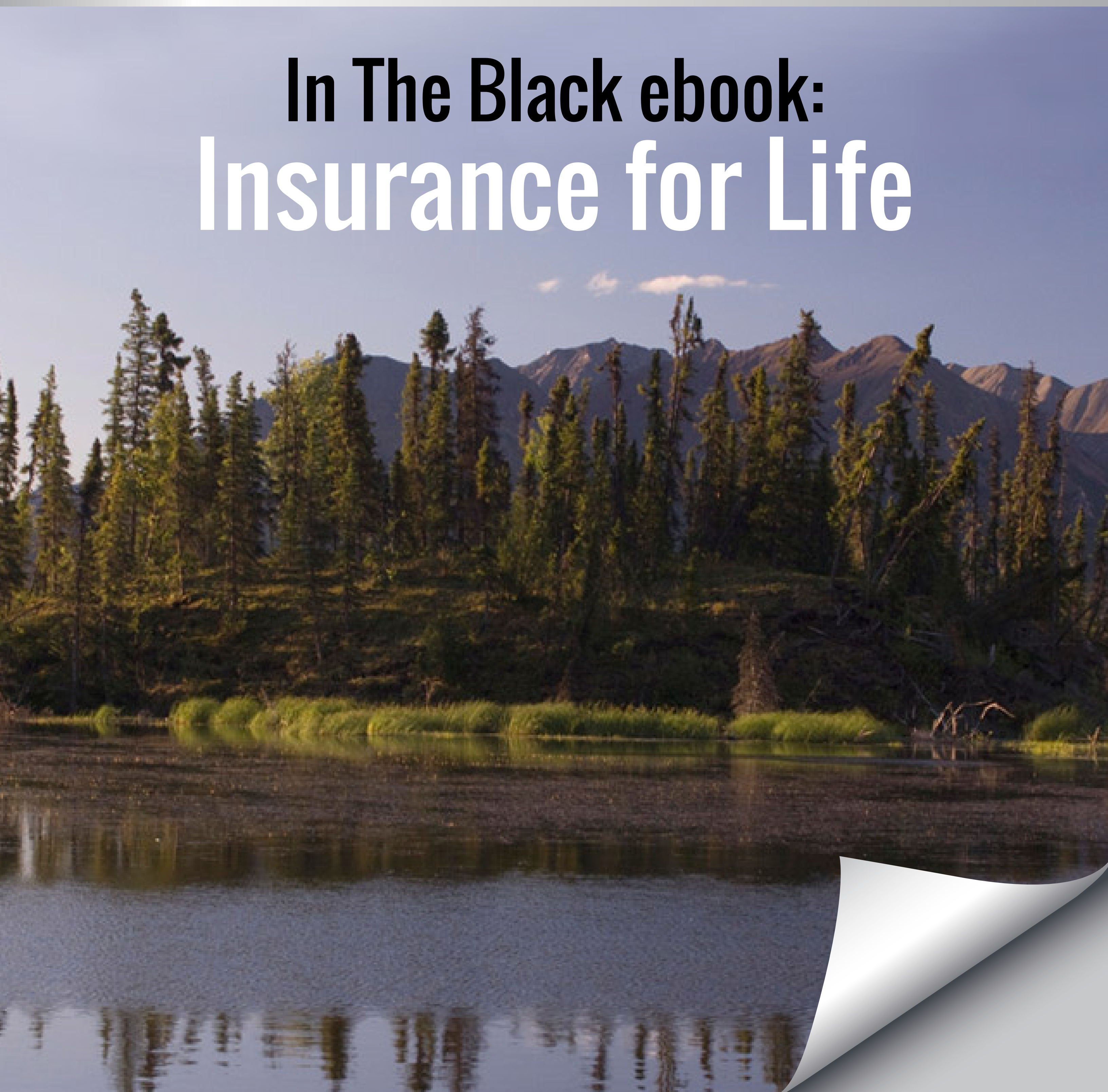
BLACK SPRUCE FINANCIAL

In The Black ebook:
Insurance for Life



In The Black ebook: Insurance for Life

Canadians often wonder why insurance is necessary and what advantages are gained, long and short-term, by having coverage in place. If you are interested, care, or are even concerned about protecting the wealth of yourself and your family, then insurance should absolutely be included in your financial plan. In my opinion, insurance is key to bridge the gap between your prime wealth creation years and the milestone of achieving your wealth goals. Along the way, you will enjoy the added benefit of preserving your overall standard of living that you have become comfortable with.

For the Canadian business owner, insurance is used for the preservation of the wealth you have created in your company, revenue and income protection, as well as to fund buy/sell agreements between its owners. Many experts agree that Canadian small and medium-sized businesses are the backbone of our economy, and as such, it just makes sense to protect owners and make use of the many options insurance has to offer.

Frequently Asked Questions

As individuals, we often use insurance to protect our belongings, but what about protecting ourselves? While we insure our possessions, such as homes, automobiles, and valuables, many Canadians neglect to insure our primary resource, namely ourselves and our ability to earn an income while alive, covering debt and liabilities when we are deceased. Before we begin, I've outlined some commonly asked questions when it comes to insurance followed by my best answers. Have you ever wondered about any of these questions?

Q: What is keeping up my standard of living really worth to me and my family?

A: This can be a very open-ended question. By insuring your income and future earnings, you can rest assured that the household expenses will be taken care of in the event of a tragic interruption like disability, illness, or even death. Therefore, with properly planned insurance coverage, you and your family will not suffer the financial hardship commonly associated with a tragic event, whether expected or unexpected.

Q: How much insurance do I need?

A: Simply put, enough to protect you and your family's continued standard of living. You should consider having not just a financial plan created, but also a life plan. For more details about a life plan, contact us to receive a copy of our eBook, "Your Financial Life Plan."

Q: What type of insurance is right for me?

A: In order to determine the type of insurance that is suitable for you and to see if you qualify for coverage, a licensed advisor should be consulted. A questionnaire will be provided to help guide you prior to speaking with an advisor, which will help bring you closer to these important decisions. One thing is certain, the best kind of insurance is the kind that is in place when you need it most!

Q: Who needs insurance? Is it for everyone?

A: Single individuals, married couples, employed or unemployed people, and business owners all benefit from insurance, so in essence, it is for EVERYONE! Insurance is needed to offset the risk of financial loss so that we can have PEACE of mind. Should an unfortunate and unforeseen, or even foreseen, event happen, you will know that your and your family's standard of living will be kept relatively the same without financial interruptions.

The Role Of Insurance In Your Financial Life

Life insurance and accident and sickness insurance offer you protection against household financial loss. These types of insurance policies provide protection and coverage for mortgage and other debt, income replacement, and tax liabilities that may arise upon the death, accident, or sickness of a household income earner. This area in financial planning is often overlooked, but without the proper type and amount of insurance protection in place, a family's future financial goals could face an extremely tough setback. Put the right amount in place while it's top of mind, because, with each passing year an individual goes without affordable insurance in place, it gets a little more expensive to purchase. This is mostly because as you age the actuarial experts cannot alter the lifespan factors that go into pricing. By putting off the critical insurance decisions, you run the risk of derailing your financial position and future when coverage is needed and not in force.

What To Expect

I break down this eBook into five simple but important topics of discussion: personal insurance, business insurance, insurance as the new asset class, insurance and estate planning, and finally, insurance and taxes. I will explain each of these topics in depth and my hope is that you will be better prepared and more knowledgeable after reading this short ebook. I believe that the purpose of insurance is to simply offset the risk of loss, and for the purposes of this book, we will be looking at how to use insurance to offset the risk of financial loss.

We'll start by looking at the different types of insurance, how they work, and when they're needed. While this is by no means an exhaustive discussion, I have grouped these topics into the most important areas of insurance that should be top of mind, in order to ease your mind.

1. Personal Insurance

There are many different types of personal insurance, which fall into the two main categories of living benefits insurance and life insurance.

Living Benefits

Living Benefits policies cover most accidents and sickness. Industry experts say that Canadians are living longer, with the standard of living increasing each year. This means we are living longer in retirement and may lack the necessary income to have our retirement nest egg outlast us, which is the goal. Therefore, it is critical that we do not experience interruptions in our saving years. While many people are covered by their work benefit plans, which include drug and dental, many are not, which is unfortunate. On the other hand, those who have work coverage rarely, if at all, seek out advice to see whether their coverage is adequate. The three main living benefits insurance I will discuss here are individual disability insurance (DI), critical illness (CI) plans, and long-term care (LTC). Here they are, in order of importance.

<u>Disability Insurance</u>

If you become injured or sick and are no longer able to earn an income, disability insurance will replace the missing portion of or potentially all of your income. Disability coverage plans can range from individual to group and even to government plans! All of these contribute to your security, however, the latter two often need to be topped up with an individual plan. In my professional experience, disability insurance is the most important type of living benefits insurance because of the tremendous impact injury has upon a household income earner and the effects on that household's financial future. Often, when there is insufficient coverage, the injured person draws upon their savings to make up the difference in order to survive. Two things are disrupted in the event of insufficient coverage. First, your retirement plan is delayed, proportional to the withdrawn amounts. Second, you will be forced to alter your standard of living both now and in future retirement years.

In order to avoid this unfortunate and uncomfortable situation, the next step is simply to talk to your insurance advisor about the possibility of putting disability insurance in place as soon as possible. Generally, individual disability insurance benefits are paid tax-free to you with strict governing regulations as to maximum benefit coverage amounts.

<u>Critical Illness Insurance</u>

If in your lifetime you become sick with an illness that is covered in your policy, you will receive a lump sum cash payment as a tax-free benefit as outlined in your policy. Major illnesses such as heart attack, stroke, and cancer, generate a partial or full benefit and the proceeds can be used however the beneficiary sees fit. This benefit can be used to retrofit your home or car to better serve you during this difficult time of adjustment. You could also use the money to pay down debt or invest wisely for the future generation of income and/or growth. An insurance advisor will use calculations to determine a suitable coverage amount for your needs.

<u>Long-Term Care Insurance</u>

When you are well into your retirement years and are no longer able to perform the five basic activities of daily living, namely eating, bathing, dressing, toileting, and transferring from bed to chair, then this plan will be of great value to you. Many senior Canadian citizens that have put in their time in life and are respectfully owed proper nursing care. Most plans define whether this additional care is available for in-home service or a live-in health facility. Long-term care insurance is a good option to plan for and can be of great benefit at the time when you or a family member may need it most.

Other Living Benefits Plans

Other beneficial and important insurance policies are health and dental (often referred to as drug and dental) plans. Some of the best plans are those covered through employers. These have many extra perks, such as travel insurance, therapy sessions, and eyeglasses coverage.

Life Insurance

Just like the title of this ebook says, life insurance is something to have in place for life. It is for everyone who can "fog a mirror," as a mentor once told me. When the day comes where you can no longer do that, a death benefit is paid to your beneficiary. Whether you are single, married, married with children, a child, or a grandparent, it's an integral part of a life plan for everyone. Even high-net-worth and ultra-high-net-worth individuals need insurance and the concept of being self-insured is a myth. For example, if there is tax owed on a wealthy person's final tax bill, their estate can more than afford to pay it. But that payment will impact the estate's net worth in one way or another. In fact, some of the wealthiest families in Canada and the world understand and believe in the importance of having the right amount and type of life insurance in place and have done this for generations. The secret is out - they believe in carrying on their dynasty, and quite frankly, everyone else should too.

A life insurance policy can be used to cover unexpected expenses such as:

- Funeral costs
- Travel expenses to bring the family together
- Replacing lost income and health benefits
- Childcare and education costs
- Home maintenance
- Estate and legal fees
- Final income taxes
- Outstanding debts and bill payments

The insurance industry has several names for the different varieties of life insurance and coverage available. However, to keep things simple so that everyone can understand and appreciate the coverage they have in place, I categorize life insurance into two different types: term insurance and whole life insurance. In other words, the type you “rent” and the type you “own”. Can you guess which is which? Here they are.

Term Life Insurance

Provides AFFORDABLE protection for SHORT-TERM coverage, which is ideal for mortgage and immediate debt coverage. Term life insurance is commonly available in 10, 15, 20, and 30-year terms. Some term life insurance policies even go up to age 100, however these are often considered whole life. Term policies do not provide or accumulate cash value and do not give lifetime coverage. Most will go up to age 75 to 85. They are renewable and can often be converted into a type of whole life product, without any further medical underwriting.

Here is an explanation of how they work. If you have a ten-year policy, the premium will be set and guaranteed for the next ten years, after which, the premiums will renew at a significantly higher premium (usually about 5 times as much). Then, in another 10 years, premiums will renew again at about 5 times the amount. The pattern goes on.

While term life insurance may not seem enticing, it does have its place in a financial plan. These policies are a great way to get the health underwriting approved and inexpensive coverage in place. Once in effect, you have time to put your financial affairs in order to take advantage of the “convertible” option built-in to most term policies. This is why I call term life insurance rental insurance. As long as you pay your premiums, then you have coverage in place. The moment premiums end, the policy lapses and you no longer have life insurance and no cash value to show for it. As I mentioned, it does serve a purpose in a life plan.

Here’s an example to show you how:

Term Life Insurance

Example: Term-10 policy for $1 million coverage

Mr. Smith, male age 45 non-smoker

Year	Age	Total Policy Death Benefit	Total Monthly Policy Premium	Full Year Insurance Cost	Cumulative Premium Costs
1	46	$1,000,000	$87	$1,042	
2	47	$1,000,000	$87	$1,042	
3	48	$1,000,000	$87	$1,042	
4	49	$1,000,000	$87	$1,042	
5	50	$1,000,000	$87	$1,042	
6	51	$1,000,000	$87	$1,042	
7	52	$1,000,000	$87	$1,042	
8	53	$1,000,000	$87	$1,042	
9	54	$1,000,000	$87	$1,042	After 10 Years
10	55	$1,000,000	$87	$1,042	$10,422
11	56	$1,000,000	$680	$8,159	
12	57	$1,000,000	$680	$8,159	
13	58	$1,000,000	$680	$8,159	
14	59	$1,000,000	$680	$8,159	
15	60	$1,000,000	$680	$8,159	
16	61	$1,000,000	$680	$8,159	
17	62	$1,000,000	$680	$8,159	
18	63	$1,000,000	$680	$8,159	
19	64	$1,000,000	$680	$8,159	After 20 Years
20	65	$1,000,000	$680	$8,159	$92,016

***No cash values**

Whole Life Insurance

In the broadest sense, whole life insurance policies have cash value that accumulates as each year passes. The idea is to own it long term, until it is either ‘paid-up’ or there is enough cash value in the fund that even if you stop the premiums, it will sustain itself while it is in force. That being said, not all whole life insurance products are created equal. They can be divided into two main types: participating whole life (par whole life) and universal whole life insurance. Both of these are important.

Participating whole life policy owners participate in the dividend pool that the life insurance company itself takes on the risk of managing and guaranteeing. Universal life cash values, on the other hand, invest in pooled funds where the owner and their advisor are left to the task of navigating these pooled investments which operate much like mutual funds. I will focus mainly on participating whole life, as it is the standard and provides PERMANENT PROTECTION for your whole life, ensuring a guaranteed payout, which is ideal for estate protection and as an alternative asset class.

Participating whole life insurance contains cash values and participates in the insurance company’s dividend investment pool. These dividends are completely different than those of a stock dividend. The owner of a par whole life insurance policy is paid a percentage dividend by the insurance company in proportion to the face value of the policy and deposited into the cash value account, which is tax sheltered and accumulates without any equity market risk or exposure. Let’s say that your policy has accumulated $250,000 and, hypothetically, the equity markets crash the next day. Your tax-sheltered nest egg cash balance stays 100% unaffected by the correction. It’s a great way for many Canadians to find peace of mind.

Another important feature of a par whole life plan is that premiums can be designed to be paid up in a shortened time frame. In the example of a 20-pay policy, the policy obligation is satisfied after the 20-year planned premium and is now paid off. Hence why I consider this a policy that you own. Cash values can then be accessed and used for literally anything. Here is an illustration of a par whole life 20-pay policy in action. Note the total premiums paid up to year 12 are equal to the total premiums paid to date. I call this the break-even point.

Whole Life Insurance

Same male age 45
non-smoker
$250,000 coverage

		Guaranteed policy values			Non-guaranteed values current dividend scale	
Policy year	Age	Total guaranteed annualized premium ($)	Guaranteed cash value ($)	Guaranteed death benefit ($)	Total cash value ($)	Total death benefit ($)
1	46	12,033.96	3,848	250,000	4,653	252,506
2	47	12,033.96	10,843	250,000	13,651	258,460
3	48	12,033.96	21,063	250,000	26,344	265,403
4	49	12,033.96	28,293	250,000	36,738	273,853
5	50	12,033.96	35,630	250,000	47,784	283,251
6	51	12,033.96	43,080	250,000	59,251	292,868
7	52	12,033.96	50,640	250,000	71,143	302,682
8	53	12,033.96	58,310	250,000	83,556	312,894
9	54	12,033.96	66,095	250,000	96,421	323,276
10	55	12,033.96	73,993	250,000	109,812	335,980
11	56	12,033.96	91,113	250,000	132,966	345,250
12	57	12,033.96	100,138	250,000	148,561	357,020
13	58	12,033.96	109,295	250,000	165,029	369,672
14	59	12,033.96	118,583	250,000	182,406	383,212
15	60	12,033.96	127,253	250,000	199,743	397,151
16	61	12,033.96	130,793	250,000	212,681	411,771
17	62	12,033.96	134,380	250,000	226,423	427,016
18	63	12,033.96	138,015	250,000	240,992	442,885
19	64	12,033.96	141,690	250,000	256,410	459,370
20	65	12,033.96	145,400	250,000	272,584	476,274
21	66	-	149,138	250,000	289,464	493,487
22	67	-	152,898	250,000	307,075	511,051
23	68	-	156,673	250,000	325,446	529,015
24	69	-	160,458	250,000	344,611	547,419
25	70	-	164,243	250,000	364,585	566,301
26	71	-	168,023	250,000	385,473	585,814
27	72	-	171,795	250,000	407,307	606,000
28	73	-	175,550	250,000	430,111	626,904
29	74	-	179,288	250,000	453,951	648,599
30	75	-	183,003	250,000	478,869	671,149
31	76	-	186,698	250,000	504,900	694,596
32	77	-	190,373	250,000	532,083	718,976

Premiums for 20 years
policy is
paid up after year 20

Break Even Point 12 years

Premiums paid to Date:
$144,408

Cash Values to Date:
$148,561

Cash Values continue to
grow throughout the years

2. Business Insurance

If you are not a business owner, you may choose to skip this section, but the prior section on individual insurance is recommended for everyone.

Business insurance is a broad term used in the insurance world that encompasses protecting not only the financial health of a company, its shareholders, and employees, but also its inventory and property too. In keeping with insurance as it relates to the risk of direct financial loss of liquid capital and income, I do not include property insurance in this ebook. That being said, property insurance is an important area of financial planning and I highly recommend that you seek out a property insurance specialist for this matter.

As an owner of an independent Canadian small and medium-sized business or large private corporation, you take on a certain amount of risk depending on the health and age of your company. For the owners of new businesses or start-ups, the risk of loss is perhaps greater than that of a more established company. This risk of loss depends on the amount of investment capital at risk put up by the owner(s), the co-signing of company loans, and how much of the family household income will depend on the company's ability to cover its bills and pay the owner a regular steady income.

The immediate goal of most businesses should be to earn a profit. This is applicable to non-profit businesses as well, because I'm referring to profit in the sense that the business is able to cover its overhead expenses, pay its staff, and provide the owner with a salary. After these expenses are paid, the business will have some retained earnings (excess profits) built up on its balance sheet. The long term or ultimate goal of every business should be to have an exit strategy, a plan to pass on the business to someone else.

Your strategy could involve selling shares to family members, selling your shares to existing partners, selling the business in its entirety, or completely shutting it down and making it inoperable. Experts agree that a business is always for sale for a given price. If this is the case, then it is best to make the company as profitable as possible while you build your business. In the meantime, let's look at how insurance can be used to protect the company and its shareholders, bridging the gap between now and when you are ready to pass on the reins in order to protect your vision.

Business Overhead Insurance

This product ensures that the operating business's overhead expenses will be paid if the working owner becomes disabled. This policy pays a monthly benefit based on certain expenses such as rent, employee salaries, etc., but does **not** pay the owners' salary while they are disabled., which should be covered by the group disability or individual disability plan. Overhead insurance is an important policy to have and should be considered to protect your business as an investment. The last thing you want to have happen is for your business to be at risk while you are disabled and receiving your personal disability insurance benefits.

Key Man Insurance

Key man insurance is used by a business to compensate for the financial loss that would arise from the death or disability of an important staff member. This could include management, executives, or directors of the corporation. In this case, the company owns the policy and the key employee is the one insured. The company is also the beneficiary, as it is paying the premiums with the main goal of protecting itself from financial loss due to the loss of key personnel. An option that has become popular in Canada is to have whole life policies with cash values on key employees as a way to increase the balance sheet, thereby creating a tax shelter offered through the policy itself. This added feature is in addition to the primary purpose of offsetting the risk of loss of an employee and is a no-brainer for the more established companies that have the cash flow and retained earnings as available resources.

Insurance To Fund Buy/Sell Agreements

Buy/sell agreements address what happens when an owner, partner, or shareholder passes away or becomes disabled. This type of agreement is often confused with a partnership or shareholder's agreement that deal with the relationship between individual owners and where their roles and duties within the corporation are addressed. Buy/sell agreements deal with continuation or succession planning. The importance of a buy/sell agreement lies in how it outlines instructions for how the shares of a disabled or deceased shareholder will be handled and passed on to existing shareholders. This is not the only thing that a buy/sell agreement addresses of course, but it is an important one. The insurance that is put in place is used to facilitate the agreement.

For example, suppose there are three equal shareholders in a corporation and one of them passes away, leaving his shares to his surviving spouse, who has no interest in being an active partner in the business. Likewise, the two remaining partners might have no desire to have this 'newfound partner' with them in the business. A properly constructed buy/sell agreement would leave clear and legally executable instructions that the insurance proceeds would go directly to the deceased's spouse, their estate, or whoever inherited the shares, in return for the shares. These shares would then be equally distributed to the remaining two shareholders. It's a win-win arrangement.

The same goes for a newly disabled partner. If they suffer a permanent disability and the partner can no longer take an active role in the business, the disability policy would pay a lump-sum payout to the disabled shareholder in return for their shares. It is a fair arrangement for all parties involved and one which needs to be a top priority for any business that currently does not have this product in place.

In both situations, a buy/sell agreement needs to be drawn up by a legal professional with the guidance of an insurance advisor. The agreement addresses the valuation of the company and requires annual updating to adjust for the growth of the business. Both life insurance and disability insurance would be added to facilitate the agreement payouts. This report is by no means a comprehensive outline of how these agreements are structured, but rather an overview to draw attention to this area of business planning.

Group Benefits

Group benefits offer drug and dental plans, group disability, and group life insurance, among others, with various add-ons. These plans can usually be catered for executives as well as a varying group of employees. This is a plan that is much needed and much appreciated by all company employees. Surveys have shown that employees care more about group benefit plans at work than most anything else, even salary raises! Offering group benefits is a great way for Canadian businesses to write-off 100% of the plan premiums, offer benefits to staff, and increase employee retention while reducing staff turnover. It's such an important area of insurance that it's a discussion worth having with an insurance advisor who is well experienced in group benefits.

Corporate-Owned Life Insurance

We have already discussed how term and whole life insurance work in the previous section on individual insurance. However, an interesting option for business owners is to have the insurance owned by the corporation. In this case, the premiums are **<u>not tax deductible</u>** but most of the death benefit proceeds are paid out tax-free into the capital dividend account (CDA). This is a notional account where the tax-free portion of dividends is available to be withdrawn tax-free by the company shareholders. The term notional account means that tax-free dividends to the shareholders are tracked for accounting and tax purposes and not necessarily a physical bank account. The same is true about the proceeds of life insurance owned by a corporation. The funds are then available for the new shareholder(s), depending on who you bequeath your shares to, to take out of the company tax-free. In the case of a whole life policy with an accumulated cash value, this cash value is reflected on the balance sheet of the financial statements under the liquid assets section (more on this in the next section!). This is a great estate planning tool and helps to mitigate possible capital gains triggered by the demise of a shareholder in their final tax bill. I discuss more on this important and exciting strategy as a planning tool for business owners and their heirs in the sections that follow.

3. Insurance - The "New" Asset Class

Don't let the word 'new' fool you. It is not really new, but you may never have heard it referred to as an asset class, and certainly not in the way I describe. I am referring to the cash value held within a participating whole life insurance policy as mentioned above and using it as an active asset class. Most people are familiar with the well-known traditional asset groups such as stocks, bonds, and real estate, to name a few. But cash value accounts held within a par whole life policy are gaining in popularity and are a great addition to your individual or business investment portfolio.

This type of policy offers a number of features, all of which have been covered already. Take the following statements, for example.

Wealth Building Strategy

- **Building** wealth through asset accumulation
- **Safeguarding** your income and net worth
- **Everlasting** standard of living and estate value

A properly structured par whole life insurance policy satisfies these components perfectly. No other asset class that I know of in Canada can achieve this. It has the added feature of being a tax-advantaged shelter similar to your TFSA (tax-free savings account) plan. However, as we know, TFSA plans are not allowed to be owned by a corporation. Neither are RRSP (registered retirement savings plan) or any registered plans for that matter. Investments must be held in a non-registered CASH account. More on this in my section on tax.

Now you are aware that a par whole life policy can be used as a tax-sheltered vehicle for an individual, family, or even corporation. Let's look at the asset class itself in more detail.

When I mention that the cash inside a participating whole life policy acts just like another asset class, I mean that it is an excellent addition or even alternative to the fixed income asset classes we have become familiar with. I am talking about having the safety of a GIC (Guaranteed Income Certificate) type instrument with the reasonable rates of return of the coupon off a corporate bond. In the case of a corporate-owned par whole life policy, I mentioned in the previous chapter that these policy cash values are reflected onto the balance sheet, under the same heading that other cash or fixed investment assets would be found, namely under Liquid Assets.

In order to achieve this, the policy must be a participating whole life insurance policy and one which pays 'policy owner' dividends. These dividends are not like the dividends paid out to shareholders of corporate stocks, but rather resemble a royalty paid to the policy owner. Dividend amounts paid from a participating whole policy will usually be fixed for one year depending on the performance of the dividend pool. Once this dividend, or royalty, is paid into the policy owner's cash value account, it acts just like liquid cash held inside a tax-sheltered TFSA account. What I mean is, the safety of cash in a TFSA account would be almost immune to any capital market volatility. If the stock market or bond markets correct or even crash tomorrow, then this cash value balance would remain unmoved, protected from this exposure. Safety is a significant feature for any asset class, and these policies have the liquidity and safety to give a strong argument in their favour. With the added value of corporate bond-type returns, tax-advantaged sheltering leaves little left to consideration. It is quite an exciting prospect and one which I feel should be included in any portfolio, whether owned by an individual or corporation.

4. The Great Estate

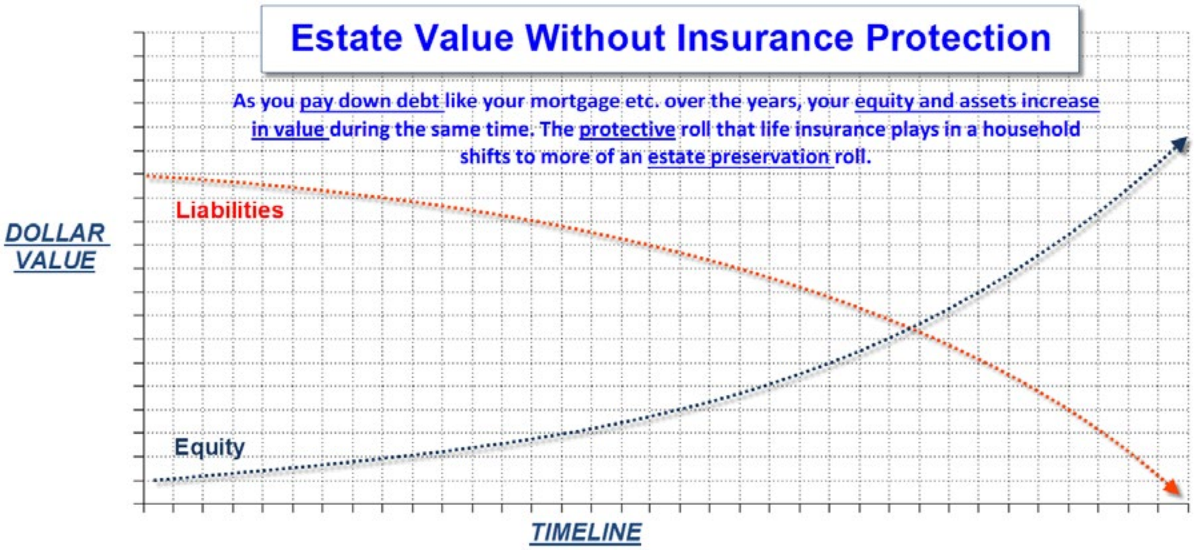
Life Insurance is one of the most powerful tools available today, especially when it comes to estate building and preservation. Keeping your dynasty running while you are alive or deceased is a very important concern for most people. Let's look at what an estate actually is.

An **estate**, in its broadest sense, is everything that an individual owns and everything that same individual also owes. This also includes any rights or royalties to something that you have created or own, such as a patent, and that continues to generate passive income in the form of royalties. An estate would, in essence, be more detailed than a simple net worth statement because it would include any tax liability owing at death, which is not usually included in the calculation of net worth (net worth is simply all assets minus all liabilities). An estate is all assets minus all liabilities minus tax (if applicable) upon disposition of the assets.

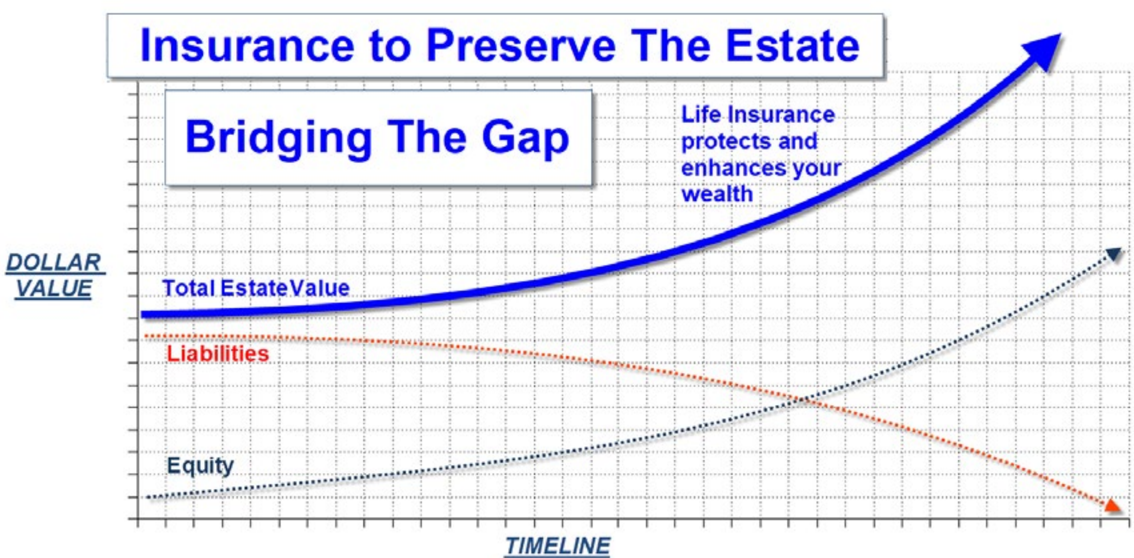
An **estate plan** is simply a plan for the distribution of these assets, held within an estate, to the deceased's beneficiary(ies) in the most tax-efficient manner. This is usually where a Certified Financial Planning® professional comes into the picture in a significant way. They have the ability to fully understand what is important to you. then decipher the best steps to take in light of what you value most, creating a strategy for the creation and preservation of wealth throughout your lifetime then including provisions to distribute your wealth to your heirs in the most tax-advantageous way possible. The preservation of your family's lifestyle and standard of living, although not obvious, is and should be the centre of focus through the whole process of creating your estate plan. Nothing can derail an estate plan faster than not properly mitigating risk through life insurance.

How can life insurance be of value in an estate plan? Let's look at some illustrations to help you understand.

The first one shows the typical estate without life insurance and the second one shows an estate that includes life insurance. Let me explain. If you own a property with a mortgage on it, and for simplicity sake, this is all you own and owe, then your net worth would be the value of your home minus the mortgage on your home. If you were to die, the mortgage would most likely need to be paid off in order for your heirs to keep the home. This could create a situation where an uncomfortable lifestyle change would be necessary for your surviving family members. Hence the popularity of so-called mortgage insurance (just as a side note, life insurance is usually the better option, as it serves a greater purpose). This explains the first illustration. Now you can use your imagination and add more assets, like investment portfolios, additional properties, and shares of a private corporation. The estate plan just took a giant leap in being a bit more complicated, due to the fact that there are more moving parts. Without having life insurance in place, the net equity (and I mean net, net of tax too) is all your grieving family will inherit.



Let's now look at the second illustration, which shows the addition of life insurance into the plan. If in our same example of the homeowner whose only asset is their home, we add even a simple life policy to cover the liability of the mortgage, then the picture at death is quite different. The debt is paid off with the life insurance proceeds, thereby preserving the home as an asset to the heirs. Again, this is simple to grasp, however, most people's situations are not as simple as this. Add in other assets such as life investments and business ownership and suddenly the plan is more complicated.



The preservation of an asset is only one benefit that life insurance can have. A much greater benefit is that the overall value of an estate actually increases with life insurance and is completely tax-free when paid out to beneficiaries. Due to the fact, explained earlier, that life insurance is a tax-free proceed paid out to your beneficiaries, it actually increases the estate value when this fact of life is factored into the equation. Here's why.

When you purchase life insurance, you have, as an added feature, a trust automatically built into the policy. A trust no longer functions as a tax shelter like they used to. Now, they are a way to control and distribute assets on behalf of family members. One would do this for loved ones who may be minors or may not be interested or savvy in handling assets that are passed down to them. A trust is set up with instructions from a will to serve this purpose. Trusts include two general types but are not limited to testamentary trusts (created upon one's death) and inter vivos trusts (created while you are alive). Enter life insurance. With life insurance, you can direct the proceeds of your life insurance policy to your heirs tax-free and without it passing through your will, which could trigger probate fees. Probate fees are simply fees that the deceased resident's province institutes on certain assets that are not assigned in a will. Probate fees are costs generated by the province on assets that were not assigned a designated beneficiary. The fees are calculated according to a percentage of assets unassigned and the rate varies from province to province. In other words, the deceased involuntarily hired the province to handle hers or his financial affairs upon their demise. It sounds unbelievable, however, this is more common than one would think. You designate a beneficiary for every asset and update this information periodically in every client/advisor review meeting.

Participating whole life insurance policies, by extension, are unique in that they serve as a tax shelter and as an estate planning tool which can legally leave directions as to where the proceeds of the policy go without passing through the deceased last will (and possibly probate).

Who should have life insurance as part of their comprehensive estate plan? In my professional opinion, anyone and everyone. No matter how poor or wealthy you are, it serves a purpose for all Canadians. If you can qualify for life insurance and have your application, medical and financial underwriting, and purpose of the insurance or insurable interest approved by the insurance company, I recommend it be added, even for the high-net-worth and ultra-high-net-worth classes. More for you folks in the next chapter.

Life insurance coverage is one of the most powerful, if not the most powerful estate planning tools available to Canadians.

5. Just A Question Of Tax

I never was one to save the best for last, but since you made it this far, here it is. You may have noticed that throughout this paper, I mention that par whole life policies have a tax-sheltered component to them. In addition, I add that the proceeds of any individually owned life insurance policy are paid out to your beneficiaries tax-free. The immediate benefit to your estate is well worth the consideration of putting insurance in place. If we look at the two certainties in life, death and taxes, they are, in fact, the grimmest to think about. Let's look at how well-designed insurance policies make provisions for such occasions.

We've already discussed insurance held until death and how it protects and adds value to your estate plan, now we will deal with participating life insurance and how it protects you and your estate, or family rather, from both taxable investment returns while in your living years and second, taxes at death.

Tax-Sheltered Cash Value Account

I mentioned that participating life insurance is an asset class as a new addition to the fixed-type interest vehicles common today. The added benefit is that this asset class as a par life cash value is built up within a tax-shelter similar to a TFSA account. In other words, the portion of the premium that you pay and the resulting dividend earned within the policy go into the cash value account with after-tax dollars and the cash values can be accessed in most cases without triggering income tax (I say in most cases because there is an adjusted cost basis (ACB) that comes into the equation that is tracked by the insurance company you hold your policy with). This is done quite simply through a policy loan for individuals where the insurance company lends the policyholder the proceeds at a reasonable rate of interest, then uses the cash value in the policy as collateral. The loan proceeds up to the ACB mentioned for individually-held policies is tax-free and usually a significant amount in most policies. The owner of the policy only needs to service the interest on the loan, as the proceeds of the loan will be paid back upon the death of the life insured. For corporate-owned policies, a third-party collateral loan from a lending institution or a policy loan from the insurance company would be taken. The tax conditions are a little different for corporate-owned policies in that the corporation might need to pay an adjusted rate of tax as money is accessed through a policy loan. With both individual or corporate loans, whether a policy loan or collateral loan, seeking the advice of your insurance advisor as well as getting facts from the insurance company itself should be a priority before making any loan decisions in order to be certain of any tax liability.

The bottom line is that the added security of the cash value and annual dividend pools are greatly enhanced with the fact that there is a tax shelter for growth built into the policy itself. It is a great alternative to other government sheltered tax accounts, such as TFSAs and RRSPs.

Taxes at Death

In Canada, when a person passes away, all assets held in their name are deemed to have been disposed of one minute before they died. Some of these assets are subject to taxable gains and some are not, depending on who is inheriting the assets. Your second home or cottage, for example, can pass to your spouse tax-free, but it will be subject to tax if anyone else is to inherit it. Hence the need for a properly designed life insurance policy that has built-in provisions for the death of the first parent and then the death of the second parent.

In the case of a family business structure, a very useful strategy using life insurance is an estate freeze, which is simply stopping all past growth for the parent, in essence freezing it. All future growth will be taxed in the hands of the children in the future. The parents do not escape the taxes accumulated to date, but this is a great tax planning succession plan and estate planning tool to help transition shares of the family business to the children, who will ultimately inherit the business while still maintaining controlling interest in the company while you are still alive, and not mitigating, but rather prolonging and extending the tax consequences of the business ownership transfer.

Another important tax planning and succession planning strategy already mentioned is using life insurance is for funding a buy/sell agreement between a corporation's shareholders. Simply put, life insurance helps facilitate a repurchase of the deceased shareholder's shares, now held by the deceased's estate. Proceeds of the life benefit are paid to the estate or the heirs in exchange for the shares of the corporation and are thereafter to be divided amongst the surviving shareholders as per instruction within the buy/sell agreement. The estate can then use the life insurance proceeds to help pay the final tax bill and the remaining amount can be distributed according to the instructions in the will. There is more to it than this of course, but this should give you another idea as to how life insurance can be used to cover taxes triggered at death.

The argument of some high-net-worth and ultra-high-net-worth individuals and families that they are self-insured doesn't hold much water in my eyes. One simple test is this: will a tax bill be created upon your death? Most likely the answer is yes because assets and shares will change hands, and the tax man will be waiting close by. Try to have your heirs come up with $250 million in income tax calculated on your final tax return, payable when the return amount is due. Where is this money going to come from? In reality, assets held within the estate will most likely have to be sold to cover the tax bill. Now suddenly we have a fire sale on our hands because buyers of these assets are not ignorant and will see the pressure and need for the "ask" and therefore "bid" low prices. We are not ignorant either, because we are now well-armed with the necessary information to bulletproof our estate with life insurance.

The bottom line is that life insurance is beneficial and it is just as important to know how much and what kind you need. Educating yourself is essential to making the right choice. It is time to protect yourself and your family should the unthinkable happen. Bridge the gap in your wealth creation years, and preserve your wealth and standard of living! Life insurance has saved many from experiencing financial loss when the unexpected occurs and you can rest assured knowing that your loved one's standard of living will be kept relatively the same without interruptions. If the risk of financial loss within an estate exists, whether the loss is debt, taxes, or even the loss of income as a result of your demise, then life insurance is needed.

Conclusion

Insurance has been in existence since the 1600s, insuring mostly shipping cargo and life policies. Today, it has evolved into a multitude of products that offer coverage and protection from loss or damage on tangible items as well as to financial loss or erosion to one's net worth and estate. This ebook has mainly dealt with insurance as it pertains to mitigating or offsetting the risk of financial loss. It has also dealt with the prospect of insurance as an asset class in addition to your current investment portfolio.

Insurance plays such an important role in retirement planning, estate planning, and business succession planning that I can't stress enough to at least start the process of asking an insurance advisor, or even better, consulting a Certified Financial Planning® professional who is also insurance licensed, for an initial consultation. It will be a little bit of work on your part, answering questions and gathering related information, however it will be well worth the peace of mind once it is in place, knowing that you and your family's standard of living will be looked after.

Do spend the time to fill out the checklist and questionnaire at the end of this paper. You may find it very revealing as a snapshot of where your financial protection stands today and whether there is room for improvement. I think you'll find, if you are honest, that there is room for improvement and a sounder plan to explore. It may also be that a second professional opinion is the right step to take if you are not properly represented with your current team of advisors.
I wish you all success and financial happiness today and in the future.

At Black Spruce Financial, our client's interests come first. In order to determine the wealth management products and services that would be of most value, we take the time to get to know you and gain a full understanding of your financial needs and goals. It starts by asking the right questions, collecting information, and using qualitative and quantitative software tools to turn that into a wealth management plan that works to protect, grow, and manage your assets.

About Gino Scialdone, CFP®, CLU®, CHS

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A financial advisor for 16 years and founder of Black Spruce Financial, Gino helps business owners, professionals, and individuals achieve financial goals through assessing their financial needs and opportunities, reducing their taxable income, and improving their overall sense of security and future goals and objectives. As a Certified Financial Planning® professional, Gino assists wealth management by protecting and growing his clients' assets in the following areas of expertise: Investment Planning, Insurance Planning, Tax Planning, Estate Planning, Succession Planning, and Retirement Planning.

Wealth Management For Business Owners

Having run a family business himself, Gino, a Certified Financial Planning® professional, is dedicated to providing the highest-quality advice to independent business owners and individuals. He is committed to understanding their needs and goals better than anyone else.

After completing the Canadian Securities Course (CSC), Gino became an Investment Advisor, and upon completion of the LLQP (Life License Qualification Program), he became a licensed Financial Advisor. He has also completed the Wealth Management Essentials course. His Chartered Life Underwriter® (CLU®) and Certified Health Specialist (CHS) designations are unparalleled aids when helping independent Canadian business owners. Gino is actively involved in charity work. He is an avid cyclist and stays on top of his game by training for triathlons.

BLACK SPRUCE FINANCIAL

Appendix: Financial Status Checklist

	Yes	No	N/A
1. Do you have enough insurance to cover these outstanding amounts?			
a. Mortgage on your primary property ?*			
b. Mortgage on a second property or investment property?*			
c. Funeral expenses?			
d. Capital Gains and Taxes at death?			
2. Do you have a Disability Insurance plan through your work?*			
3. Do you have Individual Disability Insurance personally?*			
4. Do you own a small or medium sized business in Canada?			
a. Do you have adequate overhead insurance?			
b. Do you have a well-funded buy/sell agreement in place?			
c. Do you offer group benefits?			
5. Do you have enough life insurance to replace household income?			
6. Are you covered by drug and dental benefits?			
7. Do you have coverage for a long-term care contingency plan for your later retirement years?			
8. Have you calculated how much taxes at death would be and are you well-funded?			

clear form

*If you answered no to questions 1a or 1b, and to both 2 & 3, it is highly recommended that you seek the advice of an insurance advisor ASAP as these are critical insurance needs to be taken care of immediately.

Otherwise, fill in your score below (1 Point for every No, do not include NA):

YOUR SCORE________________

If you answered 'No' to 2 or fewer questions, you should be set until your next review!
If you answered 'No' to 3 or fewer questions, you are probably due for a review with an advisor.
If you answered 'No' to 4 or more questions, consider booking an appointment with an advisor ASAP!

Contact **Black Spruce Financial** at **416-553-5004** or **gino@blackprucefinancial.com** to set up a complimentary meeting.