

The Estate Reallocation Strategy

The key to effective estate planning is to minimize estate tax and maximize the amount of wealth that is transferred to the next generation. But how? Life insurance offers a unique strategy.

Investments and Taxes

While registered assets, such as those within RRSPs, RRIFs, and pension plans allow for immediate tax deductions and tax-deferred savings for retirement, any withdrawals will be fully taxed as income at your marginal tax rate. Furthermore, any income or growth from most non-registered investments such as GICs, stocks, bonds, real estate, and cash will be taxable to some extent, either as it is earned or upon the sale of the asset. Even upon death, you are deemed to have sold all of your assets at their fair market value for tax purposes, which can result in some significant liabilities for your estate.

Tax Minimization, Estate Maximization

Many individuals view life insurance as simply a necessary expense for managing risk. This is part of its purpose, but it can be much more than that. The Estate Reallocation strategy involves shifting a portion of your assets (say 5%) from fully taxable positions into a tax-exempt insurance policy, resulting in a significantly enhanced estate plan.

The investments you make in a Universal Life or Participating Whole Life policy are exempt from accrual taxation during your lifetime. With this permanent, tax-exempt insurance, you can pay a premium that is far in excess of what is necessary; the difference is invested on your behalf and the growth is tax-deferred, just like registered assets. This strategy also allows for the potential for tax-free retirement income.

Through the years, as your policy grows, your ultimate estate benefit builds as well. Eventually, the proceeds are distributed tax-free to your beneficiaries when you die, eliminating probate fees and delays.

Summary

Tax-exempt life insurance allows individuals to maximize the estate value that they pass on to future generations. It allows for tax-sheltered growth and a tax-free payout at death that typically far outweighs achievable returns in a taxable investment account.

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