INSIGHT
Into Financial Planning

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HELPING OUR READERS MINIMIZE TAXES AND INCREASE THEIR NET WORTH
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Thinking "Buy Term and Invest the Difference"...Think Again!

Advocates of 'buy term and invest the difference' take note: a Universal Life insurance policy can simultaneously satisfy your need for low cost life insurance protection and comprehensive investment options…all in one policy. The available investment options run the gamut from fixed interest accounts providing competitive interest rates, to a wide variety of interest options that track the performance of some of the world's leading market indexes and top performing investment funds.

Over and above the life insurance protection a Universal Life policy provides, one of the greatest advantages this type of policy offers over ordinary investment funds is that it is recognized as tax-exempt, as prescribed under the Income Tax Act (Canada). If you own a Universal Life policy, your investments can grow on a tax-deferred basis (within limits), similar to an RRSP or an RPP. As a result, your cash accumulation can be higher than a typical non-registered investment…even with the cost of insurance included!

There are seven different ways to access the cash value in your Universal Life policy. However, keep in mind that if you want to use the following features to your full advantage, you must be prepared to invest as much as possible in the policy as is permitted for a tax-exempt insurance policy under the Income Tax Act (Canada).

1. Withdrawal—You may withdraw a portion of the cash value in your policy at any time, subject to a surrender charge typically applicable for the first nine years of your policy. The Income Tax Act (Canada) allows a credit of the Adjusted Cost Basic (ACB) of the policy to be applied against the withdrawal so that only the net amount becomes taxable. The ACB is typically higher in the early years of the policy and may be eliminated after about 25 to 30 years.

2. Use of Pre-Tax Dollars—Universal Life allows you to pay your policy's monthly charges with cash already accumulated in your investment interest account(s), without considering this to be a withdrawal for tax purposes. Since insurance premiums are usually not tax deductible and are paid with after-tax dollars, it is a definite tax advantage to be able to use pre-tax dollars to pay the charges.

3. Tax-Free Payout on First Death—If the option to receive a payout of a policy's account value on the first death is elected at issue on a joint last to die Universal Life policy, typically anywhere from 25% to 100% of the cash value of the policy can be withdrawn by the named beneficiary on a tax-free basis upon the first death of the lives

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insured. If elected at the time of application, the Canada Revenue Agency (CRA) currently treats this option as an advance on the death benefit, rather than as a taxable withdrawal.

4. Tax-Free Payout on Disability—Upon satisfaction of the definition of disability given in the policy, up to 50% of the cash value of the policy typically may be withdrawn on a tax-free basis per year. Registered investments offer no comparable feature.

5. Policy Loan—If you require a short-term loan, a Universal Life policy allows you to borrow up to 90% of the value of your investments in Guaranteed Deposit Accounts at a very reasonable rate of interest without having to go through any credit checks or approvals. This is a terrific feature to use when borrowing to buy an RRSP, instead of going to the bank for a loan. This gives you the added advantage of having two separate tax shelters working for you--the RRSP, and the investments within your Universal Life policy.

   Keep in mind that under the Income Tax Act (Canada), the loan is deemed as income in the year it is taken out; however, you are allowed to deduct any payments made on the loan before the end of the year so that in essence, it becomes a tax-free loan if the loan is repaid in full in that tax year. The remaining loan balance not repaid will be included as income and will be taxed. If the loan balance plus interest owing exceeds the accumulated cash value in the policy, this may cause the policy to lapse which would then require either a cash infusion or loan repayment into the policy to correct the situation.

6. Supplementary Retirement Income—If you have longer-term borrowing needs, your Universal Life plan, as a cash value life insurance policy, may be used as collateral with your bank to secure a loan. If there is substantial cash value in the policy, you may take it to your bank and request to receive a series of annual loans for up to 90% of the value in the Guaranteed Deposit Accounts or up to 50% of the value of equity based investments. Provided your lending institution is willing to capitalize the interest and wait to be paid out of the death benefit upon death of the life insured, no loan repayments would be required.

   The loans are received tax-free from the bank and there is no actual withdrawal from the policy, which allows the cash value to continue growing on a tax-deferred basis within the policy. In this way, a sufficient amount of money should always be available to pay off the bank loan when due while maintaining a death benefit for your beneficiaries. Currently, the Income Tax Act (Canada) does not consider bank loan proceeds to be treated as taxable income. However, tax laws are subject to change and may impact the benefits of this strategy.

7. Death Benefit—Upon the death of the life insured, all of the cash value accumulated in the policy is paid out, together with the death benefit to a designated beneficiary, on a tax-free basis. So by taking a previously taxable investment, investing it in a Universal Life policy where it can grow tax deferred and be passed tax-free on death to your beneficiaries, you can satisfy your need for life insurance, enjoy easy access to your cash, avoid probate taxes with a beneficiary other than your estate, and prevent the cash from becoming tied up in estate administration.

To take full advantage of the features available to you from a Universal Life Insurance plan you must be prepared to take full advantage of the savings room by depositing in the form of a premium the maximum annual amount allowed under your policy to remain tax exempt. If you do not deposit greater than the minimum required premium, then there will be little or no cash value to access and your policy may lapse. Universal Life might be your answer to “Buy Term and Invest the Difference”. See your Financial Advisor for a plan that is right for you!

How to emphasize the "Success" in Business Succession

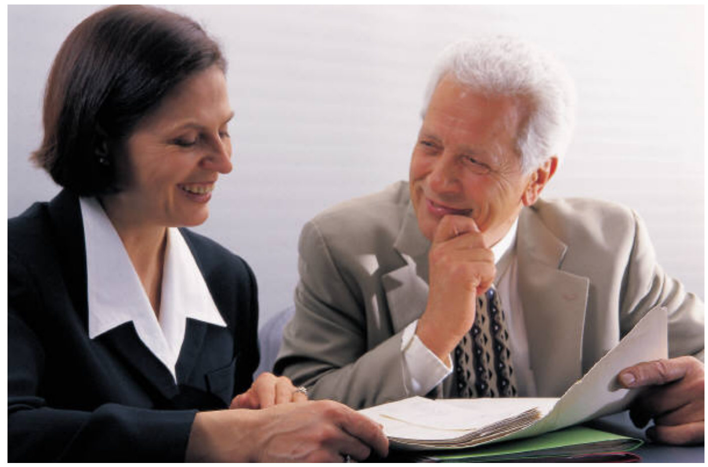
Who among us hasn’t fantasized about achieving immortality? As the founder of a prosperous family business, careful planning can help you achieve at least a degree of immortality through the successful transfer of your business to the younger generation.

It’s unfortunate that the concept of business succession goes hand-in-hand with topics that most of us would rather NOT contemplate…aging, sibling rivalry, and power to name a few. Perhaps it’s this association with difficult subjects that causes many small business owners to postpone developing a succession plan. Business founders’ failure to consider the inevitability of their demise and devise a succession strategy is one of the reasons that less than half of family owned businesses succeed to the second generation, and even fewer succeed to the third.

So how can you improve your business’ odds of surviving after you are gone? Start by developing a business succession plan. There are as many feasible succession plans as there are small businesses, and many winning succession plans use life insurance. Here are just two of the many ways that you can use life insurance in your successful succession plan.

KEY PERSON INSURANCE

Key person life insurance protects a business when the person who is critical to the continuation of the business dies prematurely. We often assume that the key person must be an employee, perhaps a skilled craftsman who has 30 years of experience in your business. However, a relative, (perhaps your daughter who you are grooming to someday fill your shoes) might be key to your business’ ongoing success in her role of your sole sales person. Or maybe the key person is you, the founder of the business. After all, who else knows your product as well as you? It is your leadership and vision that keeps your business lucrative. If you should die unexpectedly, not only would your family feel the loss…your business would also suffer.



For example, Wayne is trying to ensure that his small custom furniture business will continue after his death. He is grooming his son Carl (presently the company bookkeeper) to take over as manager, and he has a skilled craftsman in his employ. He knows that small businesses are especially prone to problems and even potential closure when a key person dies. Problems may include diminished productivity, loss of specialized skills, loss of customers and goodwill, loss of leadership and focus, loss of credit with banks and suppliers, and the difficulties and costs associated with finding a suitable replacement. Wayne’s financial advisor recommends that he consider a key person insurance policy on himself that would provide funds to help address most if not all of these potential difficulties.

BUY-SELL AGREEMENTS

A buy-sell agreement is another way to ensure that your business continues upon your death or the death of another shareholder. These agreements usually involve the purchase of shares by the remaining shareholder(s) once a specified event occurs. The “specified event” might be your death or the death of another shareholder. The agreement sets out the specified price and/or valuation method used to arrive at the price the stock will be exchanged at, thereby reducing the likelihood of squabbles and the possible conclusion of the business.

There are many ways to structure a buy-sell agreement, and the objectives of the parties involved determine the most appropriate structure for their agreement. Buy-sell agreements are often funded with the proceeds of a life insurance policy, thus providing the involved parties with an additional benefit: the peace of mind that comes with knowing that the liquidity needs of the buy-sell agreement will be met whenever necessary.

Succession planning is admittedly a complex topic, and the above suggestions are by no means an extensive survey of the possible succession strategies available to you. Planning your business succession strategy takes time and input from your family and your team of professional advisors. Your life insurance professional, accountant, and lawyer all have a hand in emphasizing the success in your business succession plan; and, in effect, ensuring your immortality.

Tax Tip

Tax Tip…Canada Employment Credit

The 2006 Federal Budget has introduced what is called the Canada Employment Credit. This is a new tax credit on employment income of up to $500 effective July 1st, 2006. The credit will recognize employee work expenses for things like home computers, uniforms, and supplies. The credit essentially gives Canadians a break on the costs associated with incurring employment income and helps to reduce the inequity between employees and the self-employed when it comes to writing off work-related expenses. The tax credit on eligible employment income will double to $1,000 effective January 1st, 2007.

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