Finance for Life™

Finance for Life. Wealth for Living.™

When Permanent Insurance Makes Sense

As the children get older and move out on their own, and your mortgage and other debts are nearly paid off, the need for life insurance capital designed to replace income for dependents decreases.

You May Still Need Some Life Insurance It may be time to consider converting your term insurance to a permanent plan which can provide ongoing coverage in the event you "outlive" your term insurance. Make sure that your term insurance doesn't expire before you do. Permanent insurance can do one or more of the following:

- Provide cash to equalize an inheritance
- Provide cash for a surviving spouse
- Preserve your estate
- Pay for final expenses
- In some cases you can access your cash from permanent life insurance policies that allow accessible funds to grow within the plan

Mitigate Term Rates that will increase Term policies get increasingly more expensive with time since the premiums are based on age. Verify your policies' renewal rates, and find out the cost at each renewal period. It may also be prudent to verify if your term policy has the option to convert to whole life or universal life.

Conversion Needs No Medical Underwriting The advantage of converting a term plan is that no medical underwriting is necessary, meaning you don't have to qualify that you are in good health. Some people opt to keep a portion of the convertible term while combining permanent coverage that lasts an entire lifetime.

What You Should Review If you are considering making a conversion and are in your fifties, this might be a good time to call your insurance specialist. At the same time examine:

- All of your estate planning needs
- Your will or trust, investments, potential estate taxation, life insurance policies, bank accounts, retirement accounts
- Health-wise, make sure you have a medical power of attorney or durable power of attorney
- Confirm you have beneficiaries up to date

Mitigating Your Estate Tax Liabilities

Plan to reduce taxes in your estate When transferring your assets using a will, try to pass as much value as possible to your heirs. If you hold equity investments such as stocks, they may have accrued capital gains. There will be a deemed disposition of all your property at fair market value at the time of your death. For some, this could mean a capital gains tax liability. Note: Capital gains in the estate can be offset with previously unused capital losses.

Deferral of Spousal Tax Property willed to your spouse can be rolled over tax-free on your death. Your spouse will actually inherit the assets at the adjusted cost base (cost amount) of the property. The taxation of the asset will then occur when your spouse either disposes of the asset, or at the death of the spouse. This tax deferral is beneficial especially if you have large holdings in equity investments. Alternatively, you can choose to transfer any asset to your spouse at fair market value on death and recognize the accrued gain or loss.

Income splitting using a testamentary trust By establishing a testamentary trust in your will, you will be able to maintain control during your lifetime over the use of your investment assets, but set conditions within the trust when you pass away to ensure that the assets are used according to your wishes. The trust can provide preferential tax treatment as it is considered a legal tax entity and pays tax on income as an individual would. After-tax income can then be distributed to beneficiaries of the trust. Make sure you consult with a qualified tax specialist on Trust matters.

Know your estate tax liability List each separate asset you own, the purchase price and date, as well as its current value. Include your non-registered investments in stocks, bonds, and equity funds, and have your accountant assess what your tax liability will be. Permanent Life Insurance proceeds, if pre-planned, can pay for tax liabilities within the estate.

Business Owners: Universal Life Estate Planning Strategies

Business estate planning requires careful consideration, yet is essential to provide maximum benefit to your heirs. Universal Life Insurance can be designed to protect your business assets. If you own a business and die, will your partners be able to pay for your share of the company? You can insure your life, and the lives of the other partners and key employees. The death benefit of the policy can create immediate capital to take the business through the transition of losing one of its leaders, while allowing surviving partners to buy out the outstanding interests (payout share ownership of the deceased partner, using a buy-sell agreement), pay off creditors or in the case of the key person, provide headhunting monies to replace him or her.

Business owners can protect spouses. If a spouse who was not active in your company survives, chances are he or she would rather be paid cash for the value of their shares and leave the running of the business to the surviving children or partners. It is difficult for executors to make sure that a wife, for example, is paid enough money to live on if she continues to hold share ownership in a company. In some cases, surviving spouses constantly need to be updated on the business's finances and performance, and all too often have issues getting their due income. An insurance policy could rid the executors of the responsibility of ensuring that the company's remaining owners pay the spouse. The insurance benefit could be paid directly to the spouse or flow through the business or the business partners as per a pre-established buy-sell agreement.

Who is the tax-advantaged plan designed for? As with any life insurance policy, it is designed to pay beneficiaries a tax-free benefit upon the policy-owner's death. That is the main reason to buy such a life insurance policy.