

permanent policies

reduced investment volatility

tax-free death benefit whole life

enhanced intergenerational wealth transfer

tax-exempt investment growth

## Life insurance tips for the wealthy

**P**aul Tompkins of Tompkins Insurance Service Ltd. is a lawyer and well-recognized life insurance industry leader who has provided insurance planning solutions for high net worth (HNW) families across Canada for over 20 years. He answers our questions about the role life insurance plays in strategic financial and estate planning, and how it fits in the portfolios of HNW families.

### What are some of the key ways in which life insurance enables HNW financial planning strategies?

Typically, life insurance is used by Canadians to provide an estate or to replace the loss of income that occurs upon death so that their families are taken care of financially. However, the unique features of life insurance make it a valuable financial tool beyond these traditional purposes. For example, permanent policies – such as whole life and universal life – provide tax-exempt investment growth, along with other significant benefits.

Life insurance can form part of a non-registered investment portfolio, especially for high net worth families. The investment rate of return of the tax-free death benefit is very attractive, providing a way to generate an enhanced inter-

generational wealth transfer. The cash value in the policy is an asset, whether the policy is owned personally or by the insured person's company. If required, this cash can be accessed during his or her lifetime.

The underlying investment fund of a whole life policy has a long history of providing stable rates of return from its conservative mix of bonds, mortgages, real estate and equities. Unlike other investments, the returns in the whole life policy are smoothed over time, resulting in reduced

### How is life insurance helpful in the succession planning of family-run enterprises?

Canada's tax system imposes a capital gains tax at death, based on a "deemed disposition" of assets that are subject to capital gains. If parents want to transfer the shares of their family business to their children, those shares will be subject to capital gains tax. The options to pay this tax liability are to use cash reserves, sell assets, borrow – or use life insurance, which is typically the least costly option.

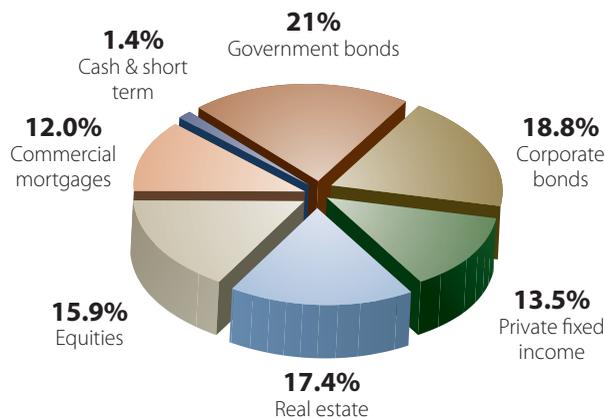
### What are some of the considerations that Canadians should keep in mind when choosing a life insurance adviser to assist with these sophisticated strategies?

Trust is crucial. You want an adviser who provides you with honest, well-thought-out advice, and presents all available options. Look for someone who can provide independent advice, a high level of product knowledge and a track record of excellent policy service. He or she should be able to explain the insurance options in a clear and concise manner and recommend a suitable low-risk strategy.

The best insurance advisers apply both expertise and creativity in designing individualized, insurance-based solutions. Extensive experience in underwriting life insurance is essential, particularly for larger face amounts, because of the sophisticated nature of these policies.

Finally, sometimes there is a need for advice and counsel on matters other than taxes and investments. An insurance adviser who has a deeper understanding of these complex family issues, such as someone with a Family Enterprise Advisor designation, is a definite asset.

### A Sample Whole Life Investment Fund



investment volatility.

Finally, a life insurance policy can be combined with a life annuity to create a high-yield investment opportunity, known as an insured annuity. This is best suited for people over 65 with non-registered assets.

Aside from funding tax liabilities, life insurance can be used to provide funds to buy out members of the family who no longer wish to remain shareholders, thereby consolidating ownership.

For more information or to contact Paul Tompkins, visit [tompkinsinsurance.com](http://tompkinsinsurance.com).

