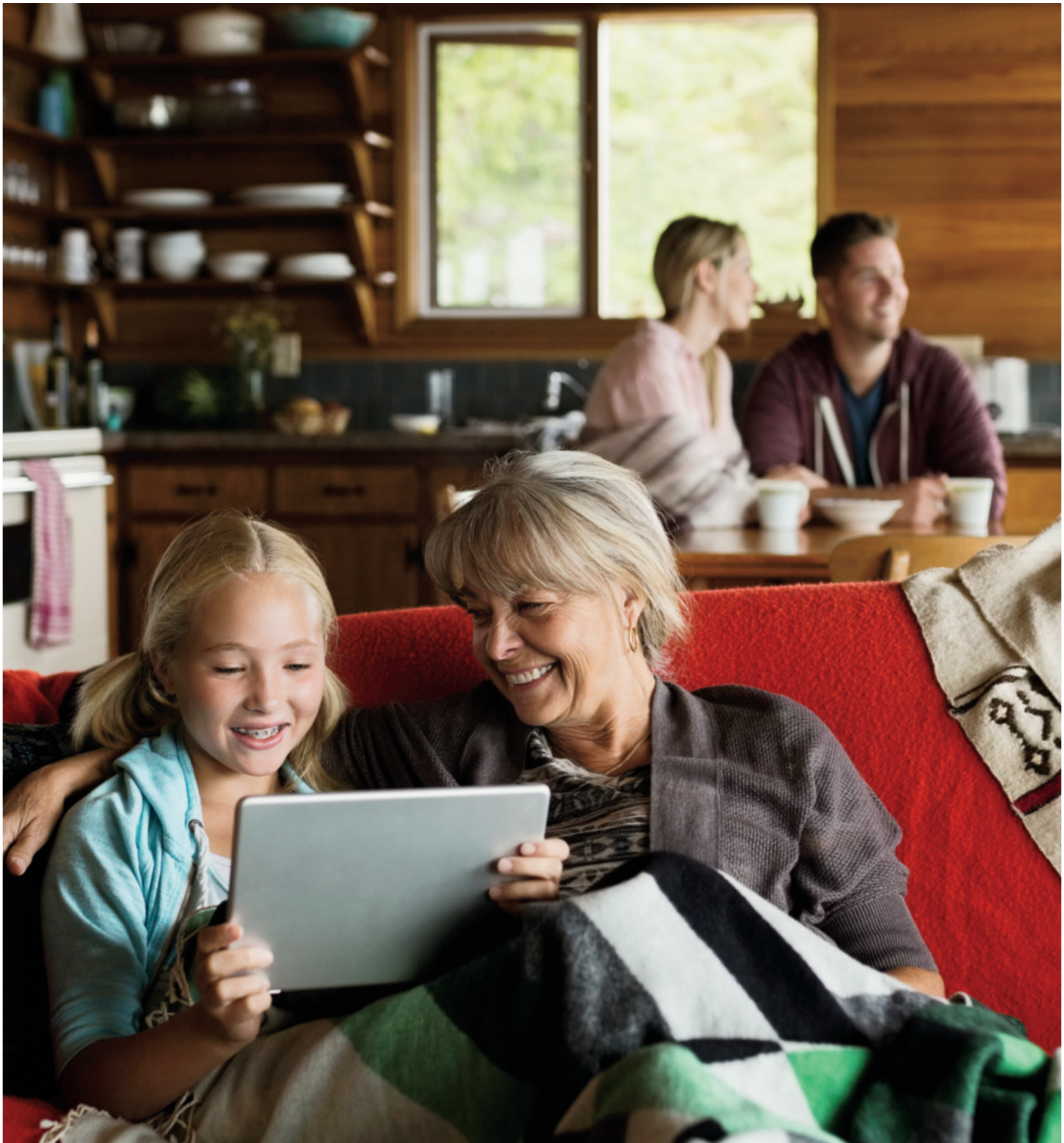
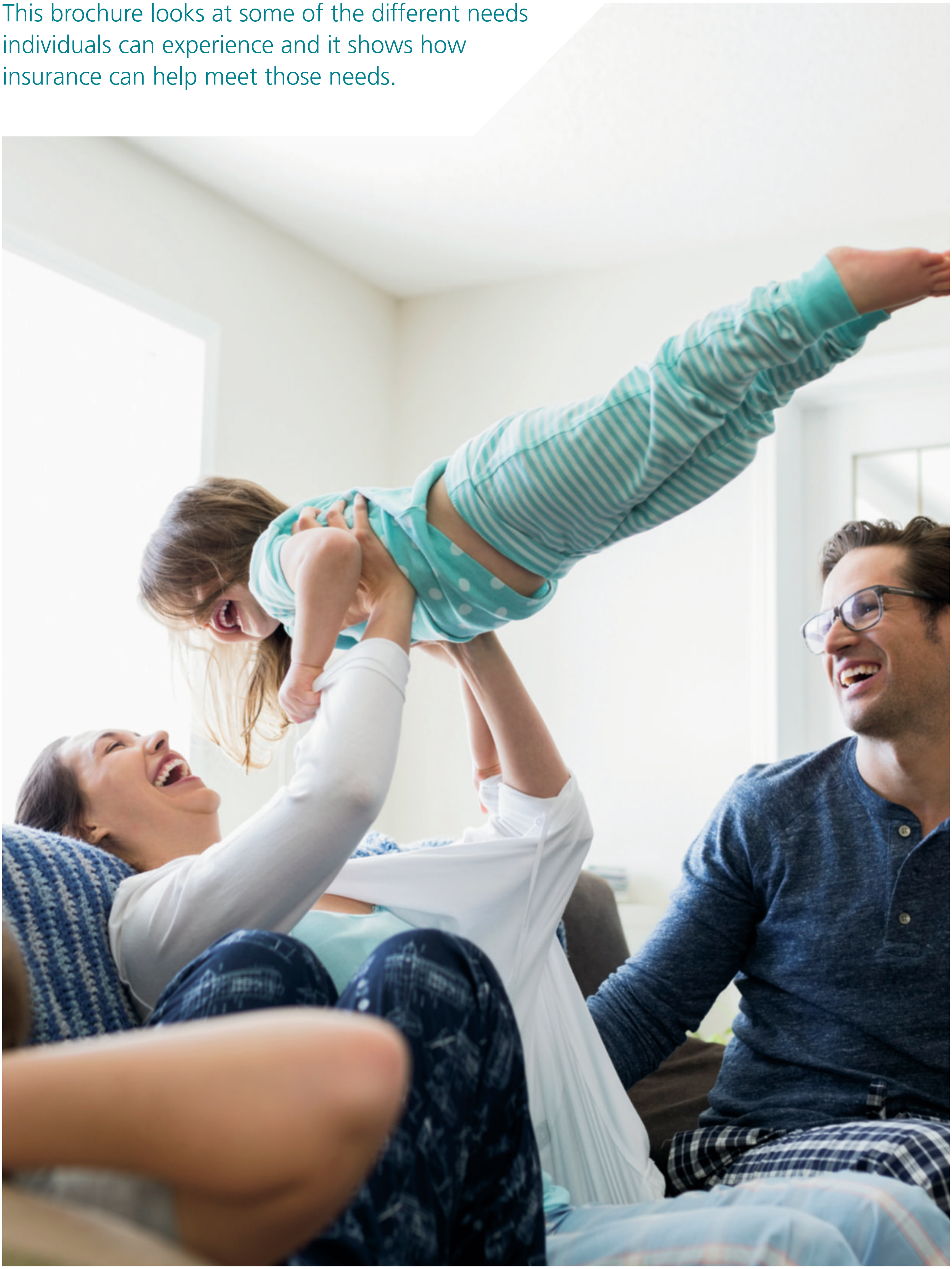


Insurance solutions for individual needs

THE MANUFACTURERS LIFE INSURANCE COMPANY

Manulife Insurance

This brochure looks at some of the different needs individuals can experience and it shows how insurance can help meet those needs.



Leaving a Legacy at Death

You've told us that one of your biggest challenges is to help your clients find financial solutions that keep pace with their varied and changing needs. You look for solutions that bring stability to situations where they could be vulnerable and that help them meet their financial goals for the future.

Life insurance's most obvious and significant benefit is the lump sum payment it provides when the insured person dies. This lump sum is paid directly to the beneficiary designated in the life insurance policy and it's not taxable.

The specific need this lump sum payment addresses will vary with your clients' needs, which could include protection for surviving dependants, estate preservation or creation and funding to ensure that an estate is distributed equitably.

Protecting dependants

The most common use of life insurance is to protect a person's dependants. If that person dies, his or her dependants could have to deal not only with the loss of a loved one, but also the loss of that person's present and future income.

The tax-free, lump sum payment a life insurance policy provides can replace the deceased person's earnings, pay debts and other liabilities, and cover education costs and daily living expenses.

In fact, a court often mandates this protection when a couple separates or divorces. The court can require that life insurance is in place to ensure that financial support for dependants continues after an individual dies.

In addition to making sure their dependants are protected financially, your clients can actually set the terms and conditions of how the life insurance proceeds will be paid after they die. Your client can instruct his or her Trustee to distribute the proceeds in a way that ensures the timing and circumstances are appropriate. This is particularly useful in situations where intended beneficiaries are minors, mentally incompetent or simply not capable of prudently managing their own financial affairs.

Another way your clients can ensure their dependants are taken care of after they die is by choosing a specific settlement option when they purchase their policy. These settlement options offer alternatives for how the death benefit is paid. For instance, your client can specify that the lump sum death benefit payment will be put into an annuity. This annuity would then pay installments to the beneficiaries over a period of time.

Estate preservation

Another use of life insurance proceeds is to pay debts, tax liabilities and other estate costs so the estate's assets don't have to be eroded or borrowed against to cover these expenses.

In the following paragraphs, we discuss some of the financial liabilities that can threaten your client's estate and how life insurance can help protect the assets your client worked so hard to build.

1. Capital gains taxes

Life insurance can provide funding to pay for capital gains tax that your client owes. Here's a quick look at how this works.

When a person dies, the Canadian Income Tax Act (ITA) considers them to have disposed of each capital property they own. The ITA specifies that this disposition took place immediately before the person died and at a price equal to the fair market value of their property at that time.

Capital property includes depreciable and non-depreciable property. Shares of a corporation, partnership interests, mutual or segregated fund units, and cottage properties and land are examples of non-depreciable capital property. Examples of depreciable capital property include machinery, buildings and business vehicles.

When your client dies, a capital gain will be realized for tax purposes. The amount of this gain will be the difference between the fair market value of their property and the property's adjusted cost base (ACB).

Fifty per cent of the capital gain must be included in the deceased's final income tax return. This can be offset by any remaining capital gains exemption that your client is eligible for, but only if the property in question consists of "qualified small business corporation shares", "qualified farm property" or "qualified fishing property", as defined by the ITA.

Any taxable capital gains that are not sheltered by the capital gains exemption will be subject to tax in the deceased person's terminal return.

In addition, if your client owned depreciable capital property, the final income tax return may need to include recapture of capital cost allowance (CCA). Recapture is equal to the amount by which the lesser of the cost of the property or its fair market value immediately before death exceeds the property's undepreciated capital cost (UCC). This amount would be fully taxable as regular income.

Your client can purchase life insurance to provide money to pay the tax liability resulting from capital gains and recaptured depreciation. This becomes even more critical if your client's beneficiaries will want to keep the property or if there's a chance that market conditions won't provide the estate with enough money to cover the property's fair market value.

And what if the tax payable due to capital gains and recaptured depreciation is deferred beyond your client's death? This happens when the property in question is passed on to your client's spouse or common-law partner. The tax would then have to be paid when the spouse disposes of the property or dies.

Joint-last-to-die insurance may be used to fund the tax liability resulting from capital gains and recaptured depreciation triggered at the death of the surviving spouse.

2. Registered plans and tax liabilities

Your client has saved carefully over the years and gets a great deal of satisfaction in knowing that the money will be passed on to his or her heirs. But will it?

When your client dies, any registered funds he or she owns will create a tax liability for the estate. Life insurance offers an effective way to offset that liability.

How does it work? When your client dies, the Income Tax Act considers registered funds to be disposed of at their fair market value. This applies to both registered retirement savings plans (RRSPs) and registered retirement income funds (RRIFs).

This amount will be included as regular income and it is fully taxable in the year of death, unless it is rolled over to a spouse's or common-law partner's RRSP or RRIF, or to a RRSP or RRIF for a child or grandchild who is financially dependant upon the deceased, or to an eligible annuity for the child or grandchild.

Life insurance is an effective solution for bringing registered funds into income, regardless of whether the tax liability is triggered by your client's death or his or her spouse's. Joint first-to-die or joint second-to-die policies offer solutions structured to your client's particular situation.

3. Estate taxes

You may have clients who will be liable for estate taxes in other jurisdictions when they die. For example, the United States imposes estate taxes (income and gift taxes) on its citizens' worldwide assets, regardless of where they live.

But you will want to be cautious in these situations. The laws of the jurisdiction should however be carefully reviewed and professional advisors in the foreign jurisdiction consulted to ensure that appropriate planning occurs.

4. Probate fees and other estate costs

Life insurance can provide the funding that you and your clients estimate will be needed to cover probate costs as well as other estate costs. Other estate costs could include funeral and burial expenses, estate administration costs such as executor fees, valuator or appraiser fees, and legal and accounting fees.

Probate validates a deceased's will and confirms the appointment of the executor by confirmation of the court. The probate fees are based on the value of the estate and vary from province to province. Ontario and British Columbia currently have the highest probate fees in the country, while Alberta has capped its probate fees and Quebec has a nominal fee.

The estate may be liable for probate fees in more than one province. Unfortunately, there is no mechanism to credit fees paid in one jurisdiction against fees owing in another jurisdiction.

Naming a beneficiary in a life insurance policy or an annuity contract is one way to avoid probate fees. Life insurance proceeds are paid directly to the named beneficiary and do not form part of the assets of the estate for valuation purposes.

It's important to keep in mind that this approach won't work if the insured's estate is named as the beneficiary under the policy.

The most common use of life insurance is to protect a person's dependants. If that person dies, his or her dependants could have to deal not only with the loss of a loved one, but also the loss of that person's present and future income.

In addition to making sure their dependants are protected financially, your clients can actually set the terms and conditions of how the life insurance proceeds will be paid after they die.

5. Building and preserving an estate

As we all know, it's not easy to accumulate money and it's even harder to amass significant funds to leave behind to heirs.

Because an exempt life insurance policy's proceeds are paid tax-free to the beneficiary, life insurance can be an efficient way to create an estate and to transfer wealth to later generations.

Investing money into an exempt policy can potentially provide more funds to heirs than would be the case if the funds were invested outside the policy. This is because growth on funds invested outside the policy is generally subject to annual accrual taxation.

Life insurance is often used to replenish an estate so that debt does not erode funds that were intended for beneficiaries. If life insurance proceeds are used to pay the estate's debt, the estate itself can be left fully intact for beneficiaries to receive their share.

During their life, some people choose to donate property to a charity and they then receive tax credits for that donation. To make sure the estate is not depleted by a charitable donation of property, the donor can purchase life insurance to replace the donated capital.

Life insurance can be used to facilitate the equal or equitable distribution of an estate among beneficiaries. A common example is where an estate includes shares of a family business that will be distributed only to family members who are active in that business. Often, the business is the estate's major asset and the amount remaining for family members who aren't involved in the business is significantly less.

Life insurance can provide a lump sum to the family members who don't have an interest in the business to ensure a fair inheritance.

Creditor protection

Some people are interested in protecting their assets from creditors' claims. Life insurance can offer this protection, depending on provincial laws and how the policy is set up.

In the common-law provinces (all provinces except Quebec), provincial legislation protects an insurance policy from being seized by the owner's creditors as long as one of the following has been named the policy's beneficiary: the life insured's spouse (depending on the province, this may include a common-law or same-sex partner), child, grandchild or parent.

In Quebec, creditor protection is based on the relationship between the owner of the life insurance policy and the beneficiary. If the beneficiary is one of the owner's ascendants or descendants, then the policy's assets are protected from creditors.

If a beneficiary is named irrevocably, the policy will be exempt from seizure by the owner's creditors. Where there is a named beneficiary other than the estate, the death benefit passes directly to that beneficiary and is not subject to creditors of the insured.

Withdrawals, policy loans and leveraging

Once a significant cash value has accumulated within an exempt life insurance policy, it can be used to supplement the owner's retirement income or provide funding for other needs.

The cash values within the policy may be accessed directly through a cash withdrawal or policy loan. These transactions would be considered dispositions of the policy and are potentially subject to taxation.

Even if the withdrawal or policy loan is taxable, there still may be a tax advantage to investing in life insurance. This is because of the potential to accumulate more in an exempt life insurance policy than if the same funds had been invested in a traditional investment that is subject to annual taxation.

Leveraging is another option that allows the policy owner to access the value within the policy without triggering the tax consequences that often accompany a disposition. It involves creating an income stream by using the life insurance policy as collateral security for a loan.

Collateral insurance

Life insurance can also help your clients get a loan from a lending institution. Lenders will often require a life insurance policy as collateral security for a loan.

Under this arrangement, the borrower is the life insured under the policy. If he or she dies, the lender is assured that the debt secured by the policy will be repaid quickly.

When a policy is purchased for this purpose, the lender will require that it be collaterally assigned. The borrower owns the policy and has the right to name a beneficiary. The collateral assignment assures that the death benefit proceeds will first be used to repay the lender, with any remaining amount paid to the designated beneficiary.

Depending on how the borrowed funds are used, the life insurance premium may be deductible for tax purposes.

Intergenerational wealth transfer

A life insurance policy can serve as a vehicle for transferring accumulated wealth to the next or succeeding generations while your client is still alive. This is possible because, under specific conditions, ownership of a life insurance policy can be transferred without triggering tax consequences.

To qualify for this treatment, the interest in the policy must be transferred for no consideration to the policy owner's child. In addition, the policy owner's child or a child of the transferee must be the life insured under the policy.

In regulating this tax-free transfer, the Income Tax Act's definition of child includes grandchild, great-grandchild, a spouse of a child, a child of the person's spouse or an individual under 19 years of age who is wholly dependent on the policy owner for support and is in his or her custody for the relevant time.

The Act also allows a tax-free rollover of a policy to a spouse at death. For the rollover to apply, both the policy owner and the spouse or common-law partner (or former spouse or common-law partner) must be resident in Canada.

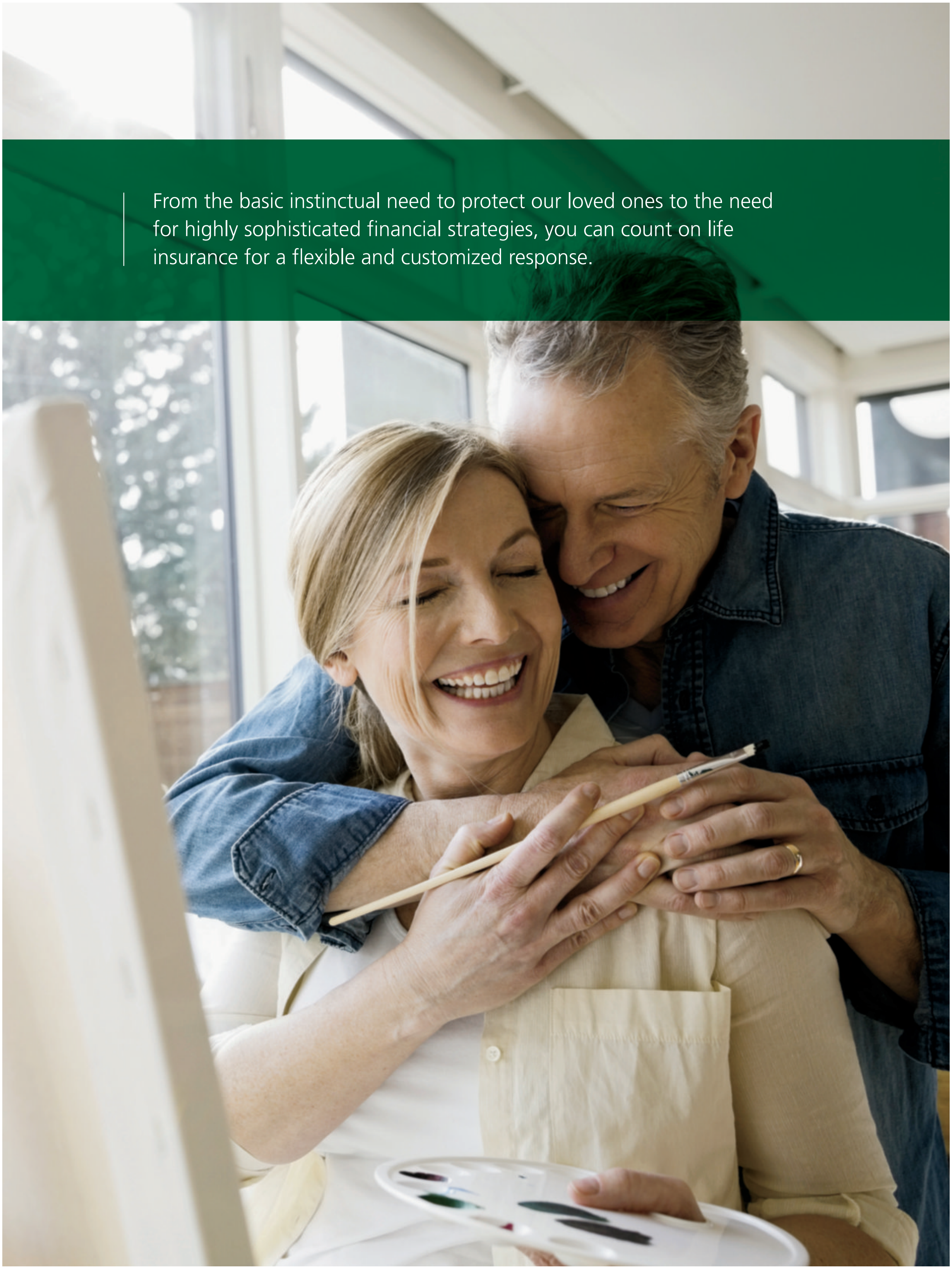
Other personal insurance strategies

Life insurance can be purchased by an inter vivos family trust for the benefit of the beneficiaries of that trust. The benefits of having the family trust invest in a life insurance policy include avoidance of the 21-year deemed disposition rule and no annual income to allocate to the beneficiaries.

Another strategy that uses life insurance is a split dollar arrangement between family members. One family member may need a permanent, level amount of insurance to pay a benefit when they die, while the other may need a tax-efficient investment vehicle. They purchase a policy jointly and enter into a formal split agreement. Each person would pay a portion of the premium for the benefit they receive.

Your clients come to you with their hopes and their dreams… for themselves and for future generations.

From the basic instinctual need to protect our loved ones to the need for highly sophisticated financial strategies, you can count on life insurance for a flexible and customized response.



Conclusion

Life insurance provides a solid financial solution to a wide variety of needs. From the basic instinctual need to protect our loved ones to the need for highly sophisticated financial strategies, you can count on life insurance for a flexible and customized response.

And it's a lasting solution that won't grow stale with time. The same life insurance policy can often be adjusted to transition with your clients as their needs change.

Your clients come to you with their hopes and their dreams … for themselves and for future generations. It's an incredible responsibility and one that becomes considerably easier when you understand life insurance's versatility and the many ways it can help them reach their goals.

For information on how Manulife's products
can meet your clients' needs, log in to Repsource

MK2673E 09/18