INSURANCE FOR WEALTHY CLIENTS

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Life insurance is an important financial instrument in the estate planning of a business owner.

Many issues can be effectively covered by life insurance, including payment of taxes due to capital gains, liquidity concerns, estate equalization issues as well as debt elimination and cash for family security.

There are, however, many types of life insurance. Some are suited for short-term planning while others are more appropriate for long-term and estate-planning purposes. It's essential to know what's available to best meet your family's needs and plan your wealth.

TERM INSURANCE (RENEWABLE AND CONVERTIBLE)

- Term insurance is temporary coverage under which premiums are guaranteed and remain level for the term of the policy (e.g., 10 years, 20 years) and increase with each new term.

- These policies are renewable for additional terms with no medical evidence required, but usually not past age 70 or 75. If renewed, premiums increase with age and at some point higher premium costs may make it difficult or impossible to continue coverage.

- Coverage typically expires at age 8o or 85.

- Term policies are initially less expensive than permanent insurance and are suitable for short term insurance needs or specific liabilities like a mortgage or debt elimination. They can be converted to permanent insurance, without medical evidence, often up to ages 65 or 70.

- A disadvantage of term insurance is that if a premium is not paid, the policy terminates after 30 days and may not be reinstated if health is poor.

PERMANENT INSURANCE

- Permanent insurance has a number of policy types, including Universal Life, Whole Life and Term to 100.

UNIVERSAL LIFE

- Universal Life is permanent coverage that unites a term insurance product with a premium/ investment account. Because the two are combined in one contract, the investment portion receives the favourable tax treatment afforded to life insurance policies - investment earnings within the policy are exempt from annual taxation.

- Charges for the term insurance portion are usually level and guaranteed not to increase for the life of the policy, regardless of age or health problems. Premium deposits to the policy may range from the minimum amount needed to cover the monthly cost of insurance and expense charges, to the maximum limits specified in the Income Tax Act.

- Amounts in excess of the minimum can be invested in guaranteed fixed options or directed to a number of separate accounts that operate like mutual funds and are linked to various stock or bond indices with greater risk and potential reward.

- The accumulating fund value is added to the death benefit and can be borrowed, used to pre-pay future insurance costs or continue protection if a premium is missed, or withdrawn if the policy is no longer required.

- Because the initial cost for universal life is higher than term 10 or term 20, it may be most suitable as a means of covering longer term or permanent insurance needs including estate liquidity requirements and capital gains tax payments at death.

- Coverage is for life.

TERM TO 100

- This type of term policy has fixed premiums payable to age 100. There typically is no cash built up in the plan and, as such, no reserves to pay future premiums.

- The advantage to Term to 100 is the coverage amount and premiums are fixed. The death benefit is payable to age 100 as long as premium payments are up to date. It is simple but not flexible.

WHOLE LIFE (PARTICIPATING)

- This is a traditional policy that fully guarantees the level of premiums you pay, the death benefit and the growing cash values within the policy.

- Dividends declared represent excess premiums paid over the costs required to fund the policy in a given year.

- These dividends are discretionary to the insurer.

- There are a number of options in structuring a whole life plan, including using the dividends to purchase additional coverage, taking the dividends in cash or leaving them on deposit.

- The death benefit includes the face amount of coverage plus any dividends or paid-up additional coverages.

- Coverage is for life.

- Note, there is also non-participating whole life insurance, where the insurance company takes on the, whole risk of all risk of future performance versus the actuaries' estimates.

For an individual or business owner considering the purchase of life insurance, it is important to consult with a qualified life insurance advisor. Consideration should also be given to designing a plan with some flexibility as not too much in today's world goes in a straight line and as such, the ability to adjust your insurance program in the future can prove extremely valuable.

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