



Permanent Life Insurance: A Powerful Tax Shelter For Select Investors

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Many of us think about life insurance as a product we buy when we have a mortgage or dependents and the insurance payment would provide money during times of catastrophic loss of the person insured. Life insurance protects our loved ones.

But did you know that another form of life insurance called “permanent life insurance” can actually work more like a tax smart investment and offer sizeable tax advantages compared to other types of investments?

Permanent life insurance has been around for decades and the tax benefits are long established. But the reasons you buy this type of life insurance and who should buy it are much different than regular life insurance purchased to protect family.

Advantages of a Permanent Life Insurance Policy

Tax breaks unique to life insurance policies in Canada have been included in the Income Tax Act for many years. But these tax breaks may not be well known to you until now because so few Canadians “fit” the lucrative tax reduction opportunities associated with life insurance.

Here are the main tax breaks and advantages:

- Life insurance is tax free when it is paid out on death. Other than cash, there is arguably no other form of investment that offers such a clean transfer of wealth to heirs. No income tax. No probate fees. No legal fees. Life insurance death benefits definitely maximize the amount of your net worth that you wish to transfer to beneficiaries.
- Permanent life insurance allows you to invest cash yearly inside the insurance policy alongside the death benefit of the policy itself. The insurance company will provide guidance on exactly how much you can save inside the policy, but it can be substantial. The key perk: the earnings and growth of these investments also grows tax free inside the insurance policy. This means you don’t pay tax every year on the growth of investments inside the policy so therefore you will accumulate more for your estate. This tax deferred growth of money you put inside the policy coupled with the tax free payout on death can create a massive transfer of tax free wealth to your heirs that may not be achievable using traditional investments like stocks, bonds, GICs or mutual funds.
- Permanent insurance policies have a long history of providing exceptional investment returns on money invested inside the insurance policy – in both good years and in bad. Investment returns that will pay out tax free on death provide a very high after-tax rate of return. We reviewed the historical results of the



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dividend scales offered by Canada Life and Manulife Financial to find they have not fallen below 6% a year for more than twenty years. Through a smoothing mechanism unique to certain insurance policies, investment returns offer very consistent positive returns even in negative stock market years. These policies offer stable, steady results that cannot be negative. I have attached a summary of these returns to this letter and highlighted the historical returns. Simply put, even if you don't like insurance policies, you may be hard pressed to match the strong and consistent returns they have offered in the past – remember, there is also no income tax on these returns – potentially ever!

- Permanent life insurance can provide some particularly attractive tax benefits when a policy is purchased inside a corporation where there is built-up money. On death, the money in the corporation could face heavy taxation to get the money out of the corporation. But if you instead place the money inside a life insurance policy within the corporation, much more friendly tax breaks unique to life insurance may result in the corporate cash coming out of the corporation tax free on death. This is only possible through the use of a life insurance policy.
- There are many more specialized advantages of permanent life insurance beyond discussion of this paper but worth noting:
 - Buying permanent life insurance on young children can provide tax deferred money for future schooling needs.
 - Buying life insurance involving grandchildren can provide generation-skipping tax advantages of moving wealth tax free between family members.
 - Permanent life insurance is a very targeted and controlled way to leave money as an inheritance in family trusts for special needs family members, people in shaky marriages, and spouses where you fear remarriage after your death.

Who Should Consider Buying Permanent Life Insurance?

Permanent life insurance is not suitable for most Canadians. It is ideal for some Canadian investors:

- People who have more money for retirement than they need; people who can then place some of their extra savings in an insurance policy to access the tax breaks.
- People who have already taken advantage of traditional tax shelters like RRSPs and personal residences, have achieved spousal income splitting and generally are in higher income tax brackets.
- People who have a well thought out estate plan and a personal goal to leave their heirs wealth in the most tax efficient way possible.
- People who prefer a hands-off investment style and are prepared to rely on an insurance company to manage at least some of their investment money.
- People with specialized needs for liquidity provided by life insurance on their death. Life insurance will create more liquid capital that can be used to fund tax liabilities associated with small businesses or expensive real estate.



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"Expertise, integrity and leadership in Wealth Management"

Why You Should Only Rely on My Team and Me for your Permanent Insurance Needs:

Permanent life insurance is very complicated and similar (but different) products are offered by more than ten insurance companies in Canada. Not all of the companies offer all of the tax benefits discussed in this paper. As a Chartered Accountant that specialized in tax, as a Chartered Life Underwriter (Canada's highest credential for life insurance expertise), and as your family advisor that knows you well, I am best suited to help you create the right life insurance product fit. Together we can design the right policy, shop all the various insurance companies and design a solution that will correctly maximize the opportunities described in this paper.

Call us today at 416 628 5761 Ext 0 to discuss permanent life insurance further.



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