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Demystifying the Benefits of Universal Life Insurance

With a permanent Universal Life Insurance (UL) policy, there are many options and tax advantages available within the plan. Death benefits may vary, funds can be invested in tax-sheltered accounts, cost and types of insurance can be manipulated – all to the benefit of the consumer's goals!

What are the primary benefits of Universal Life (UL) for Estate Planning?

• **The death benefit is adjustable.** The amount of life insurance can be increased or decreased to reflect an insured's changing needs, and there are multiple options available when creating a plan. Typically, a person will choose an increasing death benefit that will pay out all life proceeds as well as any cash in the plan at time of death. Or, a person could choose a plan that pays out the death benefit as well as all premiums paid into the plan. This option ensures that family assets will not be eroded due to premium payments for the life insurance policy. A person may also choose a level death benefit, however the advantages of this structure are limited. Or, if a person feels over insured, or does not require their current amount of insurance on their policy, they can simply reduce the death benefit. In the end, a policy's death benefit can be structured to suit the needs and goals of the insured.

• **Insure multiple lives in a UL plan** Several lives can be insured or added to one plan, including a spouse and children. Business associates may also be named as multiple insured's on a business policy.

• **Special riders can be added** In some cases, term riders can be added to the policy, allowing for a structured policy that addresses insurance needs now and in the future. For example, you can design a policy with permanent Universal Life insurance as a base amount, then add a Term 10 or Term 20 rider.

• **Disability riders can be added** Policies may provide a disability rider called a waiver of premium. Upon disability, the policy premium can be waived until such

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a time as the person is no longer disabled.

• Create capitalized income for a surviving spouse Life insurance proceeds can be structured as an annuity, thereby providing lifetime income for the surviving spouse.

• Capital creation can be deferred Alternatively you can arrange to have the death benefit paid after the second spouse's death to maximize the value of your family's inheritance or meet your estate's tax liabilities. These policies are typically called Joint Last-to-Die policies.

• UL works to protect you from the potential tax liability of your estate. Life insurance can have definite benefits to your estate! This type of planning should be done with a qualified tax advisor, CA, or financial advisor specializing in estate taxation. You may also want to seek counsel from an estate-planning lawyer. The best estate-planning solutions are most often insurance-related because life insurance is designed to pay a large capital benefit at precisely the time it is needed.

• Mitigate tax erosion of the value of a significant estate. If you own stocks and bonds, equity mutual funds, a family cottage, a second residence, or business assets you may face capital gains taxation in your estate. Upon death, taxes will also be due on funds remaining in an RRSP/RRIF (after the death of both spouses in the case of a married couple). One policy can replace or pre-fund such taxes due. With a joint last-to-die policy, the insurance proceeds can be used to cover the estimated estate taxes. The advantage is that one's entire pre-tax estate valuation can pass, as desired, to the family heirs.

• Circumvent probate and/or your estate administration tax (EAT). When the tax-free benefit is paid directly to beneficiaries, there is no need to probate this money or have it reviewed by the government. In fact, other beneficiaries have no recourse to complain about monies paid to heirs in this manner. Depending on the province, such legislation may be under review or currently changing.

• Tax advantages A UL policy owner can earn and accumulate tax deferred interest to potentially increase the after-tax yield of your investments and policy cash value over the long term. The UL deposits are protected from secondary annual taxation on interest earnings until withdrawn.

• Premium payments are flexible. You can pay what is referred to as a minimum premium. If you want to pre-fund the policy with more money, you may be able to increase your annual premium on a monthly, annual, or occasional lump sum basis, up to a specified maximum. A maximum premium is calculated and pre-set in order to keep your policy exempt from accrual taxation. Once your cash value increases, you may be able to reduce or skip premium payments altogether, without jeopardizing insurance coverage, while the cost of the premium (insurance, administrative charges, any additional benefits, and riders) is eventually paid from within the plan. A well-funded policy's money reserve (cash account) can continue to grow even as it pays for the cost of insurance.

• Borrow against cash account's reserves. The cash surrender value (CSV) is just another name for the remaining cash in the policy. For example, if you had $100,000 in a policy’s tax-exempt fund, you would be able to borrow against it or withdraw it with some potential taxation.

• Business owners can protect their asset value. The death benefit of a UL policy can create immediate capital to take the business through the transition of losing one of its leaders, or key employees, while allowing surviving partners to buy out the outstanding interests via a payout of the share ownership of the deceased partner. This is commonly done within the framework of a well-structured buy-sell agreement.