Family Wealth Transfer Strategy

The Family Wealth Transfer Strategy from ivari offers clients an affordable, efficient way to provide an inheritance for their children* while maximizing the value of their financial gift in a tax-efficient manner. By using a universal life insurance policy as the vehicle to transfer non-registered assets, your clients immediately increase the value of their estate by minimizing income taxes and bypassing probate and estate fees. All while providing their children with valuable:

- Lifetime insurance protection, and
- Tax-deferred fund growth.

*The term "child" has an extended definition that generally includes, among other persons, the individual's children and grandchildren (by birth or adoption), the children or grandchildren (by birth or adoption) of the individual's spouse or common-law partner, and the spouse or common-law partner of a child of the individual. To determine whether any particular individual is a "child" of another individual for purposes of applying subsection 148(8) of the Income Tax Act, the relationship between the two individuals should be reviewed on a case-by-case basis.

Creating a valuable gift

When meeting with clients, asking them the following questions will help you decide whether or not the Family Wealth Transfer Strategy from ivari is right for them. If any of these goals are a priority, then they should consider this strategy.

Ask your client if they would like to:

- Provide financially for the future of their children?
- Reduce the tax consequences of giving money to their children?
- Maintain control of their assets until their children are ready to receive this gift?
- Provide an inheritance for their children that is affordable?
- Provide a gift for their children while they are still alive?

A gift for every stage of their life

Unlike traditional insurance solutions that provide benefits upon death of a parent, or grandparent, the Family Wealth Transfer Strategy is built around a universal life insurance policy on the life of the child.

By insuring the life of the child with a policy, clients:

- Invest in a valuable, tax-efficient product that can be passed on to the child while bypassing costly probate and other estate-related costs
- Provide their child with a lifetime of insurance protection as well as benefits they can access for important life events such as post-secondary education, a wedding or home purchase
- Lock in the insurability of the child for life

Flexible coverage that offers a wealth of extras

Along with creating a valuable gift for your children, the Family Wealth Transfer Strategy provides your client with complete control over the funds in their policy until the policy is transferred to the child. Once transferred, the child becomes the policyowner and they can:

- Withdraw money from the policy at their marginal tax rate without the application of attribution rules** (provided the child is at least 18 years of age)
- Use the funds for any purpose including post-secondary education, their dream wedding, or to help them purchase a home of their own
- Use the policy for a collateral loan
- Designate a beneficiary
- Maintain the policy for income and debt protection needs for their family

**Attribution rules under the Income Tax Act provide that interest and dividends (income) earned on investment property transferred to a minor family member will be attributed back to you (but not capital gains which is not "income").

Living Benefit for extra protection

This built-in benefit in our universal life insurance policy enables the policyowner, starting in the 6th policy year, to access the fund value of the policy if the child is disabled due to an “occupational disability” or “critical condition disability” as defined in the policy. For a Joint Last-to-Die policy, both your client and the child are covered as insureds.

Policy set-up

Setting up a policy under the Family Wealth Transfer Strategy is simple. The parent or grandparent purchases a universal life insurance policy on the life of the child and makes payments to it with a focus on fund accumulation. Payments into the policy in excess of the cost of insurance and expense charges will build a tax-deferred fund growth that will eventually be transferred to the child.

Your client can set up the Family Wealth Transfer as either a:

- Single Life policy: Your client is the policyowner and the child is the insured
- Joint Last-to-Die policy: Both your client and the child are the insured persons

Your client can directly transfer the policy and the tax-deferred accumulation in it to their child on a tax-free, roll-over basis*** either during their lifetime as a gift, or upon their death through a contingent ownership designation.

***Provided that the rollover requirements in section 148(8) of the Income Tax Act are satisfied and that the child is of legal age under the applicable provincial insurance act to own an insurance policy.

Your clients will have questions…you’ll have the answers	
What are my client’s options for setting up the Family Wealth Transfer Strategy?	The Family Wealth Transfer can be set up as either a: • Single Life policy: Your client is the owner of the policy and the child is the insured. Coverage is available for issue amounts as low as $25,000. • Joint Last-to-Die policy: Both your client and the child are the insured persons. This option allows the parent to provide a fully paid-up policy for the child, thereby truly creating intergenerational wealth. Joint coverage is available for issue amounts as low as $100,000.
How much can I invest by using this strategy?	Any deposit amount is allowed for the Family Wealth Transfer Strategy. However, only amounts up to the maximum premium can be deposited during a policy year. Amounts in excess of the maximum premium will be deposited into the Side Account, and taxes on interest earnings in the Side Account are payable each year.

Your clients will have questions…you'll have the answers	
Can the life insured be an adult child or grandchild?	Yes. The life insured can be the client's child, grandchild, great-grandchild, son-in-law, daughter-in-law or an individual who was legally dependent upon and in the custody of the owner when he or she was younger. While the age of the life insured does not matter, the client should consult an income tax professional to ensure that the life insured qualifies under the applicable Income Tax Act provisions.
Can my client own insurance on their child or grandchild?	Yes. However, considerations such as financial underwriting and other insurance coverage currently in place may be a factor in determining whether your client may own insurance on his or her child or grandchild.
Does the policy have to transfer to the insured child?	No. The transfer of ownership can be transferred to another child besides the insured child. For example, the life insured may be the grandchild and the policy may transfer from the grandparent to their child (i.e. the parent of the insured child). The new owner must be legally able to own the contract. In most provinces this will be age 16, and age 18 in the province of Quebec. Please check the applicable age restrictions in your client's province.
Will my client have full control of their funds?	Prior to transferring the policy to the child, the parent will have full control over the funds and are able to access them, if needed. Once the policy is transferred, the child becomes the new owner of the policy. If your client wishes to maintain control of the funds after transfer, they can choose to designate themselves as an irrevocable beneficiary, where the child may not access any funds without their consent.
If a contingent owner is named, will the client's estate pay probate fees when using this plan?	Maybe. If ownership is transferred upon death using a successive owner designation, assets within the plan may be passed outside the client's will, and probate fees will not apply. However, this will depend on your client's individual circumstances, so please consult an estate planning professional. Probate fees are not applicable in the province of Quebec.
How much insurance can be purchased?	Any amount of insurance can be purchased, depending upon the desired purpose and subject to underwriting considerations. For example, your client may wish to begin an insurance program for their children to maximize the death benefit rather than the tax-deferred accumulation.
Is the Family Wealth Transfer Strategy available on the ivari 360 platform?	Yes. You will find it under the Insurance Solutions. The Family Wealth Transfer Strategy illustration shows the benefits of universal life insurance policy specific to the concept and allows comparisons with alternative investment strategies.

Your clients will have questions…you'll have the answers	
Are there restrictions on the joint coverage?	Yes. For the Family Wealth Transfer Strategy only two lives can be insured on a Joint Last-to-Die policy. Since there can only be one life insured on the policy for the rollover to take place, the insured lives must be the policyowner and the child. It is critical for the child of the policyowner to be named contingent owner while the policyholder is still living.
How does my client transfer ownership of the policy to their child?	While your client is living, transfer of ownership may take place at any time on a single life policy, provided that the new owner can legally own the contract. (For most provinces, the minimum age is 16, and age 18 in the province of Quebec.) The child, as the new owner, will then have control over the policy and may withdraw funds as they see fit. If your client wishes to maintain control of their funds they can choose to designate themselves as an irrevocable beneficiary, where the child may not access any funds without their consent. For transfer on death, the parent designates the child as contingent owner while still living. The ownership of the policy will then be transferred automatically to the child upon the death of the policyowner. Upon death, the policy and all its value are transferred outside of the will and are exempt from probate and other estate-related costs.
Is Joint Life coverage right for my client?	Joint Life coverage, which involves a parent purchasing a Joint Last-to-Die policy with the child, is an important consideration for your client's goals and can result in a higher maximum premium room for tax-deferral. With Joint Life coverage, the parent makes deposits into the policy in order to build its fund value. Since the child is contingent owner and is the only life insured at the time of death of the parent, the policy automatically transfers ownership to the child on a tax-free rollover basis.

Consider your client's goals

Joint Last-to-Die with an Increasing Death Benefit

- In this case, on the death of the parent (presuming that he or she passes away first), the fund value would then be paid out to the surviving child as a death benefit without a taxable disposition, thus avoiding probate and other estate taxes.

Joint Last-to-Die with deductions to the first death, available with level cost of insurance

- The cost of insurance for this option is higher, however, this coverage can provide significant benefits to the surviving insured. Upon the death of the first insured, the policy is paid up with no further cost of insurance deductions and the tax-deferred policy funds can continue to accumulate.

ivari offers universal life insurance plans that provide valuable and flexible coverage with a wide range of investment options, a choice of death benefit options, riders, optional benefits and many other features your clients can use to customize their plan to their specific needs.

For more information on universal life plans from ivari visit ivari.ca.

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