The Broxterman Bulletin

Your quarterly financial planning newsletter

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The Broxterman Group of RBC Dominion Securities

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Welcome and thank you

A warm welcome to the clients who have recently joined us and thank you to the clients who mentioned us.

We also want to thank our existing clients for their continued loyalty to us.

The changing landscape of tax-exempt insurance

Legislation in the House of Commons will change the landscape for life insurance in Canada and these changes may affect policies you hold or intend to purchase in the near future.

Tax-exempt life insurance continues to offer Canadians the opportunity to mitigate financial risk while providing "exempt" investment choices – where annual investment growth is not taxed, within policy limits and while the investment remains in the exempt policy. These types of policies provide considerable flexibility for the amount and duration of funding, and for investment accumulation.

Exempt versus non-exempt insurance

Virtually all life insurance policies available in Canada are exempt policies. To qualify as such, the main purpose of the policy must be "protection-oriented" versus being savings-oriented. An exempt policy allows for investment (cash value) accumulation in the policy, which is not subject to annual taxation. A non-exempt policy is subject to accrual taxation on earnings. The insurer "tests" your policy to determine what amounts can be deposited to maintain tax-exempt status, and/or determine what portion may be exposed to taxation.

New legislation may affect exempt status

Included in the legislation were the changes to the assumptions used in determining the tax-exempt savings component of certain life insurance policies. Essentially, the legislation will:

- Reduce the maximum premium (and/or deposit) into an exempt life insurance policy

The legislative changes are set to govern policies sold after January 1, 2017.

- Lower permissible maximum cash value accumulation within an exempt policy
- Increase the taxable portion of income from prescribed annuity contracts

In effect, the legislation will impact one of the few tax-exempt savings options Canadians have beyond traditional registered accounts and Tax-Free Savings Accounts.

What does this really mean?

In short, the maximum tax-exempt savings room for the same policy (age, amount and other basic factors) will be lower after 2016. In a hypothetical example, with the same life insured and death benefit, the maximum deposit to maintain the exempt status of a policy could be $250,000 for a pre-2017 policy and $175,000 for a post-2016 policy. The tax savings, and the tax-exempt growth, of the $75,000 annual difference can yield significant financial advantages for those who qualify for the insurance coverage. Individuals who do not take advantage of this additional room will not be impacted.

Consider acting before 2017 to take advantage

Those who can take advantage of additional room in a tax-exempt policy, with capital available that is exposed to tax, may benefit from funding a tax-exempt insurance policy purchased prior to 2017, to maximize their tax-sheltering potential.

The legislative changes are set to govern policies sold after January 1, 2017. Under most circumstances, and within the policy limits, the new rules will not affect grandfathering of existing policies. However, policyowners should be aware that certain changes to their policy may cause a loss of grandfathering privileges, regardless of when the policy was issued. Legislative provisions outline the loss of policy grandfathering if a policy, issued prior to 2017, has specific premiums or the cost of insurance is converted to another type of life insurance, or if "medical" underwriting is required after 2016 to add coverage to a policy. Exceptions will exist in specific circumstances for medical underwriting.

What to consider

It's important to consider all of your existing policies, their riders and any contractual guarantees in those policies over the next few years and after 2016. Term insurance policies (stand-alone) issued before 2017 and converted after 2016 will not be grandfathered – policy conversion will be administered under the new rules. Similarly, term insurance which was added to a permanent insurance policy (a policy rider) that is converted after 2016 to a level cost of insurance under the same permanent policy will lose its grandfathering status. If allowed by the contract and the insurer, you should consider separating the converted portion into a new policy governed under the post-2016 conditions in order to maintain the existing policy's grandfathered status.

After 2016, adding a new coverage to an existing policy will also cause the loss of grandfathering of the existing policy. It may be simpler to buy a stand-alone policy in these situations (if you medically qualify).

What should you do?

Talk to us about your needs, your existing policies (and the contractual rights and riders they may have). If you need additional insurance and want to maximize the tax-exempt deposit room current policies offer, you should consider beginning the application process for new coverage as soon as possible to ensure your policy is issued before the January 1, 2017, deadline for grandfathering. Also, determine whether or not you want to exercise policy rights before 2017. Pre-1982 policies (not subject to exempt testing unless the policy had a prescribed premium) may also be affected and may lose their grandfathering status if changes are made after 2016 and will be subject to this new legislation. Adjustments may be made to some policies but in the very near future those changes may also have other consequences.

After 2017, carefully consider changes you make to the policy. It's prudent to regularly review your insurance coverage to ensure your financial protection and that it continues to meet your future needs. Please contact us for more information.

Stephen Wiffen, CFP, CLU, ChFC

Estate Planning Specialist,
RBC Wealth Management Financial Services Inc.

Stephen Wiffen is a valuable extended member of The Broxterman Group of RBC Dominion Securities team, helping you create and preserve your wealth.

Steve graduated with a BES (Bachelor of Environmental Studies) from the University of Waterloo in 1984 and entered the insurance business that same year. He has acquired the Certified Financial Planner (CFP), Chartered Life Underwriter (CLU), and Chartered Financial Consultant (ChFC) designations.

Previous to joining RBC in 2006, Steve worked both in his own practice and as a living benefits and regional insurance specialist for a corporation.

Comprehensive Insurance Planning

Working closely with The Broxterman Group of RBC Dominion Securities, Stephen employs a comprehensive process to assess your needs and then recommends creative, tax-exempt insurance strategies to help address them.

For more complicated situations, he works with your other professional advisors in the development of appropriate solutions.

Stephen Wiffen can focus on both personal and corporate insurance solutions to help increase your net worth, reduce the impact of taxation and secure your wealth through a variety of life insurance, annuity, and living benefits solutions. He can also assist you in structuring your insurance contracts to ensure your wealth is transferred to your heirs in accordance with your wishes.

To help you receive high-quality, cost-effective insurance solutions, Stephen evaluates various insurance offerings from Canada's top-ranked insurance providers.

To schedule a complimentary meeting with Stephen Wiffen, please contact our team.

Personal touch

Liz’s daughter Katelyn ready for the Relay for Life Cancer Event

Mike and Chase before the big game

Tony playing on his drums

Carolyn enjoying hiking in Tobermory

Thank you for your ongoing loyalty to The Broxterman Group of RBC Dominion Securities. We would be pleased to provide a complimentary wealth management assessment or financial plan to any friend, family member or colleague you refer to us.

RBC Wealth Management
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