Protect your assets from taxes and creditors

By preparing a financial plan ("Strategy 1"), you can determine if you have adequate income and assets to meet your retirement income needs for you and your spouse's estimated life expectancy. If you determine that you have surplus assets you are unlikely to need during your lifetime, even under very conservative assumptions, consider ways you can protect these assets from high taxes and creditors.

Three options include:

1. Making lifetime gifts or loans to low-income family members
2. Purchasing a tax-exempt life insurance policy
3. Charitable giving

LIFETIME GIFTS

Do you have surplus assets that you will definitely not need during retirement? Are you also planning on providing funds to your children or grandchildren in the future anyway to help with things such as paying for education, purchasing their first home, starting a business or paying for their wedding? If so, then it probably does not make sense to continue exposing the income from these surplus assets to your high marginal tax rate.

Instead, consider giving some of these surplus funds to family members now, either directly or through a trust if you do not want the children to have control of these assets. There will be no attribution on any investment income earned on the gifted funds if the child is 18 or older and no attribution on capital gains if the child is under 18. If you are concerned about direct gifts to your children, then lending funds and providing your children with only the income earned on these funds is another effective strategy as you can call the loan principal back any time.

TAX-EXEMPT LIFE INSURANCE

Do you have surplus assets that you know will be passed on to your heirs when your estate is settled? If so, it probably does not make sense to continue exposing the income from these assets to your high marginal tax rate.

If there's an insurance need, consider speaking to your insurance advisor about putting these highly taxed (typically interest-bearing) assets into a tax-exempt life insurance policy where the investment income can grow on a tax-free basis. This way, the amount of tax that would normally be paid to the Canada Revenue Agency (CRA) on the income earned on these surplus assets could instead be paid to your beneficiaries in the form of a tax-free death benefit. If need be, you could access the investment account within the life insurance policy either directly or through tax-free policy loans, which could be repaid after death with part of the death benefit.

CHARITABLE GIVING

If you want to give some of your surplus assets to charitable organizations, you have many options that can help you create a charitable legacy, while providing some

FAMILY WEALTH MANAGEMENT TIP

If you have assets accumulating in a corporation, bear in mind there is a higher tax rate on investment income earned in a corporation than if it was earned personally. Furthermore, there is a potential for double taxation related to the assets inside a corporation at death. As a result, corporate-owned tax-exempt insurance is an attractive solution for surplus funds accumulating in a corporation if there is also a need for insurance. This way, the surplus assets in the corporation can grow tax-free during your lifetime and can also be paid to your beneficiaries as a tax-free death benefit.

tax relief. These include giving directly to qualified charitable organizations, creating a private foundation or donating through a public foundation.

Recent tax changes also make it more attractive to donate publicly listed securities such as shares that have appreciated in value. Now, when you donate publicly listed securities directly to a qualified charity, you are completely exempt from capital gains tax. See "Strategy 7" for more information about tax-effective charitable giving strategies with surplus assets.

Note that due to the potential of escalating health-care and long-term care costs, it is essential that you are prepared for these contingencies before redirecting your surplus assets. Critical illness insurance, long-term care insurance and easy access to credit are a few options to consider with your advisor.