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## How you can benefit from this flexible life insurance

By admin

Glenn had thought of his life insurance purely as a protection plan. The anti-avoidance rules, risks and general restriction of tax benefits applicable to most shelters prompted him to take a new look at his life insurance for tax deferral as well.

A type of policy, called Universal Life, separates the cost of insurance and the 'savings' element of your premium. You know how much of it is being invested and how much interest it's earning. Premiums are flexible, so you can choose how much goes into savings, within certain limits. The big bonus is that it receives more favorable tax treatment than a similar outside investment.

**Universal life policies have three major tax advantage features.** They can allow your savings to accumulate tax-deferred; the interest can be used to pay for the insurance costs, tax-free; and, the untaxed accumulation can be paid out tax-free at death.

After the cost of insurance is taken from the premium, the balance is invested at current interest rates. The interest earned is not taxed as long as the policy is 'exempt' under the Income Tax Act. Most universal life policies are exempt. The life insurance company monitors these policies and warns you if there is going to be a change in tax status.

The first advantage your investment in this policy has over outside investments is the interest it earns compounds tax-deferred. Even if you fully withdraw all funds from the policy after twenty years, you will earn up to 22% more, after tax, than if you pay the taxes all along (assumes current tax rates).

You may not have to pay any tax at all on these earnings. The second tax advantage is that you can use them to pay for the insurance costs in the policy. Because the earnings within the policy are tax-deferred, you can actually pay the insurance costs with untaxed dollars.

The third tax advantage is that the total investment gain in the policy can be passed on without any tax whatsoever at death. For example, \$3,000 per year savings invested at 6% annually for 30 years, and taxed at 50% (approximate top Canadian tax rate) each year would accumulate to \$142,726. Untaxed savings, on the other hand, would amount to \$237,175, two-thirds more for your heirs! Plus, of course, the tax-free insurance benefit.

Preferred tax treatment is not the only reason to consider this type of life insurance plan. As Glenn's needs change over time, he can add extra insurance protection to his Universal Life policy. If he finds he needs less protection in the future, he can reduce the amount as well.

Jane has income that fluctuates seasonally. When her earnings are high, she can make larger deposits to her policy. When she goes through a lean period, she can reduce or even stop her premiums for awhile.

For informational purposes only and not intended as specific life insurance advice. Please see your insurance professional for a personalized plan.

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## Time to review your life insurance?

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