Family Asset Transfer Plan

Without an asset transfer plan the tax man will be happy to create one for them.

Introduction to the **Family Asset Transfer Plan**

The Family Asset Transfer Plan from BMO® Insurance is a simple yet effective life insurance concept that can form part of an overall financial plan for your clients. When combined with a BMO Life Assurance Company Universal Life policy, your clients will benefit from flexible permanent life insurance that is backed by one of the world's leading financial services organization.

To help support your understanding of the mechanics of the Family Asset Transfer Plan, we encourage you to read this guide and use the latest version of our Wave illustration software to help you prepare personalized proposals for your clients.

Once you have had a chance to familiarize yourself with the Family Asset Transfer Plan, test yourself on the mechanics of the concept by taking the short quiz at the end of this guide!

Note: The ideas presented in this guide should be reviewed for suitability to individual circumstances. The information contained in this guide is general in nature and should not be construed as legal or tax advice. You and your clients are encouraged to seek the advice of other professionals such as legal and tax experts to ensure that the ideas presented are appropriate for the circumstances of the individual for whom this plan is being considered.

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The Opportunity

There are many options available to individuals looking to transfer their assets to the next generation while they are still alive. However, while these options are available, you and your clients may want to review the advantages and disadvantages of each option such as described below:

Option to transfer assets from parent to child (or grandchild)	What you should consider
Non-registered GICs or mutual funds	✓ Simple and easy to purchase ✗ All (or a portion) of the investment income for these options can be taxable on an annual basis
Trust for your child or grandchild	✗ Can be complicated ✗ Can be costly due to legal and trust setup fees and ongoing maintenance costs
Registered Education Savings Plan (RESP)	✓ Provides tax benefits on contributions ✗ Contribution amounts are limited
Gifts	✓ Simple and easy to do ✗ You may not be willing to give up control of the assets

Target market

The Family Asset Transfer Plan is best suited to individuals who have accumulated significant assets over their working lives and are retired (or are approaching retirement). In addition, you may want to consider individuals who are planning their estate and are looking for simple and tax effective ways to transfer their assets to the next generation. Typically, your client(s) would be:

- between the ages of 60-80
- have sizeable non-registered assets set aside as inheritance for their children or grandchildren
- paying income tax on the investment income earned on these assets
- not dependent on these assets for living expenses
- concerned with maintaining control of their assets
- have children (or grandchildren) who require insurance and are eligible to be insured
- can demonstrate a need for insurance (ex. for estate protection or income replacement)
- can demonstrate an insurable interest on the life of the insured; which means that the parent/grandparent can demonstrate a financial loss would result upon the death of the child/grandchild who is insured on the policy

The Solution

The concept behind the Family Asset Transfer Plan is fairly simple.

Step 1
Parent or grandparent purchases a BMO Insurance Universal Life insurance policy on the life of their child (or grandchild). See Tax Considerations on next page.

Step 2
The child (or grandchild) is insured (within the limits and guidelines specified by BMO Life Assurance Company).

Step 3
At the discretion of the owner of the policy (a parent or grandparent), the policy may be transferred to the child during the owner's lifetime or at death using a contingent owner designation.

The results:

- By using the Family Asset Transfer Plan, the owner will benefit from the following*:
- Reductions in future taxable income since assets are transferred into a life insurance vehicle with tax-deferred accumulation.
- They maintain control of the assets until they are ready to transfer these assets.
- As owner of the policy, they may access the Cash Value of the policy at any time.
- The owner, parent or grandparent, can transfer ownership to the contingent owner or to the insured without any tax consequences.
- The child (or grandchild) is provided with valuable insurance protection.
- A tax-free death benefit is paid to the beneficiary of the life insurance policy.

How to determine if the Family Asset Transfer Plan is right for your clients

When considering whether to suggest the Family Asset Transfer Plan to any of your clients, you may want to run through the following checklist to determine if the Plan is appropriate for their individual needs:

- Has my client completed the asset accumulation phase of their life?
- Does my client want to leave funds for their children or grandchildren?
- Does my client want to simplify the transfer of their estate to the next generation?
- Is my client concerned about maintaining control over their assets?
- Would they like to transfer taxable investments into a tax-deferred investment vehicle?
- Do they want to reduce taxes on their investment income?
- Do they want to lower their current taxable income?
- Do they want to avoid costly probate fees on their estate?
- Do they want to minimize the risk of will contestability?
- Do they have eligible children (or grandchildren) that require and will qualify for insurance?

If your client answers "yes" to these questions, then the Family Asset Transfer Plan may be an ideal solution for them.

Note: Before proceeding, you should determine the tax consequences of transferring assets from other investment vehicles into the Family Asset Transfer Plan.

*Based on Rules and Regulations in effect at the time of writing this Guide.

*See Underwriting and administration considerations, on page 8.

Tax Considerations

Subsection 148(8) of the Income Tax Act (Canada) allows a transfer of ownership of a life insurance policy to a taxpayer's child on a rollover basis. The child must be the life insured on the policy at the time that the transfer is made. The transfer must be a direct transfer made without consideration.

Please note that the definition of child includes:

- a natural child, born inside or outside marriage;
- a person who is currently wholly dependent on the taxpayer for support and of whom the taxpayer has, or immediately before the person attained the age of 19 years did have in law, or in fact, the custody and control;
- a child of the taxpayer's spouse;
- an adopted child of the taxpayer;
- a spouse of a child of the taxpayer;
- a grandchild;
- a great grandchild;
- a person who is, or at any time before age 19 was, under the custody and control of the taxpayer and wholly dependent on the tax payer for support.
  Note: no current dependency is required.

Subsection 74.1(2) of the Act states that if the child realizes income from a transferred property prior to age 18, income is taxable in the hands of the transferor. Therefore, transferring ownership of a life insurance policy to a minor child is NOT advisable and could trigger some unforeseen tax consequences.

To ensure that you have considered how to best structure the Family Asset Transfer Plan for your client's personal circumstances, consulting with the appropriate legal and tax experts is strongly recommended.

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A note about collateral bank loans:

While the Cash Value of the policy may be pledged as collateral against a loan from lending institutions, it is not advisable that these loans be obtained under the Family Asset Transfer Plan. Since the owner of the policy is not the life insured, upon death of the owner, the lending institution will more than likely demand repayment of the outstanding balance of the loan which will mean that the Cash Value will need to be surrendered and tax paid on the amounts withdrawn.

However, once the policy has been transferred to the (adult) child, a collateral loan could be used to fund that "child's" retirement at some point in the future. Also, it is feasible to then pass the net death benefit proceeds tax-free (i.e. after the loan has been paid off) to a grandchild or great grandchild through a beneficiary change after the "child" has become owner of the policy.

Case Study

Client details:

- Sam, male, age 60
- 50% marginal tax rate
- has a surplus of $75,000 of non-registered taxable assets currently invested in GICs and mutual funds
- wants to eventually transfer these assets to his son, Bill
- wants to maintain control over these assets and transfer his wealth to the next generation at death

Solution: The Family Asset Transfer Plan

- Owner of BMO Life Assurance Company universal life policy: Sam
- Insured: Bill (male, age 35, non smoker)
- Beneficiary: Julie (Bill's newborn daughter and Sam's first grandchild)
- Insurance required: $500,000
- Death Benefit option: Sum Insured
- Cost of insurance option: YRT 100
- Deposit option: $15,000 for 5 years
- Projected values illustrated at 5% in Indexed Accounts
- Projected values illustrated at 5.5% in an Alternative (outside) Balanced Fund

Comparison of Values: Life Dimensions (low fees)

Non-registered investment vs. Family Asset Transfer Plan from BMO Insurance

Family Asset Transfer Plan at 5%			Alternative investment at 5.5%^		
Year	Fund Value	Death Benefit	Year	Account Value	Estate Value
5	$82,228	$500,000	5	$83,030	$81,785
10	$101,550	$500,000	10	$98,186	$96,713
15	$125,430	$500,000	15	$116,108	$114,366
20	$155,873	$500,000	20	$137,301	$135,242
30	$240,397	$500,000	30	$192,000	$189,120
40	$370,529	$504,904	40	$268,489	$264,461

Note: This example is based on a Life Dimensions (Low Fees) (Wave v33.1) universal life policy and is merely a projection of future results, using a set of assumptions that will change over time. Actual results are not guaranteed and will vary. This projection is not complete unless it is accompanied by all the pages of a Life Dimensions (Low Fees) projection from the Wave Illustration software from BMO Insurance. See your insurance advisor for more details.

^ Assuming a Balanced Fund that has the following income: 50% interest, 30% dividends, 10% unrealized capital gains and 10% realized capital gains and probate fees of 1.5%.

Note: Probate Fees are not applicable in Quebec.

The results:

- Over a period of five years, Sam's $75,000 investment (net of charges) will grow within a tax-deferred environment.
- Sam's future taxable income is reduced since assets are transferred into a life insurance vehicle with tax-deferred accumulation.
- Sam maintains control of his assets and is able to transfer this amount to Bill during his lifetime or at death.
- As owner of the policy, Sam may access the Cash Value of his policy at any time.
- Bill has a $500,000 of flexible permanent insurance protection.
- Both Sam and Bill can pass on a legacy to Julie, their grandchild/child, through the insurance protection.

Underwriting and Administration Considerations

When proposing insurance using the Family Asset Transfer Plan, you should consider the following:

- Establish Insurable Interest between the parent (or grandparent) and the child (or grandchild).

  For purposes of underwriting, an insurable interest is defined as a demonstrated financial loss that would be incurred by the owner and beneficiary upon the death of the insured; blood relation by itself does not constitute an insurable interest.

- Establish an appropriate amount of insurance on the life of the child (or grandchild) that is to be insured.

  Provide details of coverage amounts on other siblings, and whether all children are covered equally.

  For minor children, the maximum amount of coverage is typically $250,000 to $500,000 and parents (or grandparents) should have at least 2 times more insurance than the children (or grandchildren).

- Ensure the underwriter reviewing the application for insurance understands the purpose of the application.

  Include a covering letter with a summary of what is being proposed along with a copy of a signed Family Asset Transfer Plan Illustration from the latest version of The Wave illustration software.

- Ensure that the parent is named as the owner of the policy on the application for insurance.

  Also, if the client wishes to name the life insured as the contingent owner, complete the Change of Policy Ownership form, Section D, to name the contingent owner.

Refer to BMO Insurance's Universal Life Underwriting Guidelines found under the Underwriting Guidelines menu of our Wave Illustration Software for details on age, amount and financial underwriting requirements.

A Quiz on Family Asset Transfer Plan

Q 1

Who is the target market for the Family Asset Transfer Plan?

i) Individuals in their 20's or 30's who haven't started contributing to a RRSP.

ii) Small business owners that are looking for key man insurance.

iii) Individuals in their 50's or 60's that have significant non-registered assets and are planning to transfer these funds to the next generation.

iv) Healthy adults looking to insure their brothers or sisters.

v) Uninsurable adults looking to insure their parents.

a) i) only
b) ii) only
c) iii) only
d) i), ii) and iii) only
e) iv) and v) only

Q 2

Which of the following profiles is NOT a suitable client for the Family Asset Transfer Plan?

i) An individual that relies on a large portion of his/her non-registered assets for living expenses.

ii) An individual that has sizeable non-registered assets and is not dependent on these assets for living expenses.

iii) An individual that has significant taxable investment income and is keen on finding a more tax efficient investment vehicle.

a) i) only
b) ii) only
c) iii) only
d) None of the above
e) All of the above

Q 3

Which of the following would be ideal family members for individuals to consider under the Family Asset Transfer Plan?

i) Close friends
ii) Nieces and nephews
iii) Adult grandchildren
iv) Adult children
v) Spouses

a) i) and ii) only
b) ii) and iii) only
c) iii) and iv) only
d) iv) and v) only
e) None of the above

Q 4

When can transfer of ownership of the policy from parent to child (or grandchild) take place using the Family Asset Transfer Plan?

i) Never-ownership of the policy cannot be transferred since this will cause a taxable disposition of the Cash Value of the policy.

ii) During the lifetime of the owner (parent) as long as the child is eligible to own the insurance policy.

iii) At death of the owner (parent) using the child as successor owner of the policy, as long as the child is eligible to own the policy.

a) i) and ii) only
b) ii) and iii) only
c) i) and iii) only
d) All of the above
e) None of the above

Q 5

Which of the following statements is true regarding the amount of insurance that can be issued on the life of the child under the Family Asset Transfer Plan?

i) Any amount of insurance can be issued, as long as you ensure the entire deposit is up to the maximum premium of the policy.

ii) The amount of insurance issued on the child must be justified using BMO Insurance's underwriting rules and guidelines.

iii) The amount of insurance that can be issued on the child can be up to the maximum amount that the owner (parent) can justify on his/her own life.

iv) An insurable interest must exist between the parent (owner) and the child (insured) before coverage can be approved

a) i) only
b) ii) and iv) only
c) iii) only
d) All of the above
e) None of the above

Answers 1 c); 2 a); 3 c); 4 b); 5 b)

Let's connect

To find out more about BMO Insurance products, please call your MGA, contact the BMO Insurance regional sales office in your area or call 1-877-742-5244.

BMO Life Assurance Company, 60 Yonge Street, Toronto, ON M5E 1H5

Ontario Region
1-800-608-7303

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1-866-217-0514

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