The Estate Preserver Plan

BMO Insurance

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Introduction to the **Estate Preserver Plan**

As part of an overall financial plan, the Estate Preserver Plan from BMO® Insurance is a simple yet effective financial concept using life insurance as a wealth preservation vehicle for your client's estate. The ideas presented in this Guide are simple, yet effective and when combined with a BMO Insurance permanent life insurance policy, your clients will benefit from flexible life insurance that is backed by one of Canada's leading financial services organization.

To help support your understanding of the mechanics of the Estate Preserver 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 Estate Preserver Plan, test yourself on the mechanics of this financial concept by taking the short quiz at the end of this guide!

The Estate Preserver Plan is a solution that demonstrates to your clients how they can preserve the value of their estate using cost effective permanent life insurance. If you want to learn more about this plan or any other financial concept from BMO Insurance, check out the latest version of the Wave illustration software.

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(s) for whom this plan is being considered.

Table of Contents

The Opportunity	4
The Solution	5
Tax Considerations	6
Probate and Executor Fees	7
Case Study	8
Underwriting and Administration Considerations	9
Appendix	12
2017 Top Personal Tax Rates	12
Provincial Probate Fees	12
Tax-Free Savings Accounts: Designating a Successor Holder	14
A Quiz on the Estate Preserver Plan from BMO Insurance	15

The Opportunity

Many individuals who are completing the asset accumulation phase of their lives may have accumulated significant wealth (such as investment portfolios, RRSPs, properties and businesses) that they would like to pass on to their heirs. However, these assets can also create a mounting tax liability.

Income and capital gains from most investments are taxable every year and all of these assets will ultimately be subject to tax when your client(s) pass away. As an insurance advisor, you can demonstrate to these clients the value that life insurance can play in preserving the value of their estate.

The idea is simple: use life insurance to cover off the projected tax liability due when assets are passed on to your client's heirs as part of their estate.

Target market

Ideally, the Estate Preserver Plan is targeted at individuals and couples who are:

- age 50 – 70
- in good health
- own property (such as a cottage) or a business
- own significant registered assets such as RRSPs/RRIFs
- have paid off non-taxable debt (such as mortgages and other loans)
- would like to preserve the value of their assets and pass them on to their heirs

There are many options available to cover the tax liability at an individual's death:

1. Sell off assets
More often than not, when no other plan has been made, this is the option used to pay off taxes. The large tax bill can lead to distress sale of items that have great sentimental value which is typically not the best option available.

2. Borrow the money
If the estate does not have enough liquid assets to cover the tax due, then the heirs will often have to borrow money to cover what is owed. This can be a very expensive solution.

3. Convince heirs to start saving now
This is not an easy task. More than likely your client's heirs are putting all of their savings into RRSPs or RESPs. Plus, they can never be certain that the funds will be there. Poor returns or market volatility can affect the amount available when it is needed.

4. The Estate Preserver Plan from BMO Insurance
This is typically the most economical way to pay for the estate charges due when it passes on to your client's heirs. The tax-free amount of the policy means that funds will be available when taxes become due from the estate.

With BMO Insurance, you have the tools and accompanying plans to help create personalized, cost effective proposals for your clients.

TIPS

Sales tip

Use an illustration from the Wave software to provide your clients with a graphical comparison of the alternatives to protect the value of their estate and why the Estate Preserver Plan can make sense.

The Solution

Developing an appropriate Estate Preserver Plan for your clients can be simple, if you use the following steps as a guideline:

The Estate Preserver Plan	
Step 1	Determine your client's financial picture by listing their assets and debt, using the Estimate of Taxes and Charges Worksheet (468E). This will provide them with an estimate of how much insurance they currently need to cover their tax liability at death.
Step 2	Typically, these tax liabilities will change over time, so use the Wave illustration software to determine the amount of life insurance they need to cover their future tax liabilities
Step 3	Work with your client(s) to determine the level of protection they wish to purchase as well as an appropriate premium schedule for their individual circumstances.
Step 4	For universal life plans, have them select an appropriate investment portfolio for their policy that is best suited to their long-term objectives and risk tolerance. You may want to use the Investor Profile Questionnaire for this purpose.

TIPS

Sales tip

Use BMO Insurance's Estimate of Taxes and Charges Worksheet (468E) to show your clients what would happen to the value of the assets that they've accumulated over their lifetime, if they were to die today without a proper estate protection plan.

The Results:

By using the ideas of the Estate Preserver Plan from BMO Insurance and depending on the level of coverage they wish to purchase, your clients will benefit from the following:

- An immediate offset to the tax liability due at death, using the most economical solution.
- A preservation of the value of the assets they wish to pass on to their heirs.
- Tax-deferred growth within a universal life policy to cover future insurance needs.

Is the Estate Preserver Plan right for your clients?

When considering whether to suggest an Estate Preserver 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 (or is nearing completion of) the asset accumulation phase of his/her life?
- Does he/she qualify for life insurance?
- Does he/she have significant assets that would be taxed at death (ex. the family cottage)?
- Does he/she want to minimize personal income taxes on their estate?
- Does my client want to preserve the value of these assets for his/her heirs?
- Is my client looking for the most cost effective way of preserving the value of his/her estate?

If your client answers "yes" to these questions, then an Estate Preserver Plan may be an ideal solution for them.

Note: Please note that this information is for advisor educational purposes only and is not intended to provide tax advice or to encourage advisors to provide tax advice to their clients.

Tax Considerations

To have a more complete understanding of the benefits and tax consequences of the Estate Preserver Plan, we encourage you to prepare a personalized projection of your client's assets and liabilities, using the most current version of the Wave illustration software. Also, we strongly advise that when you are working on structuring any Estate Preserver Plan and have complex personal estate planning issues to resolve, you consult with legal, tax and accounting experts. You can also use the following guide along with information in the Appendix to help you determine the level of taxation for various types of income and corresponding asset classes:

Income Type	Taxation
Interest Income: GICs, bonds, segregated funds and annuities	fully taxable
Dividends: Dividends paid to shareholders from Canadian companies (from stocks, mutual funds and segregated funds)	grossed up by 25% then reduced by a 2/3 dividend tax credit
Realized Capital Gains: Result when a capital asset (such as a second residence) increases in value and is disposed of or; when mutual funds, segregated funds or stocks are traded, a component of the investment return may result from a capital gain	subject to a 50% inclusion rate in the year that they are realized; capital losses may be used to offset capital gains
Deferred capital gains: Result when a capital asset (such as a second residence) increases in value over time but tax is not paid until such time as it is disposed of (i.e. when they become realized)	subject to a 50% inclusion rate in the year that they are realized

See the Appendix of this Guide for Top Personal Tax Rates by province.

Tax Considerations

Asset	Tax treatment
Principal Residence	increase in value is exempt from capital gains tax
Non-registered GICs/term deposits and other fixed income investments	interest is taxed annually as regular income
Non-registered capital assets, such as shares of privately-held Canadian corporations, common stock and mutual funds	Increase in value is taxed annually. Any deferred capital gains tax is triggered at death. At death, the deemed disposition rule deems assets to be disposed of at their fair market value on the date of death and any capital gains or losses are included in the deceased's final income tax return. These assets can be transferred to a spouse at the deceased's original cost, thus deferring capital gains tax until the surviving spouse dies.
Non-registered segregated funds	Growth is taxed annually. Capital gains tax triggered at death unless paid out to a beneficiary as a death benefit.
Tax-Free Savings Account (TFSA)	The income earned on deposits and investments in a TFSA is not taxed. Clients can also withdraw their money at any time for any reason without being taxed. And they can put it back starting from the beginning of the following year. Re-contribution of money withdrawn from a TFSA may be subject to rules and annual limits. Depending on the province, tax may be deferred through a successor holder. See the Appendix of this Guide for further details.
Qualifying small business corporation	A special $813,600 lifetime capital gains exemption is available per person for any increase in value.
Real Estate (such as a family cottage)	Your clients should consult with a tax expert as to how any real estate investment is taxed. However, in the case of a family cottage, capital gains tax is triggered at death on the increase in value of the property.
RRSPs/RRIFs	Investment growth is tax-deferred but treated as regular income when cashed-in at the time of death. Tax may be deferred through a spousal rollover of assets.
Life insurance	The death benefit from life insurance can be paid to a designated beneficiary tax-free (free of probate and executor fees).

TIPS

Sales tip

When developing an Estate Preserver Plan for your married clients, consider issuing the policy on a Joint Last to Die basis. This ensures the death benefit is paid when taxes are typically due – and since the charges are based on a single equivalent age, the cost of insurance is also lower than issuing two single life coverages.

Probate Fees

Probate fees are charged by provincial courts as a fee or tax for probating the will or otherwise certifying the administrator of the estate. These costs include letters of administration and letters of probate or a certificate of administration, depending on the province.

Fees are assessed on the total value of the assets including those held with a financial institution, real estate and shares in a company and generally range from 0.5% – 1.5%, depending on the province and assets held.

See the Appendix of this Guide for a schedule of probate fees by province.

Executor Fees

Executor fees are charged by an administrator of the estate and can range from 3 – 5% of the estate value and are usually assessed based on the complexity, size and time required to do the following:

- arranging the funeral
- locating the will
- gathering, managing and distributing the deceased's assets
- paying the bills due from the estate
- filing income tax returns

Trust companies or even friends and relatives can act as executors of the estate and charge a reasonable fee to do so.

Case Study

Client details:

- consider Bill and Janice Smith
- Bill is 68 and Janice is 67
- They will retire comfortably and aren't worried about retirement income.
- They have built up a sizable estate which includes the following, in its current value:

Principal Residence	$500,000
RRSP	$350,000
GICs	$250,000
Stocks, Bonds	$250,000 (Purchase Price of $120,000)
Cottage	$300,000 (Purchase Price of $120,000)
Total Estate Value	**$1,650,000**

They have no debt or outstanding mortgages on their properties.

In a discussion with their financial advisor, they mention that they would like to pass on their estate to their three daughters Gillian, Christina and Melanie. Most importantly, they want to ensure that the family cottage remains a gathering place for the entire family, including their grandchildren and sons-in-law.

However, after completing an *Estimate of Taxes and Charges Worksheet*, their advisor determines that their tax liability is close to $326,750 **today** – almost one fifth of the value of their estate – **and this amount could grow over time!**

BMO Insurance **The Estate Preserver Plan**

Life Dimensions (Low Fees)

Summary of Estate

Asset	Current Value	Growth	Original Investment [ACB]	Capital Gain
Principal Residence	$500,000	3.00%	-	-
Non-Registered Fixed Income, GIC, and Term Deposits	$250,000	3.00%	-	-
Stock, Bonds, etc.	$250,000	6.00%	$120,000	$130,000
Segregated Funds	$0	3.00%	$0	$0
Tax Free Savings Account	$0	3.00%	-	-
Business/farm	$0	3.00%	$0	$0
Other Real Estate	$300,000	3.00%	$120,000	$180,000
RRSP / RRIF	$350,000	6.00%	-	-

Probate Fees: 1.50% Executor/Admin Fees: 3.00% Tax Rate: 50.00%

Current Estate Value: $1,650,000 **Current Tax Problem: $326,750 (19.80% of estate)**

In 33 years:

Projected Estate Value: $3,401,719 **Projected tax problem: $401,054 (11.79% of estate)**

Note: Probate Fees are not applicable in Quebec. Tax values are estimates only. Assume Balanced Portfolio for Stocks, Bonds (50% Interest, 30% Dividend, 10% Deferred Capital Gains, 10% Realized Capital Gains).

The Solution

Their advisor creates an Estate Preserver Plan from BMO Insurance to offset the tax liability due on their estate. Using the Wave software, they determine that they should purchase $343,000 of permanent, universal life coverage from BMO Insurance and deposit the minimum amount into the policy. Using the Investor Profile Questionnaire from BMO Insurance that their advisor also found on the Wave, they determine that their deposits should be made into a conservative investment portfolio such as 10 Year GIA.

Your Estate					**The Estate Preserver Plan**			
Before Tax Asset Value	Taxes/ Fees/ Debts At Death	After Tax Net Estate Value	Yr	Age	Annual Premium	Death Benefit Covering Taxes/Fees/ Debts At Death	After Tax Total Estate Value	
1,708,050	342,487	1,365,563	1	69/68	26,683.56	$369,015	$1,734,577	I
1,749,763	358,201	1,391,562	2	70/69	26,683.56	$379,634	$1,771,196	I
1,791,715	364,756	1,426,959	3	71/70	26,683.56	$398,393	$1,825,351	I
1,825,363	370,536	1,454,827	4	72/71	26,683.56	$417,432	$1,872,259	I
1,859,977	371,417	1,488,560	5	73/72	26,683.56	$437,000	$1,925,560	I
1,895,575	372,292	1,523,283	6	74/73	26,683.56	$456,910	$1,980,193	I
1,932,183	373,156	1,559,027	7	75/74	26,683.56	$477,169	$2,036,195	I
1,969,794	374,004	1,595,790	8	76/75	26,683.56	$497,783	$2,093,573	I
2,008,483	374,817	1,633,666	9	77/76	26,683.56	$518,757	$2,152,424	I
2,048,256	375,615	1,672,642	10	78/77	26,683.56	$540,100	$2,212,741	I
2,264,223	378,983	1,885,240	15	83/82	0.00	$514,768	$2,400,008	I
2,511,596	380,789	2,130,807	20	88/87	0.00	$487,139	$2,617,946	I
2,794,826	380,245	2,414,581	25	93/92	0.00	$457,004	$2,871,585	I
3,140,740	383,646	2,757,095	30	98/97	0.00	$424,136	$3,181,230	I
3,223,509	388,224	2,835,285	31	99/98	0.00	$417,212	$3,252,498	I
3,310,542	394,071	2,916,471	32	100/99	0.00	$410,168	$3,326,639	I
3,401,719	401,054	3,000,665	33	101/100	0.00	$403,000	$3,403,665	I
---	---	---	40	108/107	0.00	$349,088	$349,088	I

The Result

- Using the Estate Preserver Plan, Bill and Janice's advisor shows them that the value of their estate can remain intact.
- This includes covering off the tax due on the cottage, when it is transferred over into the names of the daughters.

NB: These examples are based on Life Dimensions (Low Fees) (The Wave v 36.0) policy and are 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 of the pages of a Life Dimensions (Low Fees) projection from the Wave illustration software.

Underwriting and Administration Considerations

When proposing an Estate Preserver Plan, you should consider the following:

- Check to ensure that the amount of insurance you are proposing on any life is reasonable and justifiable; this amount will need to be approved by a BMO Insurance underwriter.
- Refer to BMO Insurance's Underwriting Guidelines found under the Underwriting Guidelines menu of our Wave software for details on age, amount and financial underwriting requirements.
- Run a personalized illustration for your client, using the latest version of the Wave illustration software and include a signed copy with the application, including a copy of a completed Estimate of Taxes and Charges Worksheet.
- When completing the Estimate of Taxes and Charges Worksheet please use a reasonable growth rate for each asset; further supporting information for your assumptions may be required by the Underwriter.
- To ensure that the underwriter reviewing the application for insurance understands the purpose of the insurance, include a covering letter with a summary of what is being proposed.

Appendix

2017 Top Personal Tax Rates*

	Ordinary Income and Interest†	Capital Gains	Canadian Dividends	
			Eligible	Non-eligible
Alberta	48.00%	24.00%	31.71%	41.29%
British Columbia	47.70%	23.85%	31.30%	40.95%
Manitoba	50.40%	25.20%	37.78%	45.74%
New Brunswick	53.30%	26.65%	33.51%	46.25%
Newfoundland and Labrador	51.30%	25.65%	42.61%	43.62%
Northwest Territories	47.05%	23.53%	28.33%	35.72%
Nova Scotia	54.00%	27.00%	41.58%	46.97%
Nunavut	44.50%	22.25%	33.08%	36.35%
Ontario	53.53%	26.76%	39.34%	45.30%
Prince Edward Island	51.37%	25.69%	34.22%	43.87%
Quebec	53.31%	26.65%	39.83%	43.84%
Saskatchewan	47.75%	23.88%	30.33%	39.62%
Yukon	48.00%	24.00%	24.81%	40.18%

*Source: www.pwc.com/ca/taxfacts, June 2017.

†Applies to taxable income above $202,800 in all jurisdictions except:

$303,900 in Alberta
$220,000 in Ontario
$500,000 in Yukon

Appendix

Provincial Probate Fees

Province	Probate Fees	Maximum fee
Alberta	\$35 (estate value up to \$10,000) \$135 (estate value over \$10,000 and up to \$25,000) \$275 (estate value over \$25,000 and up to \$125,000) \$400 (estate value over \$125,000 and up to \$250,000) \$525 (estate value over \$250,000)	\$525
British Columbia	\$0 (estate value less than \$25,000) \$200 + \$6 per \$1,000 (estate value over \$25,000 and up to \$50,000) \$200 + \$14 per \$1,000 (estate value over \$50,000)	None
Manitoba	\$70 (estate value up to \$10,000) + \$7 for every \$1,000 over \$10,000	None
New Brunswick	\$25 (estate value up to \$5,000) \$50 (estate value over \$5,000 and up to \$10,000) \$75 (estate value over \$10,000 and up to \$15,000) \$100 (estate value over \$15,000 and up to \$20,000) \$5 per \$1,000 (estate value over \$20,000)	None
Newfoundland and Labrador	\$60 (estate value up to \$1,000) \$60 fee + \$0.60 per \$100 (estate value over \$1,000)	None
Northwest Territories	\$25 (estate value up to \$10,000) \$100 (estate value over \$10,000 and up to \$25,000) \$200 (estate value over \$25,000 and up to \$125,000) \$300 (estate value over \$125,000 and up to \$250,000) \$400 (estate value over \$250,000)	\$400
Nova Scotia	\$85.60 (estate value up to \$10,000) \$215.20 (estate value over \$10,000 and up to \$25,000) \$358.15 (estate value over \$25,000 and up to \$50,000) \$1,002.65 (estate value over \$50,000 and up to \$100,000) \$1,002.65 + \$16.95 per \$1,000 (portion of estate value in excess of \$100,000)	None
Nunavut	\$25 (estate value up to \$10,000) \$100 (estate value over \$10,000 and up to \$25,000) \$200 (estate value over \$25,000 and up to \$125,000) \$300 (estate value over \$125,000 and up to \$250,000) \$400 (estate value over \$250,000)	\$400
Ontario	\$0 (estate value up to \$1,000) \$5 per \$1,000 (estate value over \$1,000 and up to \$50,000) \$15 per \$1,000 (estate value over \$50,000)	None
Prince Edward Island	\$50 (estate value up to \$10,000) \$100 (estate value over \$10,000 and up to \$25,000) \$200 (estate value over \$25,000 and up to \$50,000) \$400 (estate value over \$50,000 and up to\$100,000) \$400 + \$4 per \$1,000 (estate value over \$100,000)	None
Quebec	\$106 Natural person; \$119 Legal person.	\$119
Saskatchewan	\$7 per \$1,000 of estate value	None
Yukon	\$0 (estate value up to \$25,000) \$140 (estate value over \$25,000)	\$140

Source: www.taxtips.ca September 7, 2017

Tax-Free Savings Accounts: Designating a Successor Holder

A **successor holder** is someone who takes over a TFSA when you die. The name on the account is changed to the name of the successor holder and that person can continue to hold and operate the tax-free savings account as their own after your death. By law, only a spouse or common-law partner, as recognized by the Income Tax Act (Canada), can be a valid successor holder. If the person who has been designated as successor holder is no longer the current spouse or common-law partner at the time of death, they cannot become the successor holder of a TFSA.

A Quiz on the Estate Preserver Plan from BMO Insurance

Q 1

What option is typically the most cost effective way to offset the tax liability due at death?

i) sell off assets when tax is due
ii) borrow money
iii) start a savings plan
iv) purchase life insurance

a) i) only
b) ii) only
c) iii) only
d) iv) only
e) i), ii), iii) or iv) are equally effective

Q 2

What target market is typically best suited for an Estate Preserver Plan?

i) age 50 – 70 and married (or single)
ii) in good health
iii) own property (such as a cottage) or a business
iv) own significant registered assets such as RRSPs/RRIFs
v) have paid off non-taxable debt (such as mortgages and other loans)
vi) would like to preserve the value of their assets and pass them on to their heirs

a) i) and ii) only
b) ii) and iii) only
c) iii) and iv) only
d) v) and vi) only
e) All of the above

Q 3

Which of the following may be subject to tax or estate charges at death (unless a spousal rollover applies)?

i) a family cottage (not held as a primary residence)
ii) RRSP
iii) mutual funds
iv) real estate (other than a primary residence)
v) life insurance with a designated beneficiary

a) All but i)
b) All but ii)
c) All but iii)
d) All but iv)
e) All but v)

Q 4

Probate fees are charged in all Canadian provinces.

a) True
b) False

Q 5

Which of the following are true about executor fees?:

i) they are charged to administer an estate
ii) fees can range from 3 – 5% of the asset value of the estate
iii) only trust companies can act as executors of an estate

a) All but i)
b) All but ii)
c) All but iii)

Q 6

When proposing life insurance under the Estate Preserver Plan, which of the following are true?

i) the amount of insurance issued must be reasonable
ii) the projected growth rate of assets must be reasonable
iii) Underwriting requirements for the age and amount of insurance will be used to assess the proposed amount of insurance.
iv) Supporting documents (such as an illustration or worksheet) can help the Underwriter understand the amount of insurance being proposed.

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

Answers 1 d); 2 e); 3 e); 4 b); 5 c); 6 c)

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

Quebec – Atlantic Region
1-866-217-0514

Western Region
1-877-877-1272

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