

Insured Inheritance

Overview and Case Study



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- This material is for information purposes only and should not be construed as legal or tax advice. Every effort has been made to ensure its accuracy, but errors and omissions are possible.
- All comments related to estate fees and taxation are general in nature and are based on current Canadian legislation for Canadian residents, which is subject to change. Persons who are not residents in Canada or who are resident in Canada but are citizens of another country, may be subject to different tax rules in Canada and may also be subject to taxes levied by jurisdictions other than Canada.
- For individual circumstances, consult with legal or tax professionals.
- All information presented is current as of the date of creation and subject to change.

Insured Inheritance Overview

- The concept of the insured inheritance is essentially one of wealth preservation and growth in preparation for transfer (most often to a younger generation).
- When used effectively, an insured inheritance is able to achieve a rare (even exclusive) combination of risk-free, tax-free principal growth.
- Insured inheritance solutions can be beneficial to clients at almost any age, however, tend to fit best in the financial planning life cycle of retirees and seniors with wealth that they do not intend to use in their lifetime

Insured Inheritance Overview - continued

- Returns on this type of investment easily beat guaranteed instruments (GICs, bonds) in any practical scenario, however, because returns are inversely proportional to the term of the life of the policy, there is potential for tremendous returns (in the unfortunate case of an early death of the insured(s))
- We view the insured inheritance solution as a win-win for clients that have moved beyond the aggressive wealth creation/building phase and are now interested in inter-generational financial security and/or leaving a legacy to their community
- A simple case study can be found on the following slides

Insured Inheritance Case Study - Background

- Mr. and Mrs. Smith, age 77 and 74 respectively, non-smokers
- Invested \$150,000 in 2001
- Investment peaked at \$250,000 in 2007
- Current value is \$185,000
- These funds are not needed for income, they want to leave it to their 3 children but not until they have passed away
- They are worried about stock market volatility and want to grow the money without risk

Insured Inheritance Case Study - Options

- Mr. and Mrs. Smith can achieve their objectives by purchasing a Joint Last-to-die permanent life insurance policy
- \$300,000 face value policy represents 62% more than their current value (and 20% more than peak value)
- Funding options:
 1. \$8,727.55 annually until 2nd insured passes away
 2. \$15,808.16 annually for 10 years
 3. \$45,801.27 annually for 4 years

Insured Inheritance Case Study - Analysis

Year	Option 1 – Pay until death			Option 2 – Pay for 10 years			Option 3 – Pay for 4 years		
	Premiums Paid	Policy Value	Simple Return	Premiums Paid	Policy Value	Simple Return	Premiums Paid	Policy Value	Simple Return
1	\$8,728	\$300,079	3338%	\$15,808	\$300,143	1799%	\$45,801	\$337,138	636%
5	\$43,638	\$300,410	588%	\$79,040	\$300,742	280%	\$183,204	\$447,483	144%
10	\$87,276	\$300,862	245%	\$158,080	\$301,561	91%	\$183,204	\$417,842	128%
15	\$130,913	\$301,361	130%	\$158,080	\$301,724	91%	\$183,204	\$385,116	110%
20	\$174,551	\$301,913	73%	\$158,080	\$301,903	91%	\$183,204	\$348,985	90%
25	\$218,189	\$302,521	39%	\$158,080	\$302,101	91%	\$183,204	\$309,092	69%

This option may exceed available funds in later years

~\$27k less than clients had available to invest



Insured Inheritance Case Study - Recommendation

- All options provide excellent risk-free, tax-free growth of funds
 - Simple return is amazing, after-tax, and risk-free
 - Compounded annual return beats GICs
- Option 1 is best if 2nd death is expected <15 years (age 92 or 89)
 - Invest \$131k, get \$300k+ back
- Option 2 is best if 2nd death is expected >15 years (age 92 or 89)
 - Cap investment at \$158k after 10 years, take the extra \$27k on vacation

Insured Inheritance Case Study - Review

From our case study background:

- Current value is \$185,000
- ✓ • Investment required was less than funds available
- These funds are not needed for income, they want to leave it to their 3 children but not until they have passed away
- ✓ • Joint last-to-die permanent life insurance achieves this
- They are worried about stock market volatility and want to grow the money without risk
- ✓ • Policy benefit is guaranteed and investment can be capped, providing risk-free, tax-free growth

Insured Inheritance – Your Move

You know people who will benefit from this solution:

1. **Retirees** who want to guarantee an inheritance
2. **Seniors** with cottages or businesses that will not be passed down until death
3. **Investors** with \$100,000 or more in GICs

Contact Brown Financial Security Inc. today and make your move towards risk-free, tax-free growth with an insured inheritance.

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Brown Financial Security background

- Established in 1993
- 2 advisors, 1 licensed office manager
- Providing Insurance solutions to business owners and individuals
- Expertise in business succession/transition, estate wealth transfer, and tax optimization
- Target market is sole shareholders and partnerships
- Sample client industries:
 - Long-haul transportation maintenance, Utility trailer manufacturing, Pre-cast concrete production

Insurance Solutions provided by BFS Inc.

- Life Insurance
 - Term, Permanent
- Critical Illness Insurance
 - Term, Permanent
- Disability Insurance
- Long-Term Care Insurance
- Group Benefits
 - Dental, Extended Health, +