STEPUP

Sales Tax Estate Planning Underwriting & Product Newsletter

Advantages of Non-Registered Insurance based Investments

Legislation was changed a number of years ago regarding creditor protection and RRSPs. Essentially, mutual funds and bank GICs are now afforded the same creditor protection under the federal Bankruptcy and Insolvency Act as insurance based GICs and segregated funds for registered retirement savings plans (RRSPs) and registered retirement income funds (RRIFs). There is a 12 month clawback provision that allows a trustee in bankruptcy to recover any contributions made during the 12 months preceding bankruptcy.

It's important to remember that if the plan holder does not declare personal bankruptcy, these registered plans will not be protected in the case of a general creditor claim or professional liability claims for negligence. Some provinces have their own legislation protecting RRSPs and RRIFs beyond bankruptcy.

Locked-in RRSPs and RRIFs are exempt from creditor claims both inside and outside of bankruptcy under pension legislation.

RRSPs and RRIFs invested in insurance-based investments, like segregated funds, offer creditor protection beyond bankruptcy, protection that is provided for under the Insurance Act, not the Bankruptcy and Insolvency Act, during the lifetime and on the death of the plan holder.

Finally, outside of Quebec, a TFSA planholder can name a beneficiary for a Tax Free Savings Account (TFSA) on insurance based investments. The exception is Quebec, where beneficiaries for registered plans can only be made in a will.

There remain a significant number of advantages favouring non-registered insurance based investments including creditor protection. These advantages can certainly address the emotional cost of dealing with investments. Then there is the time it takes for payouts. The proceeds of insurance-based investments on the death of the annuitant can be paid out in a matter of weeks, taking into account getting a proof of death certificate and sending it to the insurer. Compare this to years of waiting for other investments. The appointment of an estate administrator alone can take 6-8 months. What if the funds were needed to fund trusts? What do heirs do in the meantime, especially if funds are needed to provide support? Check out the table below for costs in passing on investments on the death of the plan holder.

Peter A. Wouters,
Director, Tax Retirement & Estate Planning Services

Peter works with independent advisors and other professionals raising awareness on issues and concerns faced by affluent individuals, professionals and business owners. He supports efforts in researching and developing optimal solutions for clients aimed at improving their financial well-being and supporting their personal wishes and lifestyles. He has provided 1000s of workshops, seminars and technical support throughout the country on tax, retirement income and estate planning issues, concepts and strategies to both advisors and consumers. As an accredited Registered Financial Gerontologist, a good deal of his time is spent on building awareness and educating people of all professions who work with or specialize in the needs, expectations and issues of elders. Comprehensive lifestyle planning is an important element of these processes.

The Sales, Tax, Estate Planning, Underwriting & Product (STEPUP) team provides internal and broker support, including seminars, education, advanced concept illustrations & Client case technical consultations.

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Empire Life

Advantages of Non-Registered Insurance based Investments

Factor	Stocks, bonds, mutual funds, bank GICs	Segregated funds, insurance company GICs
Probate/estate administration tax and limits	Up to 1.5% (1)	Nil with named beneficiary
Legal fees	3-6%	Nil with named beneficiary
Accounting and valuation fees	2-5% or more	Nil with named beneficiary (2)
Privacy	Public record	Private with named beneficiary
Potential creditor protection	No	Yes with named beneficiary
Death benefit guarantees	No	Yes
Maturity benefit guarantees	No	Yes
Fund value reset features for guarantees	No	Yes
Deferred sales charges on death	Yes in many cases	No (3)
Total Potential Estate Costs	Up to 12.5% or more	Nil

(1) Notarial wills do not need to be probated by the court in Quebec. There may be fees associated with holograph wills and wills made in the presence of witnesses. There is no limit on probate fees and estate administration taxes except for Quebec, Alberta and the Territories.
(2) There may be accounting fees associated with tax returns
(3) The Empire Life Insurance Company and Empire Life Investments Inc. do not charge any deferred sales charges for surrenders of policies triggered by the death of the policyholder.

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