

Ken McNaughton



Insurance after Retirement: Who Needs It?

Ah, retirement...that wonderful time when we send our business clothes to the thrift store, and pull out our golf clubs and fishing tackle. No longer burdened by the “daily grind,” or all those expenses and bills we paid in our younger years. Mortgage? Finally paid off after all those years. RRSPs? All paid up, and ready to start giving us income. Life insurance? I’ve got my pensions and my savings—won’t need *that* anymore!

But hold on. Before you cancel that policy, let’s just take a minute and consider a few reasons why you might want to keep that life insurance after retirement. As a matter of fact, many seniors are purchasing new insurance policies for a whole variety of reasons.

Let’s start with everyone’s favourite—income taxes. Those RRSPs you worked on for so many years still have a little cloud hanging over them—the unpaid income taxes owing on income you used as contributions, as well as the income earned within the plan. In the event of the death of both you and your spouse, all the money in your RRSP

will be added to your income in the last year of your life, and taxed accordingly. Many seniors prefer to pay an insurance premium now, so those future tax bills will be paid by the insurance company, instead of from their hard-earned retirement savings.

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The same problem exists if you own property such as real estate or a family cottage. Like the RRSPs, in the event of your death, the property can be transferred tax-free to your spouse—but upon the death of the second spouse, any capital gains are taxable. Although the

rate has been reduced over the years to 50 percent of the gain, many seniors find that insurance premiums are far preferable to paying the tax from the estate, especially if the family cottage would have to be sold to pay those taxes.

Another common use of insurance after retirement is to equalize the estate. What do we mean by that? Let’s suppose that you have two children, and one of them has expressed an interest in inheriting the family home. If you are concerned about keeping the division of the estate as equal as possible, but do not have sufficient assets to equal the value of the home, the difference could be made up with an insurance policy. Maybe the kids should be paying the premium!

Or perhaps a family member is dependent on you for financial assistance. What will he or she do when you are gone? You may wish to set up a trust that will provide an ongoing income at your death, and fund it with insurance. Once again, this is an attractive solution for those whose current income is more than adequate, but who may not have

sufficient liquid assets left over to do the job when they die.

A popular solution for what to do with an unneeded insurance policy at retirement is to give it away! That's right; you might wish to donate the policy to your favourite charity. The charity will get the proceeds when you die, and if structured properly, you can receive a tax credit for the premiums you pay. Again, many seniors wishing to make a bequest to a favourite charity, but unwilling to reduce their estate, simply purchase and donate a brand new insurance policy. Purchased jointly with your spouse on a "last to die" basis, this can be an economical solution.

I have written before about the "Lifetime Term Deposit"* so I will just touch on it here. Essentially, a prescribed annuity with a tax-favoured income stream, and paying an attractive rate of income, is backed by a life insurance policy. In the event of death, the capital that was used to purchase the annuity is replaced by the payout from the insurance policy. This is an increasingly popular solution to declining retirement incomes and low interest rates.

In short, there are lots of reasons why you may want to think twice about retiring that insurance policy when you retire . . . and possibly some reasons to explore whether purchasing a policy now might be an effective solution to retirement income and estate planning problems. ▲

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