A unique strategy to kick-start a financial future

How permanent life insurance can benefit a child or grandchild.

CHILDREN ARE FULL OF IMMEASURABLE POTENTIAL – but they often need financial resources to make their dreams come true. Aspiring professionals need to finance years of schooling. Future entrepreneurs need start-up capital. Everybody needs a home, and real estate doesn't come cheap.

There are many ways to help build a foundation for a child's or grandchild's financial future. One innovative strategy is to purchase insurance that increases in value over time. This approach uses a permanent life insurance policy to facilitate the tax-efficient transfer of wealth between generations.

Here's how it works

- Purchase a permanent life insurance policy on the life of a child or grandchild
- As the owner, choose to top up the premiums to build cash value
- Transfer ownership of the policy to the child or grandchild at or after age 18

As long as certain specific Canada Revenue Agency requirements are met (see sidebar), the transfer can qualify as a tax-free rollover. After the transfer, the child or grandchild can name a new beneficiary and access the cash value to meet current or future cash needs, such as paying for post-secondary education or purchasing a new home. Provided that funds are withdrawn after the child or grandchild turns 18, any policy gain is taxed in that young adult's hands – not in the hands of the former owner.

Get planning flexibility

Many people accumulate money to leave their children or grandchildren by investing in a Registered Education Savings Plan (RESP) or a Tax-Free Savings Account (TFSA), or some other, taxable investment. These investments may have strict contribution limits or may not provide much flexibility. But for those with excess wealth, there is an additional option. By purchasing a permanent life insurance policy, the parent or grandparent has more flexibility to allocate excess wealth towards the policy's cash value. And the cash value grows within a tax-deferred environment.

Set young people on the road to financial independence

For parents and grandparents who have accumulated more money than they need to finance their own lifestyle goals, building cash value within a permanent life insurance policy makes it possible to transfer wealth to a child or grandchild tax-efficiently. Even better, it allows parents and grandparents to see their gift in action – helping a loved one realize ambitions, hopes and dreams. And for the child or grandchild, after ownership transfers, the insurance can become a solid foundation for a comprehensive financial plan that protects his or her family and continues to build cash value into the future.

Your advisor can help you determine if this strategy is right for you, and how it may complement other elements of your family's financial planning. Keep in mind that it's often best to purchase a permanent life insurance policy early in a child's or grandchild's life because this gives the cash value the longest possible time to grow before it's needed. ■

WHEN CAN POLICY OWNERSHIP TRANSFER TAX-FREE?

For the transfer of a permanent life insurance policy's ownership to qualify as a tax-free rollover, the Canada Revenue Agency requires that:

- The life insured must be the policy owner's child, step-child, grandchild or great-grandchild
- There must be only one life insured at the time of the ownership transfer
- The transfer must take place for no consideration
- The transfer cannot happen through a will

Note that the child or grandchild who becomes the new owner does not have to be the same child or grandchild whose life is insured, which provides additional planning flexibility.