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*Q: Friends always talk about the need for life insurance. What do I need it for?*

**A:** There are lots of good reasons to purchase life insurance. Here are a few:

#### FAMILY PROTECTION

Probably the most popular use is to protect your family and finances should you pass away. There could be an enormous deficiency if you are not around to earn income and an inexpensive life insurance policy will provide your dependants with tax-free cash to make up this deficiency.

#### MORTGAGE

If you have a mortgage, you would most likely want that mortgage to be paid off for your family should you pass away. Again, this would reduce any financial stress for your loved ones—and an inexpensive life insurance policy can accomplish this for you.

#### BUSINESS PLANNING

If you have a business partner who passes away without proper planning, their spouse may become your new partner—not likely a desirable outcome! To avoid this, partners should draw up a shareholder agreement specifying that should one of you pass away, the other will buy the shares of the deceased partner's estate or beneficiary. Most people don't have this lump sum available to make the purchase, so inexpensive life insurance will ensure



that this lump sum is available in the event of a death.

#### ESTATE PLANNING

Most Canadians don't realize that when you pass away, CRA considers your assets to be sold on your date of death (even though they haven't really been sold) and tax is applied at that point. Of course, there are ways to defer some of this tax by transferring assets to your spouse at death. However, that tax will ultimately have to be paid upon your spouse's death—and the tax bill could be enormous. Here are just a few taxed assets to note:

- 100 per cent of the value of your RRSP's (or RRIF's) is taxed.
- The capital gain on a second property (a cottage, for example) is taxed.
- The capital gains on all investments (including shares in your business) are taxed.

They were right when they said the only sure things in life are death and taxes!

In order to preserve the value of your estate for your beneficiaries, you should purchase life insurance to cover your estimated final tax bill (or part of it). The last thing you want is for your children to have to sell the family cottage to pay your tax bill.

#### RETIREMENT PLANNING

There are several outstanding strategies that utilize the tax-free benefit associated with life insurance. One of the best for retirees in their 60s and 70s is the Insured Annuity strategy. If you have large amounts of money sitting in GIC's and you want to continue to be conservative with that money, the Insured Annuity strategy can provide you with after-tax income that equates to what a seven to ten per cent GIC would pay you—and we all know you can't find GIC's at those rates! Again, if you have large amounts sitting in GIC's, be sure to investigate this strategy or contact an advisor, as the increase in guaranteed retirement income can be significant.

Life insurance is simply a tool that enables the implementation of various strategies to protect and maximize your wealth. With the guidance of an experienced financial planner who is licensed to offer insurance you can ensure you are taking advantage of all of the strategies available to you—regardless of your age or stage of life.

If you have any questions about properly protecting your finances with life insurance, please don't hesitate to contact me at [jswanson@bmfsg.ca](mailto:jswanson@bmfsg.ca).