JOINT, LAST-TO-DIE INSURANCE

A Quick Overview

Joint, Last-To-Die Insurance was designed to protect family assets for the beneficiaries of a couple's estate. It is designed to pay a ***tax-free*** benefit upon the death of the ***last*** surviving spouse.

When one dies, it is deemed for tax purposes that their assets are sold, which creates a taxable event. The value of the taxable assets is included in the deceased's income for the year of death. Some assets are excluded from income taxes such as the value of the principal residence and assets that have been incurring income taxes on an on-going basis such as non-registered investments - for example, interest from GICs and assets registered jointly with the right of survivorship. A non-registered stock will be deemed to have been sold and 50% of the capital gain will be added to income in the year of death. The full value of assets such as RRSPs/RRIFs will be taxed as income.

When one has a spouse, many assets can be transferred at death to the name of the surviving spouse tax-free, thereby delaying the inevitable income tax bite until the death of that surviving spouse. Couples that have significant balances in RRSPs/RRIFs or business interests and/or own vacation properties must be concerned about the depletion of their estate (could be as much as 30% - 50% depending upon the mix of assets) when the last spouse dies. They worked hard in building up an estate and don't wish to see it eroded before being passed on to the beneficiaries.

Many a cottage has been lost to the children as it has had to be sold to pay the income taxes on the estate. For example, let's say a couple purchased a cottage 30 years ago for $100,000 as a vacation property and invested another $100,000 over the years to improve the property. At the death of the last spouse the property is deemed to be worth $700,000, then a capital gain of $500,000 ($700,000 - $100,000 - $100,000) would be realized and 50% of that, $250,000, would be added as income for income tax purposes to the terminal tax return of the deceased. At a tax rate of say 48%, approximately $120,000 would be owing on this transaction alone, for the sake of argument. It gets worse with RRSP and RRIF balances.

To avoid the depletion of estate values and to prevent such situations where assets must be sold to pay the income taxes on the estate, ***Joint Last-To-Die*** insurance is an effective and inexpensive solution.

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The following page illustrates an example of the cost assuming a husband and wife, each 55 years old and both in good health and non-smokers. They purchase $250,000 of insurance payable only at the death of the surviving spouse with children as beneficiaries.

$250,000 of Joint Last-To-Die life insurance with a level premium for lifetime protection and payable only at the death of the surviving spouse:

Annual Cost = $2,700 (approximately)

To illustrate the inexpensive nature of this product, if this same couple purchased a Joint First-To-Die policy where the proceeds are paid out to the joint holder at the first death, the annual cost is:

Annual Cost = $6,900 (approximately)

If only the male purchased the insurance, the annual cost is:

Annual Cost = $4,300 (approximately)

Please note rates can change and these are based on a Term to 100 plan.

Conclusion

Joint, Last-To-Die Life Insurance is the most effective and usually least expensive way of ensuring that your beneficiaries will receive the ***full*** value of your estate upon the death of the last surviving spouse. What the Government taketh, this insurance giveth back, if done correctly.

There are other ways of protecting estate values such as Trusts and Joint Ownership with the beneficiaries but you must be careful and deal with professionals to ensure that whatever method you use, it protects as you wish and that there are no hidden pitfalls. For instance, if one transferred ownership of a cottage from the last surviving spouse's name to be joint with a child so at death of the parent their would be no capital gains, however, there could be capital gains owing at the time of the transfer which makes it imperative that one has the advice of an expert in that area – Tax Accountant/Estate Lawyer.

It is important to plan ahead if it is your goal to preserve your assets for your children, your grandchildren or other beneficiaries. Through the use of life insurance you protect your estate values while at the same time there is an option to grow the value of your assets with cash value within the insurance policy while protecting such increased values against creditor attack. The death benefit value of the insurance policy also increases over time thereby adding additional protection as assets grow.

I would be pleased to discuss this important estate planning tool at more length should you wish to consider implementing such a plan. The savings to your estate far exceeds the cost of Estate Preservation Insurance.

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