Family Wealth Transfer Strategy
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Gifting money to a child or grandchild is affordable.

About this guide
Your clients’ personal wealth can be measured by what’s most important to them – their family. When deciding on options for their family’s future, they should consider the following:

• Would they like to provide financially for the future of their children or grandchildren?
• Should they give while still alive, or at death through their will?
• Do they think that creating an inheritance for their children or grandchildren is unaffordable and out of their reach?
• What are the tax consequences of giving money to children?
• Can they gift while still alive, maintain control of the assets and benefit from tax-deferred savings?

The Family Wealth Transfer Strategy offers your clients an affordable way to provide for their child or grandchild at each stage of life. This strategy is ideal for parents who would like to start saving for their child’s future, and grandparents who would like to leave an inheritance for their children or grandchildren.

Leaving money to their children is more affordable than they think. With this strategy, your clients can build a legacy for their family, while maximizing the value of their financial gifts.

Your clients will be able to take care of what’s important now.
Unlike traditional insurance solutions that provide benefits upon death of the parent or grandparent, the Family Wealth Transfer Strategy is built around a universal life insurance policy on the life of the child. A universal life insurance policy from Transamerica Life Canada gives your client an opportunity to provide a lasting gift for their children's important life events. By investing in this powerful, tax-efficient financial tool, they will be able to give them a great start in life – a sound education, their dream wedding or help them purchase a home of their own. And since the insurance is on the life of the child, it will provide lifetime protection for the next generation.

Flexible coverage that offers a wealth of extras
Your client’s savings will go so much further. They can create a valuable gift for their children and grandchildren that offers benefits during their lifetime. The Family Wealth Transfer Strategy provides a powerful savings tool, as well as establishing important insurance protection.

There are so many benefits to this kind of protection:

• Your clients will be able maintain full control of the funds.
• The plan has lower set-up and administration costs than other forms of wealth transfer.
• Funds may be used for any purpose.
• Your client will lock in the insurability of the child for life.
• Under some conditions, the policy can be protected from creditors.
• The growth is tax-deferred and withdrawals are taxed in the hands of your client’s children after the policy is transferred to them.
• The gift bypasses the will and the estate and is exempt from costly probate and other estate-related costs.

Helping their children through life as best they can will always be their first priority. Show your clients how. With the Family Wealth Transfer Strategy, they have an affordable and tax-efficient way to provide for their child at each stage of life.
For you, their advisor

Your clients will be investing for the long-term good of their family. By offering this intergenerational approach for your clients, you could be growing your business by working with the future policyholders and their families.

How does the Family Wealth Transfer Strategy work?

Finally, there is a simple and tax-efficient way to maximize the transfer of wealth between generations.

Usually, when the ownership of a life insurance policy is transferred to another person, there is a disposition of the policy for income tax purposes. However, subsection 148(8) of the Income Tax Act allows for the life insurance policy to be transferred from the owner to his or her child* on a tax-deferred, “rollover” basis.

How can this work for your clients?

Your clients surrender a portion of their after-tax income or non-registered assets and use the funds to purchase a tax-exempt universal life policy on the life of their child. The child is designated contingent owner of the policy at time of application. The purchaser remains the owner of, and has control over, the policy until the ownership is transferred to the child.

The client’s deposits within the policy accumulate on a tax-deferred basis. Any income that accumulates is not taxed until it is withdrawn, usually at the child’s marginal tax rate, if withdrawn after the change of ownership to the child. To be eligible for the rollover under subsection 148(8):

- A child must be the only life insured under the policy at the time of transfer. While there can only be one life insured under the policy at the time of the transfer, it does not have to be the same person as the one receiving the ownership of the policy. For example, the life insured may be the grandchild, but the policy may be transferred from the grandparent to his or her child.

- The policy must transfer for no consideration (free) to a child.

- The transfer of ownership must be a direct transfer. It is important that in the event of the owner’s death, the child receives the ownership directly through a contingent owner designation in the policy.

Transfer of ownership

Prior to transfer, the parent will have full control over the funds during his or her lifetime should money be needed for emergencies. Transfer of ownership may take place at any time, provided that the new owner can legally own the contract. (For most provinces, the minimum age is 16, and age 18 in the province of Quebec.) The child, as the new owner, will then have control over the policy and may withdraw funds as he or she sees fit.

Clients may transfer the ownership while they are still living. The child then has control over the policy and may use the funds as he or she wishes. Or the parent may choose to designate himself or herself as irrevocable beneficiary, where the child may not access funds without the parent’s consent.

For transfer on death, the parent designates the child as contingent owner while still living. The ownership of the policy will then be transferred automatically to the child upon the death of the policyowner. Upon death, the policy and all its value are transferred outside of the will and is exempt from probate and other estate-related costs.

Policy set-up

The parent purchases and pays premiums on the life insurance policy on the life of the child. Premium payments into the policy in excess of the insurance charges will build a tax-deferred investment fund that will eventually be transferred to the child.

Single life coverage

Parents may choose to purchase single coverage on their child or grandchild. Coverage is available for issue amounts as low as $25,000 for children age 0 to 15 years.

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* The definition of child is very broadly defined and includes natural child, grandchild, adopted child, stepchild, child of a spouse; a person who, at any time before the person attained the age of 19 years, was wholly dependent on the parent for support and was in custody and control of the parent; a child of the person’s spouse or common-law partner, a spouse or common-law partner of the child.
Joint life coverage
This involves a parent purchasing a joint last-to-die policy with the child, resulting in a higher maximum premium room for tax-deferral. The parent then makes deposits into the policy in order to build its fund value, which can be elected to be paid out on first death where the policy is set up as an increasing death benefit. On the death of the parent (presuming that he or she passes away first), the fund value could then be paid out to the surviving child as a tax-free death benefit, thus avoiding probate and other estate taxes.

Since the child is contingent owner and is the only life insured at the time of death of the parent, the policy automatically transfers ownership to the child on a tax-free rollover basis. There is a maximum of one life insured on a policy at the time of transfer for the rollover to take place.

Your client might want to also consider joint last-to-die with deductions to the first death, available with level cost of insurance. Although this option might be considered more expensive than deductions to the last death, it can allow the parent to provide a fully paid-up policy for the child, thus truly creating intergenerational wealth.

The results
Before transfer of ownership, your clients will be able to maintain full control of the funds and will have access to the funds should they ever require them. This will give them peace of mind, knowing that they will have a financial cushion should their circumstances ever change.

Once the policy is transferred, the child then owns permanent life insurance, and the cash surrender value of the policy. He or she may then use the accumulated assets as he or she chooses; for example, to purchase a family cottage. The child also may use the policy as security for collateral loans. The child can choose to maintain the policy for the protection of his or her own family and continue investing on a tax-advantaged basis for wealth accumulation or estate maximization purposes.

Some clients may be interested in protecting their assets from creditor’s claims. A universal life insurance policy can offer this protection from an individual’s creditors if the named beneficiary of these insurance products is a spouse, parent or grandchild of the annuitant, or if the named beneficiaries on these insurance products are irrevocable.

This strategy benefits the whole family. By using life insurance as the vehicle to transfer their non-registered assets, your clients have immediately increased the value of their estate by minimizing probate, legal and executor fees and income taxes.
Transamerica’s universal life insurance products

Our flexible universal life plans can be structured to offer solutions to meet multiple needs: wealth accumulation, retirement planning and our aging population’s concerns about taxation, estate preservation and transferring wealth to future generations. For complete details on our universal life insurance products, please see our universal life Product Guide.

Our plans are specifically designed for tax-deferred wealth accumulation, with insurance features that cover your client’s protection needs. By choosing our products, your clients will be able to grow their portfolio and secure their family’s future.

Take comfort in the fine print

A UL policy from Transamerica is designed to avoid surprises with specific guarantees in our contracts:

• guaranteed cost-of-insurance rates
• guaranteed predictable interest option fees (MERs)
• guaranteed minimum returns on fixed-rate interest options
• guaranteed availability of certain key interest options
• guaranteed client investment bonuses

As our contract is one of the few that is structured to be fully guaranteed (except for the investment returns), you and your clients can take comfort in the fine print.

Product features that are ideal for the Family Wealth Transfer Strategy

Annual Renewable Term (ART) Cost of Insurance (COI) with level death benefit

ART COI is geared for maximum accumulation, especially when combined with a level death benefit and premium amounts at or close to the maximum allowable. It provides clients with the lowest cost of insurance in early policy years, which allows for faster fund accumulation. In general, the level death benefit also makes insurance more affordable as the client ages, since the net amount at risk, and in most cases the total COI, decreases as the fund value increases. However, this depends on the investment return performance of the fund value.

Living Benefits

Built-in Living Benefits help cope with the financial impact of a life-threatening illness, disability or long-term care and protect clients’ quality of life. Upon disability or diagnosis of a critical condition of the insured, tax-free benefits are available as a lump sum or recurring payments up to the total fund value, less three monthly deductions (and less policy loans and accrued interest), without surrender charges.

Accessible cash values

Your clients can withdraw a portion of cash values that have built up within their policy at any time. Convenient withdrawal methods are available, subject to current tax laws and policy surrender charges.

Fund value payout option

Available with increasing death benefit policies, this feature provides a fund value death benefit payable at each death on the joint last-to-die coverage. A different beneficiary can be specified for the fund value and for the face amount. For example, the surviving spouse may be designated as beneficiary for the fund value to help cover funeral expenses and other costs.

Optimizer option

This automatically reduces the face amount of the policy to minimize insurance costs while enhancing the tax-deferred accumulation.
Underwriting tips that will help serve you and your client better

We’d like to make the approval process as quick and easy as we can for you and your clients. When you help us understand as much about the case as possible when submitting your application, we will be able to expedite the application and speed the underwriting process.

When submitting the application, a quick covering letter that summarizes the following is what we need to help the underwriter to understand your sales analysis:

1) Please outline for us the type of coverage owned by the family.

Sales of an insurance product should fit with the family circumstances, and must make sense in the context of the family’s income and net worth. The amount of insurance allowed on the child will be based on the financial status of the parents and the coverage carried on the life of the parents responsible for the child support.

The parent’s own insurance needs should be taken care of first – the primary wage earner should be covered for at least twice as much as his or her children. Amounts of insurance applied for on the children should bear a reasonable relationship to those on the parent. If the parent has no insurance in-force, the maximum amount of insurance that could be placed on a grandchild with the parent as owner may be limited to $100,000.

If the parents are uninsurable and other financial strategies have been in place for the parents, in understanding these strategies and the whole family financial picture, greater amounts of insurance could be granted for the children.

Coverage should be fair and equitable, with each child in the family insured with a similar face amount and deposits.

2) Please describe where the premium/deposits are coming from.

Perhaps your clients have inherited a sum of money and would like to pass this to their child. Or they have assets that they don’t need for day-to-day living that they would like to invest for their children or grandchildren. We’d like to be aware of the source of contributions to the policy.

We are here to assist you in every way that we can. By taking a few minutes to give us as much background information as possible, you can help us speed the underwriting process for you and your clients.
Frequently asked questions

1. How much can I invest using this strategy?
   Any deposit amount is allowed for the Family Wealth Transfer Strategy. However, only amounts up to the maximum premium estimate can be deposited during a policy year. Amounts in excess of the maximum premium will be deposited into the Side Account, and taxes on interest earnings in the Side Account are payable each year.

2. Can the life insured be an adult child or grandchild?
   Yes. The life insured can be the client’s child, grandchild, great-grandchild, son-in-law, daughter-in-law or an individual who was legally dependent upon and in the custody of the owner when he or she was younger. While the age of the life insured does not matter, the client should consult an income tax professional to ensure that the life insured qualifies under the applicable Income Tax Act provisions.

3. Can my client own insurance on his or her child or grandchild?
   Yes. Parents and/or grandparents have an insurable interest in their children and/or grandchildren. However, considerations such as financial underwriting and other insurance coverage currently in place may be a factor in determining whether your client may own insurance on his or her child or grandchild.

4. Can ownership of the plan be transferred at anytime?
   Yes. Ownership of the life insurance policy can be transferred at any time, provided the new owner is legally able to own the contract. In most provinces this will be age 16. Please check the applicable age restrictions in your province.

5. If a contingent owner is named, will the client’s estate pay probate fees when using this plan?
   If ownership is transferred upon death using a successive owner designation, assets within the plan may be passed outside the client’s will, and probate fees will not apply. However, this will depend on your client’s individual circumstances, so please consult an estate planning professional. Probate fees are not applicable in the province of Quebec.

6. How much insurance can be purchased?
   Any amount of insurance can be purchased, depending upon the desired purpose and subject to underwriting considerations. For example, your client may wish to begin an insurance program for his or her children to maximize the death benefit rather than the tax-deferred accumulation.

7. Is the Family Wealth Transfer Strategy available on the LifeView illustration software?
   Yes. In the LifeView software, the Family Wealth Transfer Strategy illustration is available under the Individual Sales Concepts menu. The Family Wealth Transfer Strategy illustration shows the benefits of universal life specific to the concept and allows comparisons with alternative investment strategies. LifeView also offers a dynamic PowerPoint presentation that is customized for your clients.

8. Are there restrictions on the joint coverage?
   Yes. There must be a maximum of two lives insured on a joint last-to-die policy used in a Family Wealth Transfer Strategy, as there can be only one life insured on the policy for the rollover to take place. The insured lives must be the policyowner and the child. It is critical for a child of the policyowner to be named contingent owner while the policyholder is still living.
Marketing tools and support

There are a number of marketing tools that you can order from our informco website or download from Transamerica’s website (www.transamerica.ca) that can help you educate clients and professional circles of influence about the Family Wealth Transfer Strategy, including:

- LifeView software
- Family Wealth Transfer Strategy Client Guide
- Advisor materials, including case studies

**Use LifeView to illustrate this strategy for your client**

LifeView is a versatile interactive system that is a fully integrated sales tool, enabling you to collect client information, identify the client’s pressing insurance needs and run the appropriate illustration. LifeView is updated periodically and provides you with marketing materials and illustrations for universal life, term, and permanent insurance.

Considered one of the most user-friendly insurance software packages, LifeView provides users with simple input screens while delivering detailed concept illustrations and reports. LifeView also offers a dynamic PowerPoint presentation for the strategy that is customized for your clients.

Use LifeView to illustrate the Family Wealth Transfer Strategy. Include the concept illustration and the basic illustration, signed by the client, with the application.

**The right strategy**

The Family Wealth Transfer Strategy is just one of several “end to end” insurance solutions from Transamerica that combine the strategy, product and support to truly solve your client’s needs.

Whether your clients are individuals or families, retired, employed or operate an active business, Transamerica has a solution that can be optimized to meet their needs.

Universal life insurance policies can be complex. Transamerica Life Canada recommends that your clients consult their legal and tax advisors to determine if this strategy is right for them. The intent of this guide is to provide an overview of the concept. This material has been prepared for use by Transamerica’s advisors in conjunction with other product information. For a precise understanding of clients’ rights and obligations, please refer to the policy contract.

**Ongoing support**

For more guidance, you can also draw on the support of your Transamerica sales representative.
Notes:
Transamerica Life Canada is a leader in the Canadian marketplace, providing a broad range of individual life insurance and protection products and services, all designed to help Canadians protect against financial risk and transform their tomorrows. Distribution is through a number of channels, resulting in a national network of thousands of independent advisors. For over 100 years, Transamerica Life Canada has been delivering on our promises and intends to continue that strength and stability to be able to keep making the things that make tomorrow better.

Transamerica Life Canada is an Aegon company. Aegon is an international life insurance, pension and asset management company. With headquarters in The Hague, the Netherlands, Aegon has businesses in over 20 markets in the Americas, Europe and Asia. Aegon companies employ approximately 24,000 people and serve over 47 million customers.

Understanding the health and wellness issues affecting Canadians, Transamerica Life Canada commits funds annually to our in the spirit of hope charitable giving program, which supports our neighbours and communities through donations to numerous non-profit organizations.