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Life Insurance and Saving for Retirement

One of the most common ways to take advantage of tax benefits when considering longer-term retirement planning is to invest in a Registered Retirement Savings Plan (RRSP). These familiar plans offer immediate tax deductions for annual contributions, plus deferral of tax on any annual investment returns until money is withdrawn from the plan.

Other options do exist, however, both for tax savings and accumulation of future assets. Some types of life insurance are being used by astute seniors to offset potential tax liabilities to their families. Insurance is popular in that payouts are, generally, paid out tax free to recipients. Payments generally also bypass the probate process and cheques are, normally, processed relatively quickly after death.

One popular use of insurance, for example, is for passing on the family cottage. If the cottage is owned by a parent, it will be taxable to the estate if it is passed on to surviving children (only spouses can inherit the property on a tax-free basis). Life insurance can play a useful role in deferring the potential tax costs as they might be covered by the benefits. In some cases, even the annual premiums for the policy can be paid by the beneficiaries.

Many different forms of insurance are available today for this and similar purposes. Universal life, whole life and level term life insurance policies are examples. Though these kinds of policies have existed for decades, many Canadians remain unaware of the associated benefits. Life insurance may, therefore, be worth exploring as an option in your own retirement savings plan.

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“ If you have fully contributed to your RRSP and are looking for alternatives, life insurance may be an option”

Term insurance provides protection while the policy is in force, usually at very competitive rates. Other, more permanent, policies generally offer a combination of immediate insurance coverage together with a savings component. The premiums with permanent life insurance are generally higher than term premiums for the first part of the insured person's life, with the higher payments effectively subsidizing the later years.

The owner of a universal insurance policy can effectively invest funds inside of the policy and generally accumulate and shelter the cash value from taxes, based on certain regulatory limits. In many cases, the cash value of the policy can be withdrawn to supplement a retirement income, potentially creating a tax-free or lower-taxed income stream, when needed. Under most policies, there are no age limits relating to the withdrawal of any cash value. As well, it is possible to invest more than the contribution limit allows, by increasing the size of the death benefit.

Given the uncertainties associated with today's more challenging economy, it is helpful to understand your employer's group insurance plan. In many cases, these plans can be converted to an individual policy without the need of medical evidence, after an employee has been terminated, provided that the conversion takes place within a certain time period (usually within 31 days) after leaving a job.

Get More Information

Life insurance can offer another option for Canadians to maximize their retirement savings or to deal with high taxes. Feel free to contact us to discuss how this may fit into your financial planning process and the options that are best suited for your particular situation.