TD Wealth

Wealth Insights

TD Wealth Private Investment Advice

Monthly Perspectives From The Daley Group Wealth Management

Whole Life Insurance as Part of a Balanced Portfolio

If you are looking to potentially improve returns while reducing risk as part of a broader portfolio strategy, the solution may be through the use of life insurance.

If you have excess funds not needed in retirement, “participating whole life insurance”, known as a “par policy”, can provide a compelling case to achieve exposure to fixed income, such as bonds, as part of a balanced portfolio, especially in a low-yield environment.

In general, a par policy requires the policy owner to deposit premiums, either for a set duration or for life, which are funded with after-tax dollars. In return, the policy owner receives both a death benefit and the proceeds from a separate participating investment account managed by the insurance company. These amounts will be received tax-free by the policy's beneficiary upon the death of the life insured.*

Often, the assets in the participating investment account are longer-term debt instruments, such as public and private fixed-income investments, bonds and mortgages. The account would also generally include some real estate and equity holdings. It may therefore provide the policy owner with access to a low-cost, widely diversified portfolio that is often difficult to replicate for individual investors.

Potential for Improved Returns

No tax is payable on income in the participating investment account, compared to income from a fixed-income portfolio of investments that would be taxable in a non-registered account. In addition, the insurer determines on an annual basis if the policy is to be credited with policy owner dividends, which can be structured to purchase additional death benefit coverage. This may provide the policy with the potential to outperform the fixed-income component of a balanced portfolio.

Liquidity

Normally, the funds directed towards a par policy would not be required by the policy owner to fund their lifestyle. However, if

circumstances were to change, the policy owner may be able to borrow against the cash value of the policy to meet their financial needs. Financial institutions will usually lend a portion of the policy's cash value and allow the interest to be capitalized. Upon death, part of the death benefit would be used to repay the loan. There may be tax consequences to policy loans and loan repayments in certain situations.

Business Owners

For business owners, a par policy can also provide tax benefits if held inside a corporate structure. This is because the death benefit (less the adjusted cost base of the policy) can potentially be distributed to the shareholder(s) of the company tax free through the Capital Dividend Account. If the business had instead held a portfolio of predominately fixed-income investments, it is likely that the majority of the assets would be distributed to the shareholders as a taxable dividend.

If you believe that a participating whole life policy could play a strategic role in your asset mix, please get in touch.

*As long as the policy qualifies as an exempt policy under the Income Tax Act (Canada). To apply for insurance coverage, a need for life insurance protection must be demonstrated.

The Daley Group Wealth Management — TD Wealth Private Investment Advice
5140 Yonge Street, Suite 1600, North York, ON M2N 6L7
www.advisors.td.com/thedaleygroup/

Kevin Daley, CIM®, FCSI®
Senior Vice President, Portfolio Manager, Investment Advisor
416 221 4999
Kevin.Daley@td.com

Gerson D'Souza, CIM®, FCSI®
Portfolio Manager, Investment Advisor
416 512 1106
Gerson.Dsouza@td.com