INTERGENERATIONAL WEALTH TRANSFER STRATEGY

Sales concept

THE STRATEGY IN BRIEF

This strategy is for people who are in an enviable position and want to be able to provide a solid financial foundation for their child or grandchild. The intergenerational wealth transfer strategy is a tax-advantaged way to provide such a foundation.

- A parent or grandparent purchases for their child or grandchild, iA PAR participating life insurance or any other permanent life insurance product that contains a surrender value.
- To pay up the policy, they pay the premiums in 10 or 20 years and can also pay excess premiums in the policy, thus creating a surrender value which grows over the years sheltered from tax.
- When the child reaches legal age, the parent or grandparent may decide to assign ownership of the life insurance policy to the child, free of payments. Under paragraph 148(8)* of the ITA, this transfer is made without tax consequences.
- The child or grandchild can benefit from the surrender value accumulated in the life insurance policy to assume certain expenses or benefit from its growth for later on.

WHO IS THIS STRATEGY MEANT FOR?

Parents or grandparents:

- Average or high net worth and a source of income or liquidity that exceeds their needs
- Willingness to transfer a portion of their wealth to the next generation
- Insurance need for the child or grandchild

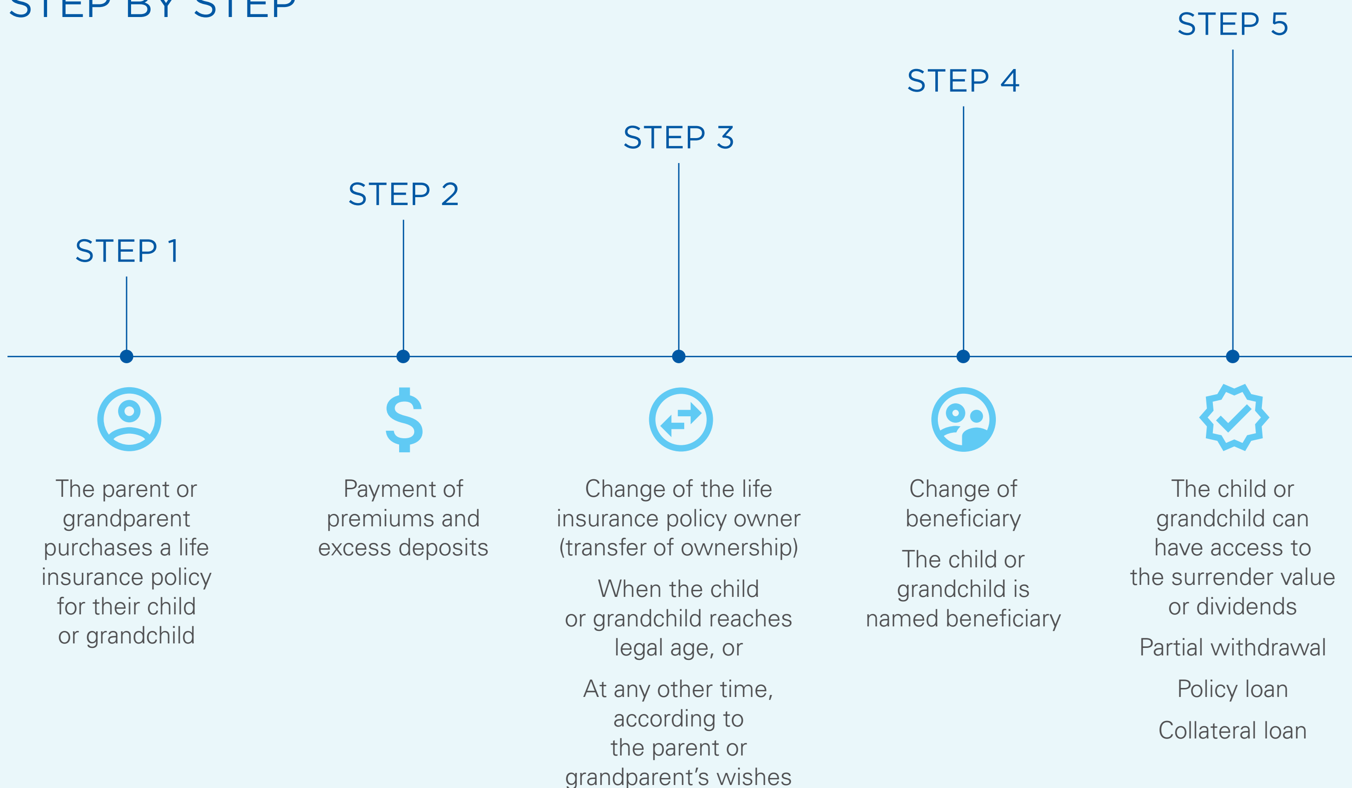
The following conditions must apply in order to fully benefit from the strategy:

1. The policy owner's child or grandchild is the only insured.
2. Ownership is assigned to one of the policy owner's children or grandchildren.
3. The assignment is made without consideration or free of charge.

Once conditions are met:

The proceeds of disposition for the policy owner (parent or grandparent)	=	the adjusted cost basis (ACB) of the policy and there is no taxation when the transfer takes place

THE STRATEGY, STEP BY STEP



Elements to consider

- There can only be a one child insured per contract
- The transfer can be made regardless of the child's age
- Caution: If the transfer is made while the child is under 18 years of age, attribution rules could apply to the parent or grandparent
- It is not mandatory for the child or grandchild who receives the life insurance policy to be the life insured
- The transfer must be made inter vivos
- The strategy does not apply to transfers by will
- Possibility of naming a contingent policy owner who could intervene in the event the parent or grandparent is predeceased

Possibility of keeping control

Before the transfer

The parent or grandparent has complete control over the amounts invested

If the parent or grandparent's financial situation evolves, they have access to the surrender value of the contract as the policy owner

The parent or grandparent decides when the transfer takes place

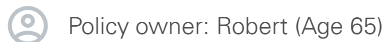
After the transfer

The parent or grandparent is named as irrevocable beneficiary of a small portion of the benefit. The irrevocable beneficiary will have to provide consent for certain transactions to be processed, which provides some control over the life insurance policy and accumulated surrender value (surrender, change of beneficiary, etc.).

CASE STUDY

Meet **Robert**

Implementation strategy:
$271,739 iA PAR Estate QP10 life insurance policy



Policy owner: Robert (Age 65)

Insured: Emma (Age 1)

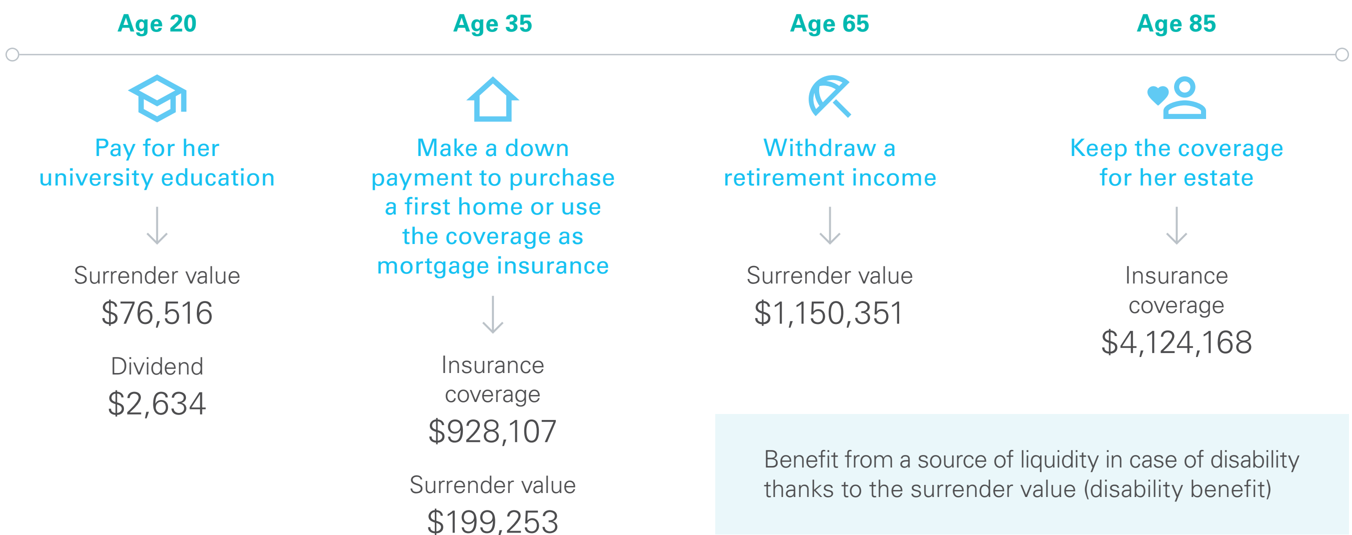
Robert plans to make 10 annual deposits of $5,000 (and nothing to pay afterward)

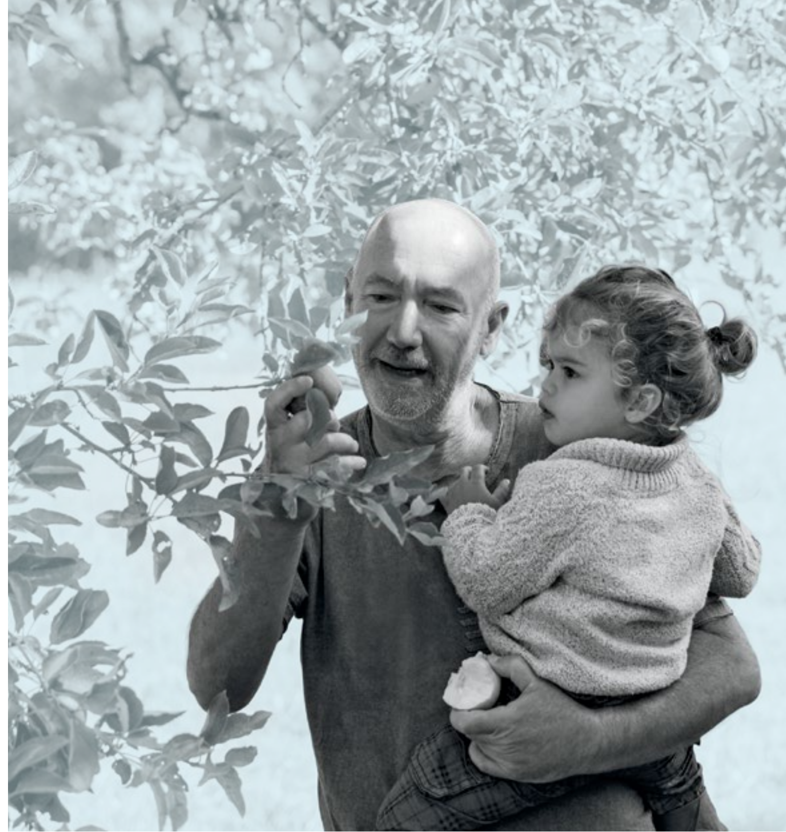
— His son Adam, Emma's father, is named contingent policy owner (in the event of Robert's death).

— Once Emma reaches age 18 (or afterward, according to Robert's wishes), she will be designated as new policy owner. The transfer will be made tax-free.

— It is understood that at that time, Emma' will name Robert (or Adam) as irrevocable beneficiary of a small portion of the death benefit- $10,000.

With the accumulated surrender value, Emma has several options:





Robert's objectives:

- Transfer a portion of his wealth to his grandchildren
- Benefit from low costs of insurance for a 1-year old child
- Guarantee Emma's insurability
- Give Emma access to the surrender value for future expenses (education, buy a house, marriage, retirement, etc.)
- Benefit from Emma's low tax rate when she is 18 or when she enters the workforce
- Ability to keep control of the policy surrender values (through the irrevocable beneficiary designation)

Example of the values accumulated in the policy

(Illustration with current 2024 dividend scale, assuming that the scale remains unchanged throughout the term of the policy.)

	Age 20	Age 35	Age 65	Age 85
Annual dividend	$2,634	$5,742	$32,613	$116,741
Guaranteed surrender value	$36,741	$59,654	$149,576	$227,888
Surrender value (rate in effect)	$76,516	$199,253	$1,150,351	$3,360,524
Death benefit	$575,008	$928,107	$2,161,253	$4,124,168

According to the general rule, a change of policy owner leads a disposition for tax purposes. The policy owner must include in their taxable income the amount of the gain obtained on the transaction. The taxable gain corresponds to the difference between the proceeds of disposition and the policy's adjusted cost base. The intergenerational transfer strategy relies on exceptions to the general rule. Its purpose is to benefit from the advantages and opportunities provided by the Income Tax Act (ITA) to people who want to make a tax-advantaged and secure transfer of their estate to their children or grandchildren.

* The intergenerational transfer strategy is based on the rules outlined in paragraph 148(8) of the ITA. Under these rules, when a person transfers the interest they hold in a life insurance policy to their child or grandchild for free, and the life insured is that of a child or grandchild of the policy owner, the proceeds of disposition for the transfer are deemed equal to the policy's ACB. Therefore, no income tax is payable by the policy owner when the transfer is made.

iA Financial Group – A solid, trusted company

With over 130 years of history in the insurance and wealth management businesses, iA Financial Group is a name that inspires trust for its clients. Founded in 1892, iA has always succeeded in adapting its practices and product offering to changing market needs in order to meet the needs of clients.

Our mission is to ensure the financial wellbeing of our clients by offering them personal insurance coverage and investment solutions to help them achieve their personal goals.

Samuel Li, CEA
Financial Advisor
Email: Samuel@SamuelConsultant.com
WhatsApp/Text: 647-294-0702

Mutual funds offered through Investia Financial Service Inc.
Insurance products offered through Excel Insurance Agency

F13-1091A(23-11) ACC

INVESTED IN YOU.

iA Financial Group is a business name and trademark of
Industrial Alliance Insurance and Financial Services Inc.

ia.ca