# A growing family doesn't mean shrinking wealth

You've been successful in building and growing wealth for you and your family. However, as your net worth grows, you may pay tax at higher rates. This erodes your growth and reduces value over time. To help protect your wealth, you can review income-splitting strategies to reduce the taxes you pay each year and have more for the next generation.

## Consider a cascading permanent life insurance strategy

A cascading life insurance strategy uses permanent life insurance to effectively transfer wealth between generations. There are many ways to structure the cascading strategy. Here's one:

**You**
Initial policy owner
Pays premiums to insure child.

→ Ownership + accumulated cash value

**Your adult child**
Contingent owner & life insured
Your adult child pays any continuing premiums once they become the owner.

→ Death benefit

**Your grandchild**
Beneficiary
Receives the tax-free death benefit.

Another strategy is to insure your grandchild to help protect their future financial security. If you name your child or grandchild as contingent owner, the policy and accumulated cash value can transfer to them as an adult (or to their parent while they're still a minor).

**You**
Initial policy owner
Pays premiums to insure grandchild.

→ Ownership + accumulated cash value

**Your adult child**
First contingent owner
Your adult child pays any continuing premiums once they become the owner and holds until ready to transfer to the insured grandchild.

→ Ownership + accumulated cash value

**Your grandchild**
Life insured and second contingent owner
Your grandchild has access to accumulated cash values during their lifetime.

→

**Death benefit**
The next generation receives the benefit tax-free.

## Benefits of cascading permanent life insurance

- **Tax-minimization** – cash value grows inside the policy without personal taxation, creating tax-efficiency. This can let you pass on more of your money while providing financial security and protection.
- **Risk mitigation** – permanent life insurance can be a safe asset with growth potential. It has the added benefit of a cash payout in the event of premature death for you and your loved ones.
- **Liquidity** – a policy owner can access cash value inside the policy (if available) through:
  - withdrawal,
  - policy loan, or
  - using the cash value as collateral for a third-party loan.

  Note that the cash value, adjusted cost basis and death benefit may be affected when accessing cash values inside the policy. Taxes may apply to withdrawals or policy loans.
- **Simplicity** – you can transfer policy ownership to the insured (or another eligible person like a spouse, common-law partner, child or grandchild) on a tax-free rollover basis. You must name them as a contingent owner of the policy. This prevents the policy and its value from forming part of your estate for legal purposes and income tax on your final return. It also avoids estate settlement and privacy issues since the policy transfers directly to the recipient.

### Tax-minimization comparison

Non-registered investments and assets have high tax rates on their growth, an average 50% or more. This erodes growth and reduces the net value.

### Rollover explained

A rollover prevents taxes from applying to some policy transfers. It depends on the person insured and receiving the policy, and their relationship to the policy owner.

Some examples of rollovers include transfers:

- between spouses, regardless of person insured
- from the policy owner to their child or grandchild, where the child or grandchild is the insured

A rollover doesn't prevent taxes on transactions that occur after the transfer (i.e. liquidity).

## Interested in this strategy?

Speak with your advisor about creating a cascading insurance strategy that best suits your goals and your estate plan.


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