Wealth Reflections
Insights on building, preserving and passing wealth
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When Old may be better than New

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While constant innovation brings us new and efficient ways to complete tasks and gather information, **occasionally in financial product design, old may be better than new.** This is frequently true when the reason for a change is driven by our government's wish to reduce tax advantages and collect more from us to help with growing expenses.

And so it is useful to know about a change that is coming on January 2017 in the life insurance industry in Canada. On January 2017 new plan design rules will come into force for new policies. These new rules are worth comparing to the existing rules and determining if you would prefer a plan issued before the end of 2016 (a grandfathered plan) or one of the new plans. Policies under the new rules will continue to offer excellent security and value, but current policy structure and legislation offer some advantages that that may entice people to act now and acquire a grandfathered contract.

Life Insurance, as a unique financial instrument, offers some interesting opportunities for High Net Worth investors and Small Business owners. **Its tax-exempt status allows the policy owner to accumulate funds in a conservative investment pool with very low volatility and still achieve relatively high net yields, courtesy of tax elimination, as opposed to taking on higher investment risk.** Through the capital dividend account mechanism it can act as a source of discounted capital, and provide an efficient way to redeem shares at death, cover tax expenses, equalize legacies or make charitable bequests.

When compared to the legislative changes that will come into effect in 2017, the current legislative environment provides the following two key advantages for plans issued by December 2016:

1. **For corporate owned life insurance policies, there is an advantage for pre-2017 policies with respect to the Capital Dividend Account**. While the grandfathered plans allow the policy's Adjusted Cost Basis (ACB) to reduce to zero around life expectancy, thereby allowing the full death benefit proceeds to flow out as tax-free dividends, the post-2016 policies will not have the same feature and some portion of the death benefit will always be taxed on the way out of the corporation. This will have a diminishing effect on the policy's net Internal Rate of Return (IRR) compared to grandfathered policies.

2. **Pre-2017 (grandfathered) policies, because of how they have been built, will also tend to have higher long-term accumulation than policies subject to the new legislation**. This means the long-term IRR may be higher for grandfathered policies.

Also relevant in purchasing a plan over the next year is the ability of these plans to provide a way to diversify your bond exposure to rising interest rates within your investment portfolio. Rising interest rates tend to dampen bond yields while the investment funds supporting Participating Whole Life plans benefit from rising rates because insurers tend to hold their bonds to maturity. As they replace maturing bonds, the returns of new bonds acquired would be better than current returns.

If you're looking to capitalize on the benefits of tax-exempt life insurance, you may wish to look at doing this sooner rather than later. In addition to the advantages described above, the other fact to consider is that life insurance values are improved if you purchase the policy before your next change in age or before any adverse changes in health.

If you would like to discuss the impact to you of a pre or post December 31, 2016 policy, please do let me know.

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