

Wealth Reflections

Insights on building, preserving and passing wealth
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The Umbrella – Protecting Income and Assets

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Back in the 1980's one of our insurer's had a bright red umbrella as their symbol. Wayne Gretzky acted as their spokesperson and would appear on TV ads twirling this apparatus and speaking about protecting your family, your income and your assets. With time the insurance industry consolidated, the red umbrella disappeared, and the hockey player moved south. However the image of the umbrella continues to strongly resonate when insurance and protection are discussed.

But how much does our umbrella need to cover? How wide should it be? Just as umbrellas come in different shapes and sizes – large golf umbrellas to shelter the golfer and his bag, and portable umbrellas that are as small as a wallet, insurance is not a one size fits all affair. Choice and selection are involved.

PROTECTING INCOME - If our financial resources are still building and we are dependent on our income to look after us and our family, it is wise to have an umbrella designed to provide a guaranteed income or a lump sum payment if we are sick or hurt (disability & critical illness insurance) or if we die early (life insurance). If that umbrella can stretch wide and eliminate debt, reduce financial concerns, and provide security, it will not eliminate the surreal experience of becoming incapacitated or losing a spouse, partner or parent, but it will provide a safe environment for all to rebuild. Financial choices can be based on what is best for the family, rather than being forced into a path that could compound the difficulty in coping.

PROTECTING ASSETS - The umbrella analogy continues as we seek to protect our assets in two ways; first from loss, and second from taxation.

Protecting from Loss - While we are legally required to carry car insurance, it is optional to maintain home, content and liability coverage. Usually we have initial discussions with our insurer when we begin programs and then faithfully renew contracts each year. However to ensure that this umbrella is effective when called upon to open up and protect, it is prudent to build a review discussion with insurance providers each year to ensure elements aren't missing as assets build.

Protecting from Tax – While we diligently invest and seek out respectable rates of return on our investments, undoubtedly a 23% to 50% reduction on growth, caused by taxation, is one of the largest dampeners on building wealth. Creating an umbrella over this growth and protecting returns from annual taxation is a rewarding investment strategy. Ironically, life insurance policies built to protect families, can also be tailored to protect the growth of assets. These long term estate life insurance plans are attractive to affluent families in two ways. First they allow for a tax preferred build-up of deposits that are eventually accessed on a tax free basis through the death benefit, and second they provide timely cash to the estate to assist with the payment of taxes, charitable donations and family gifts, allowing specific appreciated assets to be kept within the family.

So while we hope for sunshine, clouds and rain can unpredictably appear. Insurance, like an umbrella is a tool to be selected to help us mitigate risk. With proper planning it can be available to successfully protect our income, our families and our assets.

We can tailor specific insurance programs to meet your needs. Please call to arrange an appointment if this would be helpful.