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Why HNW Clients Buy Cash-Value Life Insurance

High net worth clients don't *need* life insurance to replace income and ensure their families are able to maintain their standard of living because they usually have enough assets. *But here are 4 reasons they do buy it:*

1. To Pay Tax Liabilities

- When their estate faces a large tax liability when they or their spouse dies, they use cash value life insurance to pay that bill for pennies on the dollar.
- When they own commercial or other income producing real estate they want to pass on to children or other beneficiaries.
- When they own a vacation property that has increased in value since they bought it.
- When they own shares of a business and they will need cash to buy out remaining shares when another shareholder dies.
- When they own a holding company with significant real estate or investment assets.

Ready cash is required in each of these situations to cover capital gains consequences shortly after an owner's death. Without tax-exempt life insurance executors could be forced to liquidate assets to pay tax bills.

Liquidating assets to pay tax liabilities is an expensive option. High value real estate may not sell quickly. It may not be a seller's market when funds are needed. Borrowing may be expensive or not readily available. Insurance pays out exactly when taxes are due and is the least expensive way to create tax free cash at death.

2. To Equalize Asset Distribution After Death

If they own a business and all their children don't work in the business or want to in the future, cash value life insurance can make estate distribution fair and equitable. Some can get shares in the company; others can get the tax-free cash equivalent.

3. To Create a Tax-free, Non Correlated, Fixed Income Asset

If they like TFSA and RRSP tax sheltering and would like to build up more value for themselves and their families without those limits – they turn to cash value life insurance. Cash value life insurance works like an unlimited TFSA, both corporate and personal. It shelters income growth, passive corporate income and can create a Capital Dividend Account credit for amounts over the adjusted cost basis of the plan.

- Cash value grows tax-free
- Cash value can be accessed tax free
- Benefits are paid out tax-free to named beneficiaries

4. To Generate a Substantial Estate or Legacy

If they want to build a great legacy in their estate and like an investment that could earn a 9% rate of return for their estate, they consider cash value life insurance.