

# Using Joint-Last-to Die Insurance to Protect your Estate



## Executive summary

Joint-Last-to-Die (JLTD) insurance is designed to protect the assets for the beneficiaries of an estate. A JLTD policy is issued on the lives of two people; typically spouses. The policy continues after the death of one spouse, and the benefit is paid on the death of the surviving spouse. This type of insurance is an effective estate planning tool that provides protection for your estate as well as keeping premium costs lower than traditional insurance approaches.

## What you need to know

When you die in Canada, it is deemed that your assets have been sold. This creates a taxable event for your estate. The Income Tax Act allows for the tax-free roll-over to a spouse upon death, therefore deferring the tax liability until the death of the surviving spouse. After the death of the surviving spouse, their assets are deemed to have been sold at Fair Market Value (FMV), which will create a capital gain for any appreciated assets. Half of this gain will be added to the deceased's final income tax return, which could bump their marginal tax rate up significantly, and therefore create a huge tax bill. A joint-last-to-die policy is designed to make up what is lost in taxes in the estate.

### For Example:

Mr. & Mrs. Smith are worried about their estate after they die. They have significant savings built up in RRSP's and other investments. They also have a home in the city and a cottage that they use in the summers. They realize that they will have a significant tax bill when they both die and want to know the best way to pay the tax so that their beneficiaries will receive the estate in its full value.

The Smiths financial advisor suggests purchasing a joint-last-to-die insurance policy. Their advisor explains that the surviving spouse will not have to worry about paying taxes, as their assets will roll-over on a tax-free basis, however there will be a taxable event at the death of the second spouse. A joint-last-to-die policy will provide a cost-effective solution to covering off the estate taxes upon the death of the surviving spouse, allowing their beneficiaries to receive the Smiths assets without having to worry about paying the taxes.

## The bottom line

The taxman will always get paid but having a strategy in place before it is too late will ensure your estate remains intact for your loved ones. Joint-Last-to-Die Insurance is one of the best tools available to effectively deal with these taxes after you and your spouse are no longer living.

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