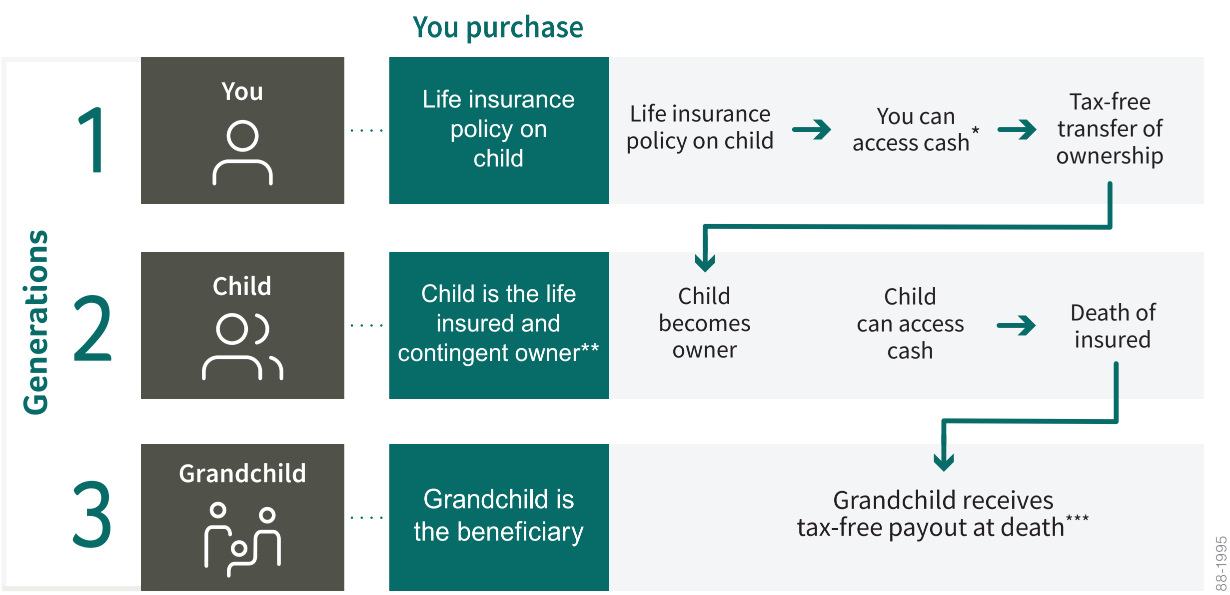
# Cascading life insurance strategy

## An intergenerational wealth transfer

The cascading life insurance strategy uses a life insurance policy with cash value to provide both life insurance protection on a child or grandchild and a tax efficient vehicle to enhance and transfer your wealth to the next generation.

Generally, when you transfer a life insurance policy to your child or grandchild, there's an automatic tax deferred rollover when they're the lives insured under the policy. This is a unique feature of life insurance not available with marketable investments, which, for tax purposes, are typically deemed to be disposed of at their fair market value when transferred to the next generation.

The cascading life insurance strategy is based on this tax-deferred rollover rule available for transfers to the next generation. The cash value growth within the policy is also tax-advantaged compared to marketable investments, which generate investment income subject to taxation.




* Accessing cash may result in taxable income and may reduce the payout at death.
** Clients should name their child as the contingent owner of the policy. If the child is a minor or is mentally incapable, the child's guardian of property in accordance with the relevant provincial legislation should be named as the contingent owner. If the client dies without doing so and the insured's child is still alive, the policy will become a part of the client's estate and will be subject to tax and probate fees where applicable.
*** It's assumed the client has named their grandchild as the beneficiary and the designation remains unchanged at the time of the insured's death. On becoming owner, the insured child could change any revocable designation.
Statements regarding tax are based on current Canadian tax law for Canadian residents. The law and its interpretation are subject to change.

## How does cascading life insurance work?

1. Parents or grandparents purchase a permanent life insurance policy on their child's or grandchild's life.
2. The policyowner (parents or grandparents) funds the policy with assets they either intend to leave to the life insured (child or grandchild) as a legacy, or assets they want to transfer to the child for funding their schooling, a down payment on a house, or other life events.
3. The policyowner (parent or grandparent) names the life insured as the contingent policyowner to allow the tax-free ownership transfer of the life insurance policy to the child upon the death of the policyowner. See the considerations section below for more detail.
4. Alternatively, the policyowner may transfer the life insurance policy to the child (life insured) while they're alive, so the child may access the policy's cash value.

## Considerations

The availability of insurance coverage is subject to our underwriting requirements.

The definition of “child” for the purposes of this intergenerational transfer rule in the Income Tax Act (Canada) includes: (i) the policyowner’s child, (ii) the policyowner’s grandchild, (iii) a person who, at any time before the person attained the age of 19 years, was wholly dependent on the policyowner for support and of whom the policyowner had, at that time, in law or in fact, the custody and control, (iv) a person of whom the policyowner is the legal parent, (v) a child of the policyowner’s spouse or common-law partner, and (vi) a spouse or common-law partner of a child of the policyowner, even after the child of the policyowner predeceases the son-in-law/daughter-in-law.

In most cases, where it makes sense, it’s recommended the child be named as contingent owner of the policy. The Canada Revenue Agency (CRA) confirmed tax-free rollover treatment is available where a “child” is named as the contingent owner of the policy and, upon the death of the policyowner, becomes the new successor policyowner. If the child is a minor or is mentally incapable, a tax-deferred rollover is available where the life insurance policy is transferred to an individual who’s appointed as the child’s guardian of property in accordance with the relevant provincial legislation. The rollover is unavailable in situations where the transfer is done through a will or a trust.

The information provided is based on current laws, regulations and other rules applicable to Canadian residents. It is accurate to the best of our knowledge as of the date of publication (May 2022). Rules and their interpretation may change, affecting the accuracy of the information. The information provided is general in nature, and should not be relied upon as a substitute for advice in any specific situation. For specific situations, advice should be obtained from the appropriate legal, accounting, tax or other professional advisors.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