5 THINGS Advisors often don’t tell their wealthy Clients

Sun Life

Wayne G. Miller, BMATH, ASA, ACIA
Associate Vice-President, Marketing & Business Development, Sun Life

It's time to put to rest the misconceptions that prevent people from getting the financial protection they need – and want.

The unfair stigma of life insurance creates barriers to having conversations about wealth protection.

That stereotypical sales person selling you a policy you don't need, insurers going bankrupt and not paying claims, to the high insurance costs that are never recovered – each of these misconceptions continue to create barriers to having a conversation about wealth protection.

The facts about life insurance

Life insurance has been named one of the 10 most important social innovations of all time.[1] It's played a key financial protection role since the 1800s, and it continues to play that role today, particularly in terms of driving fiscally responsible social policy.

As we continue to enjoy living longer lives, we see a corresponding increase in the need to help fund extended retirement living and long-term care. That's why it's important that insurance and tax policies provide Canadians with appropriate protection. And contrary to what you might think, the role of life insurance actually grows in importance as an individual's wealth grows. This is why industry associations, such as the Conference for Advanced Life Underwriting (CALU), champion key issues with government regulators and policy makers.

Over the years, the life insurance industry has realized the benefits of building positive relationships to ensure resilient political goodwill and capital.

Make no mistake, individual wealth is indeed growing. Billions of dollars are being passed annually to the boomer generation from their parents, and billions have been created by professionals and business owners. In fact, $1.031 trillion is projected to be transferred by 2028[2]. There's a lot at stake. It's an important time to get the facts straight about the role insurance can play in enhancing and preserving wealth, whether earned or inherited. So let's look at five things you might not be hearing from your advisor.

[1] Jeremy Nichols, Pioneer Post – February 18, 2014.

[2] Investor Economics, 2020 Household Balance Sheet Report

1 Affluent people really want insurance

As people's wealth increases, they often enter a higher tax bracket and have excess capital. If they own a business, they're typically looking for solutions to help manage the assets that have accumulated in it. The more wealth people have, the more accustomed they become to a higher standard of living – and the more they have to lose. Life insurance is a safeguard to protect the affluent investor's lifestyle no matter what the future holds. Permanent life insurance – whole life or universal

Permanent life insurance

to protect your financial capital

life insurance that stays in place for an individual's lifetime – often plays an important role in retirement and estate planning for affluent investors who've accumulated a significant amount of wealth. This type of insurance can benefit investors by:

Covering tax liabilities:

Upon death, your beneficiary receives the death benefit tax-free. With careful estate planning and clear instructions to your beneficiary, it's possible to use your policy proceeds to cover the tax liability on your assets at the time of death – thereby preserving the full value of your estate for your heirs.

Transferring assets tax-effectively:

Insurance arrangements can also be structured for the tax effective transfer of assets from a corporation. The insurance proceeds can sometimes be used to pay tax-free capital dividend payments from a company to its shareholders. There are a number of variations of how to structure these arrangements, depending on the situation and business purpose.

Providing access to capital:

You can also access your policy's investment value – a strategy that can be more attractive than pulling funds from other investments. For example, one tax-effective strategy is to use the value of your policy as collateral for a loan during your retirement. You receive the loan proceeds tax-free to use as income, and upon your death the proceeds from the policy are used to pay off the loan. The remaining balance is paid to your beneficiaries.

2 Group life insurance doesn't always provide enough coverage

You may not recognize how much insurance you actually need. It's true that many people already have insurance, either through work or individually. But what they often don't recognize is how much insurance they actually need. The growing trend of relying on minimal levels of group coverage leaves many Canadians underinsured. In fact, the market penetration rate for insurance decreased to the low rate of just 68% in 2013 and has not increased since that time.[3]

Consider that for a primary breadwinner, to fully protect her assets, she should consider insurance equal to her earned income multiplied by the number of income-earning years she wants to cover. For a business partner looking to fund a buy/sell agreement as part of business continuation planning, she needs to be insured for the estimated value of her share of the business. It's also important to fund terminal tax liabilities, but many people's group coverage ends at age 65 or when they leave their employer. Furthermore, group insurance typically applies a yearly renewable term (YRT) charge structure, in which the price of insurance increases with each year of age. Conversely, a standard-rated insured purchasing individual insurance could likely obtain cheaper coverage over the long term.

The bottom line? The amount of insurance you need to protect your wealth may be much higher than you think and likely far beyond what your group plan offers. That's why it's important to undertake an analysis of your needs – and wants – to ensure you have the proper financial insurance solutions in place.

Why insurance?	How much?
Replace future earnings	Earned income x # of years to replace
Fund buy/sell agreement	Estimated value of shares to purchase
Fund terminal tax liability	Projected tax to pay at death
Alternate asset class	An appropriate percentage of fixed income assets

[3] Canadian Life Insurance Ownership Study Highlights, 2019, LIMRA.

3 Insurance is a well performing, low-risk investment

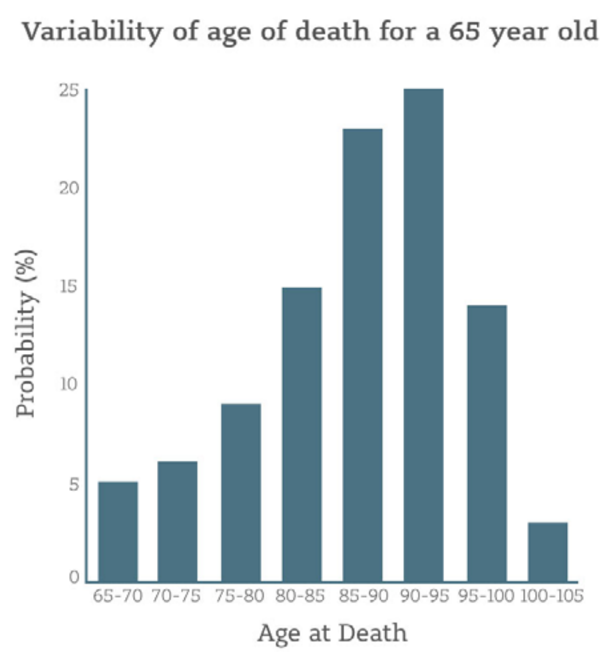
We don't traditionally think of insurance as an investment, but it has gained wide recognition as an alternative asset class. Why? Permanent life insurance often produces superior rates of after-tax return over more traditional, conservative investments like GICs or government bonds Permanent insurance can enhance a non-registered investment portfolio by providing tax-sheltered investment growth. No tax is payable on the investment growth within a permanent life insurance policy, so long as the growth remains in the policy. For high net worth investors, the amount of insurance they would buy depends on their desired level of fixed income assets in their portfolio.

Life expectancy and your insurance investment

Another misconception about insurance is that those who live a normal life expectancy won't experience a good return on their investment. Life expectancy is an average number.

The table to the right shows roughly half of people die before the average life expectancy and half will live beyond that age. It's true that for insurance, the longer you live, the lower the return on investment, but you have to live a very long time to not get your money back.

For example, if you're a male non-smoker and you purchased a universal life policy at age 65 and you were to die at age 70, your insurance payout would produce a very high after-tax return on investment of 41%. On the other extreme, if you were to live to age 100, your after-tax return would be 1.53%. Most people will agree that an after-tax return of 1.5% on a guaranteed investment is quite good and in line with the return of some GIC products. Your participating life policy return could be even greater if interest rates increase over the time you hold the policy. The reality is that re-allocating some of your fixed income assets to permanent life insurance can improve the efficiency of your investment portfolio, while giving you the income protection you need.



Source: Canadian Pensioners' Mortality Table, Canadian Institute of Actuaries 2014

4 Canadian life insurance companies are a safe place to put your money

Payout rates for life insurance claims are extraordinarily high. For example, 99.9% of all life insurance claims to Sun Life are paid. In Canada, insurers paid health and life claims together totaling more than $98 billion in 2018. That's more than $1.88 billion a week.[4]

Life insurance is a very different product from home, auto or liability-related insurance. With life insurance, the amount of the insurance benefit is determined in the contract. But that's not the case with home and auto insurance, and disputes can happen over the extent of damages.

The work in life insurance is up front – assessing the risk in issuing the policy. Once a policy is issued, the guaranteed minimum benefit amount is a known entity. The most common reason for a declined payment is fraud in the applicant not disclosing a pre-existing health condition – and this is a rare occurrence. So there's very little grey area when it comes to life insurance payouts, and there is little risk that the insurance company won't be there when it's time for your policy to be paid out. There have only been four insolvencies ever in the life insurance industry in Canada. In each case, all the Canadian policies were transferred to solvent life insurance companies – and the vast majority of policyholders were fully protected.

A highly regulated industry

with a track record to be envied

The insurance industry is regulated by the Canadian government's Office of the Superintendent of Financial Institutions (OSFI), which requires a company's Life Insurance Capital Adequacy Test (LICAT) ratio to be above 90%.

This minimum threshold of available capital over required capital means the insurance company will have an adequate margin of assets over liabilities to ensure it can pay claims as they arise. In fact, the industry standard for the LICAT ratio, which Sun Life Financial adheres to, is above 140% and all of the major insurers in Canada post their standing prominently on their corporate websites. Canadian insurers, such as Sun Life, are also rated highly by AM Best, which ranks the credit-worthiness and financial strength of insurance companies. And every life insurance company in Canada is a member of Assuris – a not-for-profit organization that offers protection to consumers should an insurance company fail. There are multiple ways your insurance is protected in Canada.

[4] CLHIA, Canadian Life and Health Insurance Facts 2019 Edition.

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You don't need to work with that old stereotypical insurance agent

When you think of insurance advisors, you may think of an experience you've had in the past with someone who was trying desperately to sell you a life insurance policy regardless of how much you needed it. The good news is there are insurance professionals and holistic financial advisors who specialize in working with affluent investors to protect their assets and maximize their estates.

You can choose to work with an insurance advisor who will become part of your financial team. Working alongside your other investment advisors and/or tax and accounting professionals, insurance advisors can apply their specialized, sophisticated knowledge about tax and estate planning that can help you preserve and enhance your wealth.

Similar to looking at financial advisors, look for estate planners or insurance specialists who are professionally certified. Each province and territory has its own insurance regulators, but the most common certification you'll want to look for in Canada is the Chartered Life Underwriter (CLU) designation. You may also come across insurance specialists who are Certified Financial Planners, another industry standard in holistic planning which includes insurance specialization, but slightly less focus on advanced estate planning matters.

The right insurance advisor can play an important role on your team of financial advisors – and will be nothing like the cliché of the pushy door-to-door insurance salesman.

Decide for yourself

Consider the facts

Life insurance is a highly regulated industry and based on the idea of sharing the cost of risk across a community of people.

This makes it a very powerful tool. Insurance products add value for business owners and affluent individuals in many ways, from enhanced retirement income, to business protection, to estate preservation, to tax-efficient wealth transfers. Insurance myths have lingered long enough. It's time to look beyond misconceptions to assess the true value of insurance as part of your wealth protection and growth strategies.

Biography

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Leading the advice revolution.

Over the course of Wayne's 30 years at Sun Life, his respect for advisors and the value of advice has only grown. As the holder of Associate designations from both the Society of Actuaries and Canadian Institute of Actuaries, he spent the first 10 years of his career in product development, with the balance being in Marketing and Distribution.

In his current role, Wayne oversees the B2B marketing function as well as a team of business development thought leaders that disrupt, inspire and enable advisors on:

1) professional development;
2) practice management;
3) marketing & branding and
4) Client engagement.

He has deep respect for the crucially important work advisors do every day to give their Clients priceless peace of mind, and is committed to providing innovative tools, coaching and information to help them address their Clients' financial literacy gap. At the core of his philosophy is "no regrets." That is why he is leading the advice revolution – a movement that inspires every Canadian to create a meaningful legacy – because they understand and respect the financial services industry and the advisors that serve within it.

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