

# INTERGENERATIONAL WEALTH TRANSFER STRATEGY<sup>®</sup>

## TRANSFERRING WEALTH TO A GRANDCHILD



### Meet Linda – Planning a gift that will provide a lifetime of financial security for her family

#### SITUATION

Linda, age 65, recently retired. Her daughter, Nicole, recently gave birth to Liam, Linda's first grandchild. Linda is excited to spend lots of time with him and is already thinking about his future.

Linda has invested her money wisely as she prepared for her retirement. Linda also has a large pool of assets through inheritance after her mother's passing which she does not need to support her lifestyle.

But she worries about the taxes she could pay on her investments. Linda knows that taxes could erode the value of her estate over time.

#### GOALS

Linda would like to share her wealth with her growing family to make sure they will always be secure.

Linda wants a well-designed plan that will see her financial gift lasting throughout Liam's lifetime and beyond.

#### RECOMMENDATION

- Purchase a whole life insurance policy (Equitable Life's Equimax Estate Builder<sup>®</sup> with the 20 pay premium option) on the life of her grandson, Liam.
- Linda will deposit an annual premium of \$20,000 for a total of only ten (10) years.<sup>1</sup> The annual premium will be transferred from Linda's investment portfolio.
- Linda will be the original owner of this policy, with an insurance face amount of \$1,176,470.
- Nicole will be the contingent policy owner. Suppose Linda passes away or chooses to relinquish her ownership of the policy. In that case, Nicole will automatically become the policy owner with no tax consequences.<sup>2</sup>
- Nicole will also be named the policy beneficiary. If Liam dies, she will receive the tax-free death benefit from the policy.
- After ten years of premium payments, Linda will stop the deposits.<sup>1</sup>
- At that time, she may transfer ownership of the policy to Nicole if she is ready, without tax consequences.<sup>2</sup> As the policy owner, Nicole will be able to access the cash value in the policy whenever she wants, for Liam's education or other needs.<sup>2</sup>
- Nicole could also decide not to make any withdrawals. She could allow the policy cash value to grow until Liam is older and then transfer ownership of the policy to him without tax consequences<sup>2</sup>. As the policy owner, Liam could use the cash value for any purpose.<sup>3</sup>
- Ultimately, Liam could name his future children as beneficiaries to receive the policy death benefit after his death, extending Linda's legacy to another generation.

<sup>1</sup> This sales illustration for this case study shows a premium offset point at year 10. After this time, you may be able to stop paying premiums for your policy. A decrease in the life insurance dividend scale will affect the illustrated values; it may delay the premium offset point and require you to pay premiums for longer than previously illustrated or resume paying premiums for some time if your policy has been on premium offset. Dividends are not guaranteed and are paid at the sole discretion of the Board of Directors. Dividends may be subject to taxation. Dividends will vary based on the actual investment returns in the participating account as well as mortality, expenses, lapses, claims experience, taxes, and other experience of the participating block of policies. <sup>2</sup>Transfer of ownership can be tax-free if the person transferred to is a child. See subsection 148(8) of the Income Tax Act for the definition of "child." <sup>3</sup>Cash value withdrawals or policy loan withdrawals may trigger a policy gain. The policy gain would be taxable to the Policy Owner.



# INTERGENERATIONAL WEALTH TRANSFER STRATEGY

## TRANSFERRING WEALTH TO A GRANDCHILD

### THE RESULT

By Linda's age 75 in 10 years, the illustration shows a cash value of \$144,460<sup>3</sup>.

The cash value will grow tax-preferred throughout Liam's life (see table). Depending on Liam's financial needs, the policy owner can consider accessing the cash value<sup>2</sup> at any time, for any purpose. For instance, it could eventually help fund Liam's post-secondary education or a down payment on a home or business.

The insurance death benefit may continue to grow and the illustration shows a death benefit that may reach over **\$7.4 million** at Liam's age 85<sup>4</sup> and over **\$9.2 million** at Liam's age 95.<sup>4</sup>

At some point in Liam's adulthood, he may become the policy owner and choose a beneficiary to receive the death benefit. Upon his death, Liam's beneficiary would receive a significant death benefit completely **tax-free**.

**In summary**, Linda can accomplish her goal of creating a long-lasting legacy for her family. She will benefit from this strategy; her daughter will benefit, and her grandson will benefit. Linda's future great-grandchildren, if any, could also benefit. Four generations could potentially benefit from one simple tax-efficient strategy.

Liam's Age	Cash Value <sup>4, 5</sup>
20	\$217,452
25	\$303,836
30	\$415,941
Liam's Age	Death Benefit <sup>4, 5</sup>
85	\$7,418,541
95	\$9,231,334

## READY TO SEE HOW INTERGENERATIONAL WEALTH TRANSFER COULD WORK FOR YOU?

Contact your advisor who will assess your unique situation and prepare a customized plan.

Name:

Tel:

Email:

Equitable Life has made every effort to ensure the accuracy of the information presented; however, accuracy is not guaranteed.

The Intergenerational Wealth Transfer strategy is a concept. It is not a product or contract. It is based on current tax legislation which may change. This information does not constitute legal, tax, investment, or other professional advice. Advisors must determine whether this concept/ product is suitable for a specific client based on the client's circumstances and needs.

<sup>4</sup> Illustrated values are based on an Equimax Estate Builder® with a 20 pay premium option and paid-up additions dividend option for a male, age 0, standard non-smoker rates in effect as of August 12, 2023, with an initial death benefit of \$1,176,470 and an annual payment of \$20,000 (\$14,329 premium and \$5,671). Excelsior Deposit Option payment). Illustrated values are based on the current dividend scale assuming a 1% reduction in the dividend scale interest rate continuing in effect for the life of the policy. This sales illustration for this case study shows a premium offset point at year 10. After this time, you may be able to stop paying premiums for your policy. A decrease in the life insurance dividend scale will affect the illustrated values; it may delay the premium offset point and require you to pay premiums for longer than previously illustrated or resume paying premiums for some time if your policy has been on premium offset. Dividends are not guaranteed and are paid at the sole discretion of the Board of Directors. Dividends may be subject to taxation. Dividends will vary based on the actual investment returns in the participating account as well as mortality, expenses, lapses, claims experience, taxes, and other experience of the participating block of policies. <sup>5</sup> Values shown assume that no policy loan or cash withdrawals will be made. ® Denotes a trademark of The Equitable Life Insurance Company of Canada.