3 Ways to Make Life Insurance Work for You

Life insurance can be used in many effective ways and shouldn't be dismissed quickly. I am going to share with you some of the ways affluent Canadians have used Life Insurance in the past. Some of these might work for you.

1. Tax Sheltered Accumulation

Assets inside an insurance policy can accumulate FREE of annual income tax and this sheltering can allow for greater accumulation over time, than when using comparable vehicles. If you are accumulating part of your investment portfolio inside an insurance policy, holding some or all of your Fixed-Income investments in the policy will allow you to shelter what might otherwise be highly taxed interest income.

2. Reliable Returns on Investment

A number of Canada's life insurance companies offer Whole Life policies with a high consistency of returns, in the form of dividends, paid on accumulating balances inside these policies. The low volatility of returns, along with the tax-free payment of these amounts upon the death of the insured, can create attractive internal rates of return.

3. Covering Taxes on Death

Given that life insurance pays out tax-free upon death of the insured it can be an effective tool to provide cash at the time of death to satisfy a tax liability.

(Globe and Mail and Tim Cestnick article published October 25, 2012.)

Choosing Your Executor

Deciding who will act as your executor is one of the most important decisions you will make for your Estate Plan, yet for many Canadians, the executor is one of the least considered parts of their plan. The vast majority of testators pick a family member or friend, even if it isn't the wisest choice.

After you die, your executor is responsible for administering your estate and distributing the property, in accordance with the terms of your will. Aside from expertise, you should consider the following when choosing an executor.

Time and Availability

Administering even a simple estate with no ongoing trusts takes considerable time.

Legal Responsibilities

A breach of trust, error or omission resulting in a loss to the estate may result in personal liability to your executor.

Family Issues

It's natural to place trust in family, conflicts can arise when trying to organize a loved one's estate. Carefully consider the role the executor entails. Choosing someone you trust is only part of the equation.

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Risks and Goals in Retirement

Canadians face many challenges as they transition into retirement. The following are things to think about when planning your retirement:

Inflation Risk

Inflation over the long term can significantly erode buying power. For example; assuming a 3% inflation rate, the buying power of a dollar would be reduced by 45% after 20 years and reduced by 60% after 30 years.

Market Volatility

During retirement, an investor's rate of withdrawal and the order or sequence that they earn their market returns can have a dramatic impact on the portfolio's ability to last. For example; if an investor experiences poor market returns early in retirement, this may have a dramatic impact on how much income they can continue to receive or how long it will last.

Longevity Risk

Compared to previous generations, both male and female Canadians can expect to live longer lives and could spend as much time in retirement as they did working.

Did you know that a healthy 65 year old female has a 44% probability of living to age 90?

2013 In Review

The past year was a rewarding one for many equity investors, as most major stock markets around the world registered surprisingly strong gains against a backdrop of an improving global economy. Prices for many fixed-income securities such as government bonds were down slightly, however, in response to the growing likelihood of higher interest rates.

In economic developments, steady improvement in the United States in areas such as employment, housing and manufacturing throughout 2013 allowed the U.S. Federal Reserve to announce a gradual withdrawal of its extraordinary stimulus measures, which have kept interest rates at historic lows and supported the economy since 2009. Elsewhere, growth remained moderate across other developed economies, with Europe emerging from recession in the second quarter of the year. Several emerging markets experienced a slowdown, though their growth rates continued to be positive. Overall, business conditions remained supportive and some of the risks that had earlier dampened the recovery began to recede.

These developments boosted investor confidence and supported the gains in share prices, particularly in the latter half of the year. Japan's market advance was the best in the developed world, as central bank stimulus and strong profits helped to propel the Nikkei Index an incredible 57% higher for the year. The S&P 500 Index in the U.S. soared 32% to a record high and its best annual performance since 1997. The MSCI World Index added 24% and the MSCI Europe Index rose 22%, reflecting the brighter prospects for the region. Results for several emerging market bourses, however, were weighed down by the anticipation of higher interest rates and the heavy cost of structural reforms in their local economies. China's Shanghai Index dipped 7%, and the MSCI Emerging Markets Index slid 5% for the year. (All returns are in local currency terms.)

Canadian stocks overall posted double-digit gains in 2013, but underperformed both the U.S. and world markets for the third year in a row. The benchmark S&P/TSX Composite Index rallied toward the end of 2013 to gain 13% for the 12-month period, with strong results from health care, industrials and consumer discretionary stocks and weakness in the materials and utilities sectors. The Canadian dollar, meanwhile, lost about 6.5% versus the U.S. dollar, providing an additional benefit to those with global investments.

While equities may not match their stellar returns of last year, many of the conditions that have supported market advances remain in place for 2014. Any rise in interest rates is widely expected to be moderate, economic growth is still positive, and inflation remains under control. A diversified portfolio that is tailored to your individual investment objectives allows you to participate in the potential for further gains while helping to protect your investments from market corrections.

The Dangers of Co-Signing a Mortgage

Parents often co-sign mortgages without realizing the legal implications. Here are some things you need to know:

- A co-signer assumes the same legal responsibility as the primary mortgage holder, for the mortgage, legal fees, taxes and insurance.
- The debt becomes part of the co-signers credit report and must be disclosed on subsequent credit applications.
- A co-signer should seek independent legal advice. Draft a separate agreement with steps to take in the event of divorce or any other significant changes.
- All parties must agree beforehand if they will sell the house to cover any arrears, however, the co-signer has the right to go to court to force a sale.
- Parents sometimes give a down payment for a house as a wedding gift to their children. That down payment then becomes part of the child's family assets and value of the house. If the child's marriage fails, the parents have no legal right to receive the down payment back.
- As a co-signer, you have a legal right to know whether the mortgage is up-to-date and can request copies of the statements and any other correspondence. This way you won't be blindsided with a demand letter if the loan falls into arrears.

"There is an easy way to return from a casino with a small fortune, go there with a large one."

- Jack Yelton

"Never spend your money before you have it."

- Thomas Jefferson

"I try not to borrow, first you borrow, then you beg."

- Ernest Hemingway

"Forecasts may tell you a great deal about the Forecaster; they tell you nothing about the future."

- Warren Buffet