

# OVERLOOKED OPPORTUNITY

JUVENILE INSURANCE ALLOWS CLIENTS' CHILDREN TO BUILD CASH AND GUARANTEE FUTURE COVERAGE.

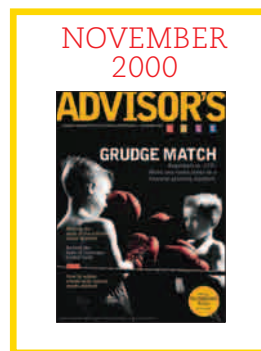
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**ONE** of our firm's core beliefs in helping clients build and manage a financial plan is to have a strategy on intergenerational wealth transfer. In fact, we say it in writing: "It is reasonable to expect that our children will incur significant post secondary education costs, and usually there are additional costs associated with helping them transition to an independent adult status. Our greatest ally in dealing with these costs is time and compound interest. A good plan should anticipate these future needs. Income-splitting opportunities, tax deferral or minimization, ownership and control of the plans are some of the design criteria."

However, beyond RESP accounts we seldom see structured arrangements that anticipate the

inevitable financial transition every young adult will confront. I have said repeatedly that there are two issues, the effects of which will pervade your adult life: sex and money. There may be education and training on the mechanics of each but little is focused on the implications.

A vast majority of Canadian families simply do not have sufficient cash flow to seriously entertain doing much more for their children than RESP funding, if even that. There is, however, a small percentage of the population that can entertain more. It's understandable that some of this may be further down their "to do" lists than the more urgent issues—such as proper insurance funding on the parents themselves and appropriate current wills, or maximum RRSP funding.



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ONE INDISPUTABLE  
FACT OF LIFE IS THAT  
FORCED SAVINGS  
WORKS.

But the reality is that most caring upper-middle-class parents will try to help their children financially, provided it does not adversely affect their own fiscal security. After educational funding is dealt with, the choices usually boil down to giving kids money or not, and maybe taking back a promissory note to maintain a bit of control. The problem with this approach **continued on page 26**

continued from page 25 is there is no opportunity to teach the value of savings. The young people simply come to expect the cash to flow, and your clients make no progress toward the goal of ceasing to be the BoMD (Bank of Mom and Dad).

Juvenile life insurance is the overlooked opportunity that can help teach a valuable lesson. I am not talking about a baby policy that plays on the fears of

the parents, but rather a meaningful insurance policy on a child (don't limit your thinking to minor children) as a financial instrument to accumulate and control capital on a tax-preferred basis, and guarantee the child's future insurability to a meaningful extent.

What parents wouldn't seriously entertain creating a million-dollar opportunity for each of their children if they could afford it?

I'll illustrate my point with a personal example. When each of our three children was born, we purchased life policies before their first birthdays. At the time, we committed about \$900 per year, per child, with an initial face amount of \$100,000. Many of our friends thought we were sick to insure our children at all, let alone for a substantial sum. Making the payments was not always easy. Short-term family demands and financial ups and downs did not always align, yet we somehow managed to make the payments because we felt it was a contractual obligation. This raises the most distasteful aspect of these plans, and yet they're the very reason they work.

I worked for 11 years with the late Ralph Simmons, a very wise man who often said, "If people were more concerned about return of their money

instead of return on their money, they wouldn't have any financial problems!"

One indisputable fact of life is that forced savings works. Over 29 years

we've earned 4.5% tax-deferred on the deposits but the death benefit has now grown to be in excess of \$325,000, and will likely double in the next 20 years. Don't bother reaching for your calculator to try

and prove this is a poor investment.

Instead, focus on the concept.

This is a contract that we still own and control. If and when we choose to transfer it to our children, it's a tax-free rollover, and the tax-deferred accumulation continues in their names. That tax-deferred annual growth is now about 7% on a year-to-year basis. If I could offer a 7% tax-deferred GIC where all the tax goes away on death, there would be people lining up at my door.

And therein lies the opportunity.

As parents we've always made sacrifices to provide our children with the things we believed were important. Wouldn't parents embrace the same thing in a financial product? It's true, the process seems unattractive when we first start, but after a few years the momentum builds and our children win.

A life insurance policy creates an opportunity for discussion about finances between parents and children—a topic that's generally accepted as the second most awkward conversation to have with your kids. Having an established life insurance policy can bring many lessons to real life, including:

- How credit works and how the loan feature in the life insurance policy should be considered;
- The advantage of forced savings in a

very high-interest, tax-deferred crediting account;

- The flexibility of temporarily discontinuing deposits and the effects on cash and death benefit balances;
- The current or likely future need for death benefit and the relative costs;
- What it will take for mom and dad to transfer this account to the child; and
- The possibilities of using this as a supplemental retirement income source.

If you think about RESPs, In-Trust Accounts, CSB programs, or even a small mutual fund or stock portfolio, the only meaningful discussion a parent can have with a child revolves around the decision to cash it, or keep it. There's little training opportunity. By contrast, the ongoing role of the life policy can help you teach children about how financial planning becomes a process. Teaching children the value of thrift or the perils of living above their incomes are important life lessons, and this product may be the forum to commence that teaching. It's a great value add that a seasoned advisor can provide to his or her long-term clients' adult children.

Besides the basic life policy, we included a Guaranteed Insurability Option (GIO). This feature allows each child to purchase up to \$50,000 more coverage at periodic intervals up to age 40. There's no restriction on the type of insurance, the option just guarantees access. If all your client's child did was exercise these options and pile them on top of the basic policy, by the time he or she reaches 40 the coverage could total \$800,000, and be based on their health at age zero.

That was a lot of money 30 years ago, and for a young family today it still represents a reasonable coverage level,

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especially if the client becomes uninsurable. Parents always try and steer their children away from dangers and risks. And the GIO does just that. Two out of three of our children have been unable to acquire life insurance as young adults for the following reasons:

- Residency, one worked and travelled overseas for two years;
- Employment, one worked as a dive master in salt water; and
- Health, one is a cancer survivor.

So, what began as a theoretical problem became reality in our home, and needless to say those GIOs are exercised at every opportunity even though none of our children has yet reached the age at which they actually need insurance. When that time comes, though, each will have an established insurance base which they'll be able to expand. A lucky thing under the circumstances.

Over the years, I have asked my clients to consider doing the same thing for their children. Some have, many haven't. By and large, those children are in their 20s and early 30s. The ones whose parents started a plan have money, a base of insurance, and most important have guaranteed future insurability. Some of the parents have transferred the policies to the kids; others are waiting to accumulate more, or until the kids are the right age. The adult children that I get the pleasure of meeting with are initially always interested in the accumulated cash, but after we talk they develop a greater appreciation for the many unique features of an established policy. Invariably, they opt to retain the insurance.

One of the great advantages of having been in the business for more than 30 years is that my practice is overcrowded with grandparents. For them, these policies are an excellent vehicle to provide a legacy for their grandchildren

while simultaneously imparting a valuable lesson on the advantages of thrift. It's an opportunity for a growing group of seniors who have both the economic means and the desire to help out. There is a large, and growing, audience for the story. Unfortunately, too few advisors are telling it.

I know I have done my clients a service with this strategy and implore all of you to investigate the option fully and give your clients an opportunity to participate. The final decision, of course, would be theirs but we do have a responsibility to show them what's available. <sup>AE</sup> **FLEISCHACKER**