Generational Legacy Plan
(Parent to Child)

What is the generational legacy plan?

The **Generational Legacy Plan** is a flexible financial strategy that empowers you to contribute to your child's future financial security by purchasing a cash value life insurance policy on your child's life. As time passes the cash values grow tax-deferred[1], providing an efficient source of financing to your child when they need it in the future. This plan allows you to maintain control of your asset by offering you the flexibility to decide whether the policy should be transferred to your child either during your lifetime or after your death.

It also allows you to make sure your child's insurability is protected[2]. As the child grows older, they can count on life insurance to financially protect their loved ones. It can help cover their personal debt obligations such as mortgage, car loans, etc. Eventually when they get older, this prepaid permanent life insurance can be used to cover their estate costs such as taxes, estate administration and legal fees.

[1] Cash values will grow inside the permanent life insurance policy on a tax-deferred basis as long as they remain inside the policy.

[2] Coverage can continue for life so long as the required premiums are paid or if it's a paid-up policy.

How does it work?

You use funds otherwise invested in your taxable investment accounts and other available liquid assets to purchase a cash value life insurance policy on the life of your child. The policy becomes part of the legacy that you plan to leave for your child, so the premium payments redirect a portion of this planned legacy into a tax-advantaged exempt life insurance policy. This provides a tax-efficient way for you to make an intergenerational wealth transfer to your child. As a benefit to you, the tax burden of your taxable investments will be reduced during your lifetime. When you are ready, you can transfer ownership of the policy to your child on a tax-deferred basis using an Intergenerational Policy Rollover[3] under the tax rules.

[3] Intergenerational policy rollover: When the policyowner of a life insurance policy transfers the policy during lifetime for no consideration or on death via a contingent owner appointment to a "child" as defined for tax purposes and the "child" is the only person whose life is insured under the policy, the transfer is deemed to occur at the policy's adjusted cost basis. This results in a tax-deferred rollover to the child or grandchild. However, the intergenerational policy rollover will typically not apply if an interest in a life insurance policy is transferred to a child under provisions in the policyowner's will or to a trust for the benefit of a child, if the child is not the only life insured on the policy at the time of transfer or if a consideration is given by the child for the transfer. See subsection 148(8) of the *Income Tax Act* for more details.

Step 1
Policy Purchase

Parent purchases the policy and pays the premium.
Child is the life insured.

Step 2
During parent lifetime or upon death

Parent has the discretion to transfer ownership to the child either at age of majority or at a future date.

Step 3
Child becomes the owner of the policy

Child has cash values available.*

* Accessing the policy cash values as a policy loan, total or partial surrender values will generally result in a policy disposition and may generate a policy gain.

Case Study[4]

Samantha has two options:

Ben and Samantha, age 35, are newly proud parents to their daughter, Olivia. Olivia is healthy and they live in Toronto, Ontario.

They have already setup a RESP account and have sufficient life insurance to cover educational needs for Olivia.

After consulting with their professional advisor, Samantha has determined that she would be able to set aside $10,000 a year for the next 20 years for Olivia's future.

Samantha would like to:

- reduce tax complexity during her lifetime and upon death.
- avoid costs and delays associated with estate administration.
- maintain control over the policy until it is transferred to Olivia, according to her preference.
- provide Olivia a living gift, which she can use for different purposes as she goes through different stages of her life.

TRADITIONAL APPROACH

Deposit $10,000 to a taxable account for 20 years

Portfolio: Balanced

Asset	Allocation	Rate of Return
Short-Term Investments	5%	2.3%
Fixed Income Investments	35%	3.2%
Equity Investments	60%	6.2%

Total Deposit over 20 years: **$200,000** ($10,000 per year)

GENERATIONAL LEGACY PLAN APPROACH

- Deposit $10,000 to a Whole Life 20 Pay - Estate Enhancer
- Policy owner: Samantha
- Contingent policy owner: Olivia
- Life Insured: Olivia (Age 0)
- Beneficiary: Samantha

[4] The case study is as of July 1, 2024. Illustration is based on female, age 0, regular rate, living in Ontario. Current annual premium of $10,000 payable for 20 years, participating whole life 20 pay -Estate Enhancer product, paid up additions dividend option with an initial insurance coverage of $964,182. Cash values are based on current dividend scale. Future changes in performance, tax legislation and administrative policies may affect this information. Assumption is Samantha, lives in Ontario and her marginal tax rate is 53.53%. Capital gains tax at the 50% inclusion rate over the years.

COMPARISON OF THE TWO APPROACHES:

Purpose	Age	Traditional Approach (Value upon Transfer) Account Value	Generational Legacy Plan Approach (Value upon Transfer) Total Cash Value (before tax)*	Generational Legacy Plan Approach (Value upon Transfer) Total Death Benefit*
Purchase Home/Rental Property	35	$462,324	$590,323	$3,003,907
Start a business	45	$640,108	$1,114,034	$4,105,869
Supplement Retirement Income	65	$1,227,216	$3,655,459	$7,437,970

* Based on current dividend rate as of July 1, 2024

COMPARISONS: TRANSFER WHEN DAUGHTER, OLIVIA IS AGE 30

Taxable Investment - Account Transfer

Owner (Parent)

Purchase

Taxable investment

Cumulative tax paid by owner - before and upon transfer

$109,770

Taxable transfer

Child

Account Value

$393,039

The Generational Legacy Plan - Policy Transfer

Policyowner (Parent)

Purchase

Life insurance policy (Insured: Child)

Cumulative tax paid by owner - before and upon transfer**

$0

Tax-deferred rollover

Insured + Policyowner (Child)

Cash value available*

$423,269

Death benefit available to beneficiary

$2,543,972

* Accessing the policy cash values as a policy loan or as total or partial surrender will generaly result in a policy disposition and may generate a policy gain.

** Assuming the policyowner won't be receiving any dividends from the policy.

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24306E (2024-09)

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