Generational Legacy Plan
(Grandparent to Grandchild)

NURTURING DREAMS, BUILDING WEALTH

Desjardins Insurance
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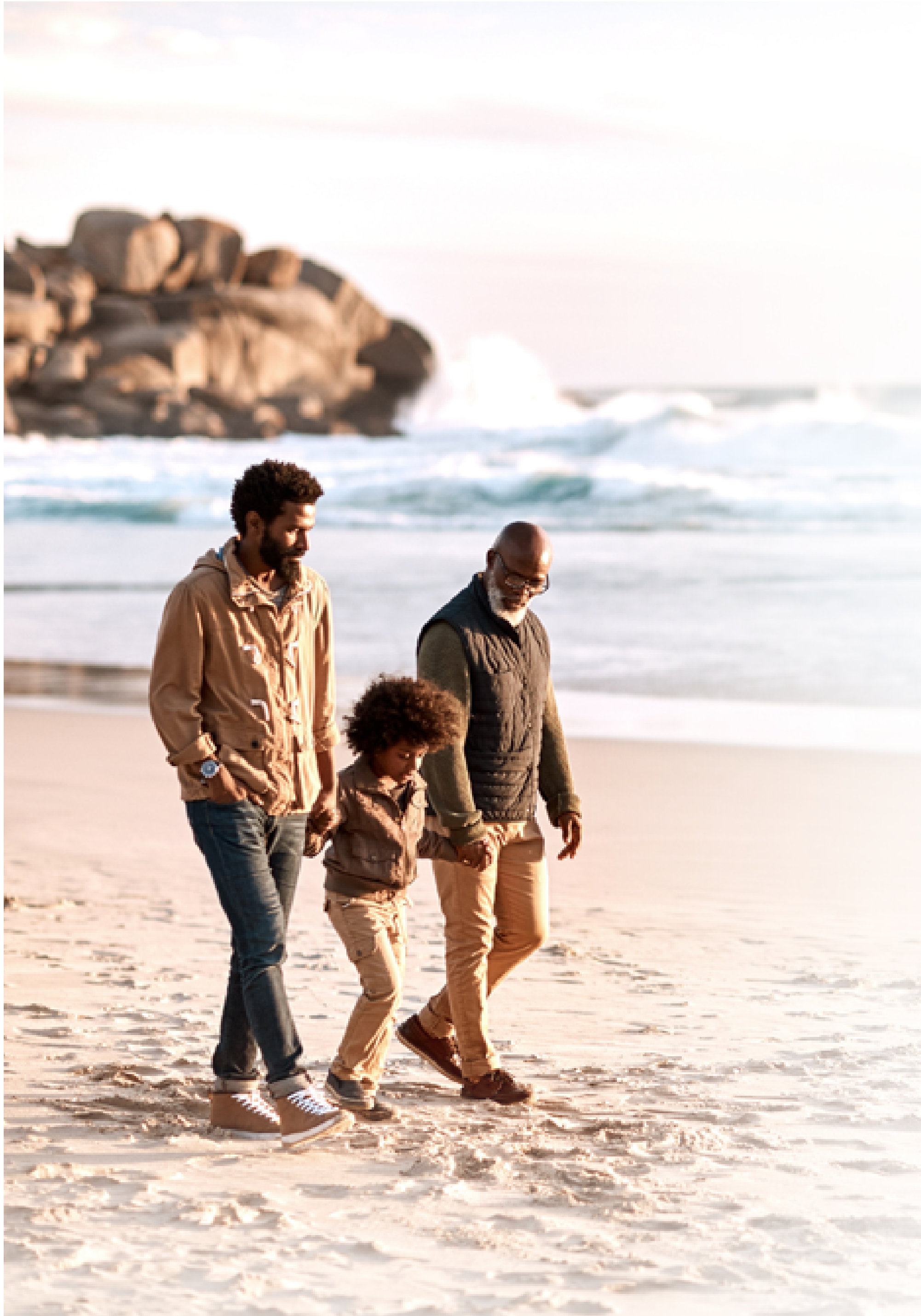

What is the generational legacy plan?

The **Generational Legacy Plan** is a flexible financial strategy that empowers you to contribute to your grandchild's future financial security by purchasing a cash value life insurance policy on your grandchild's life. As time passes the cash values grow tax-deferred[1], providing an efficient source of financing to your grandchild 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 grandchild either during your lifetime or after your death.

It also allows you to make sure your grandchild's insurability is protected.[2] As the grandchild 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 grandchild. The policy becomes part of the legacy that you plan to leave for your grandchild, 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 grandchild. 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 grandchild 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

Grandparent purchases the policy and pays the premium. Grandchild is the life insured.

Step 2
During grandparent's lifetime or upon death

Grandparent has the discretion to transfer ownership to the grandchild either at age of majority or at a future date

Step 3
Grandchild becomes the owner of the policy

Grandchild 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]

John has two options:

John, age 60, is a proud grandfather. His daughter, Amelia, age 35 has a new healthy daughter, Tanya, age 0, living in Toronto, Ontario.

Amelia has already setup a RESP account and has sufficient life insurance to cover educational needs for Tanya.

After consulting with his professional advisor, John has determined that he would be able to set aside $20,000 a year for the next 5 years for Tanya's future.

John would like to:

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

TRADITIONAL APPROACH

Deposit $20,000 to a taxable account for 5 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 Deposits over 5 years: **$100,000** ($20,000 per year)

GENERATIONAL LEGACY PLAN APPROACH

- Deposit $20,000 to a Whole Life 5 Pay
- Policy owner: John
- Contingent policy owner: Tanya
- Life Insured: Tanya (Age 0)
- Beneficiary: Amelia

[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 $20,000 payable for 5 years, participating whole life 5 pay product, with an initial insurance coverage of $1,227,921. Cash values are based on current dividend scale. Future changes in performance, tax legislation and administrative policies may affect this information. Assumption is John, lives in Ontario and his marginal tax rate is 53.53%. Capital gains tax at the 50% inclusion rate over the years.

COMPARISON OF THE TWO APPROACHES:

		Traditional Approach (Value upon Transfer)	Generational Legacy Plan Approach (Value upon Transfer)	
Purpose	**Age**	**Account Value**	**Total Cash Value (before tax)***	**Total Death Benefit***
Purchase Home/Rental Property	35	$290,195	$391,455	$1,869,684
Start a business	45	$401,849	$729,399	$2,568,814
Supplement Retirement Income	65	$770.460	$2,345,474	$4,656,420

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

COMPARISONS : TRANSFER WHEN GRANDDAUGHTER, TANYA IS AGE 30

Taxable Investment - Account Transfer

Owner (Grandparent) → Purchase → Taxable investment → Taxable transfer → Grandchild

Taxable investment: Cumulative tax paid by owner - before and upon transfer **$83,354**

Grandchild: Account Value **$246,650**

The Generational Legacy Plan - Policy Transfer

Policyowner (Grandparent) → Purchase → Life insurance policy (Insured: Grandchild) → Tax-deferred rollover → Insured + Policyowner (Grandchild)

Life insurance policy: Cumulative tax paid by owner - before and upon transfer** **$0**

Insured + Policyowner: Cash value available* **$282,976**

Insured + Policyowner: Death benefit available to beneficiary **$1,576,818**

* 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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