

LAZAR



WEALTH  
SUCCESSION  
STRATEGIES INC.

**VLAD SOLOKHINE, CFP**

Certified Financial Planner

8920 Woodbine Ave. Ste 203,

Markham, On. L3R 9W9

Office: 905-480-0344,

Ext: 103, Fax: 905-480-0328

e-mail:

vladimir.solokhine@freedom55financial.com

## IS LIFE INSURANCE REAL ESTATE?



Why would anyone even ask this question? Of course you cannot live inside your life insurance or make a kitchen renovation there. But do we use real estate just to live in? Think of it: why do we consider buying another property even if we already own a house? And for some people it is not even going to be a family cottage but rather a rental property or commercial real estate.

Why do people buy them? One of the answers is – they did their Financial Planning.

I came to life insurance industry from the investment world, and one of my biggest discoveries was that life insurance could be used as an asset too. And from financial planning standpoint, it resembles real estate in many ways.

Let's begin with the most important feature - **permanent whole life insurance accumulates equity over time**. And this equity is as real as it gets. You can go to the bank and use it as a collateral for a secured line of credit or a loan. Or you can get the loan directly from your insurance company, no need for the bank. You can **supplement your retirement income** or use it to finance a major purchase – the choice is yours. The growth charts of real estate could be found in many open sources such as [www.trehome.com](http://www.trehome.com) But not everybody knows that the permanent whole life insurance grows in value every year – even though you pay the same monthly premium. You can structure your life insurance policy so that it becomes paid up in a few years – just like a mortgage prepayment. And after your policy becomes paid up it still continues growing in value, even though you don't pay the monthly premium any more. And, just like a family cottage or your own principal residence, a life insurance policy is a great instrument to pass your wealth to children, grandchildren, or even charities of your choice.

However, life insurance has **a few noticeable differences from real estate**. By its nature the death benefit is tax free. **It never creates a capital gain**. Many of my customers who have dealt with their parents' estate with a rental property or a family cottage experienced the devastating taxable impact from those properties. Life insurance doesn't do that. Its death benefit goes directly to a beneficiary – no taxes, no probate fees, no time delay, not even a public disclosure that every will requires.

It has no remaining mortgage balance either. If someone dies the next day after obtaining the policy – the entire death benefit is paid out. Life insurance is not subject to some other real estate risks that many of us could relate to. There are no irresponsible tenants or deteriorating neighbourhood conditions that could negatively affect the value of the life insurance policy. Even stock market crashes don't change its value.

Incorporated business owners have been using life insurance for years **to transfer corporate earnings to their private use in a very tax effective way**. In fact, it is so tax effective, that the Canada Revenue Agency decided to change the rules starting January 1, 2017. But we still have some time – all policies acquired in 2016, will be grandfathered and serve very tax effectively for years to come.

And the last thing – when you are getting a new life insurance policy or cashing it out to obtain the value, there is no real estate commission. It is the life insurance company that pays the agent, not you.

As if it was the builder's responsibility to pay the real estate commission when you are buying or selling your home. That would be great, wouldn't it? But stop dreaming – it will never happen. Real estate is not life insurance!