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Estate planning opportunities using insurance investment contracts



Investment insight

With an insurance investment contract, various people play an important role in determining how the contract will work. This offers numerous estate planning opportunities, including the ability to bypass an estate and the inherent

administration, delay, and costs. However, failing to properly set up your contract may result in your intentions not being fulfilled and the contract not working like you intended. Let's look at a few scenarios.

Successor annuitant for non-registered contracts

The *annuitant* is the measuring life of the contract. Consequently, if there's only one annuitant named, on the annuitant's death, the contract ends, and the proceeds are paid to the beneficiary.

For example, let's assume you're both the owner and annuitant of a contract and have named your spouse as the beneficiary of the contract. Your intention is that on your death, your spouse will have the choice to continue the contract as the owner and annuitant or receive the death benefit payout. However, in practice, your spouse wouldn't be given this choice and would receive the death benefit payout. Furthermore, since the contract has ended, the payout would be viewed as a taxable disposition with any gain being included on your final tax return.

To make sure that the contract continues tax free to your spouse, name your spouse as the successor owner and successor annuitant. The beneficiary should be who you want to receive the death benefit payout after the death of you and your spouse.¹

Let's look at another example. You're both the owner and annuitant of a contract and have your spouse named as the successor owner but you didn't name a successor annuitant. On your death, the contract will end and there'll be a taxable disposition with any gain being included on your final tax return. Again, to make sure that the contract continues to your spouse on a tax-free basis on your death, name your spouse as the successor owner and successor annuitant.

Successor owner for non-registered contracts

Where the owner isn't the annuitant, or where the owner is the annuitant and a successor annuitant has been named, you should consider whether a successor owner for the contract should be named.

For example, let's assume you're both the owner and annuitant of a contract and have named your spouse as the successor annuitant. Your intention is for the contract to continue after your death with your spouse as the new owner and annuitant. While the contract will continue with your spouse as the successor annuitant, ownership won't transfer directly to your spouse. Rather, the contract will continue with your estate as the owner and ultimately will be administered according to the terms of your will. To make sure that the contract passes to whoever you want the new owner to be, make sure that person is also named as the successor owner. This way the contract is transferred directly to the successor owner, avoiding your estate, estate creditors, and the delays and costs of administering your estate.

Another example is where you're both the owner and beneficiary of a contract and have named your spouse as the annuitant because your spouse meets the maximum age requirement, but you don't.

If you pass on before your spouse, on your death, ownership of the contract will transfer to your estate and be dealt with according to the terms of your will. If your spouse passes on first, then the contract will end on your spouse's death because a successor annuitant wasn't named. While the death benefit will be paid to you, there'll be a taxable disposition with any gain being included on your tax return.

If this isn't your intention and you had intended for the contract to continue in the event of your death or your spouse's death, then your spouse should be named as the successor owner, and you should be named as the successor annuitant. The beneficiary should be whoever you want to receive the death benefit proceeds on the last of you and your spouse's death.¹

Be cautious of joint ownership

A common mistake is to setup the contract with you and your spouse as joint owners, with one of you as annuitant and your children as beneficiaries. In many instances, the

intention is to have the contract continue should either you or your spouse pass away. However, if the annuitant spouse dies first, the contract terminates and the proceeds are paid to your children as beneficiaries. In this instance, the surviving spouse receives nothing. This is further complicated if your children are minors because they can't disclaim ownership of the funds.

A potential solution may be for you to be owner and annuitant, and to name your spouse as the successor owner and successor annuitant, with your children as named beneficiaries.² This way, the contract ownership stays with the survivor of you and your spouse, and only after both of you pass away is the death benefit paid to your children.

If you truly want to setup a jointly owned contract, another alternative would be to have you and your spouse as joint owners, one of you as annuitant, the other as successor annuitant, and the children, for example, as beneficiaries. This would work in the same way as the previous setup, but keep in mind that where a contract has multiple owners, all the owners must agree to every change or transaction related to the contract.

Set things up the way you intend

Whether you're setting up a new contract or reviewing your current one, take the time to understand the implications of contract setup to help make sure things work as you intend. Having the right contract setup will also allow you to take advantage of the significant estate planning opportunities available with insurance investment contracts. Refer to "[Insurance Investments: the facts](#)" for more information on these types of contracts.

1 Note that if the spouse takes over ownership of the contract, the spouse can change the beneficiary designation unless the beneficiary is named irrevocably. **2** If the assets belong to both you and your spouse, you could split the assets and set up two contracts this way, alternating which of you is named as owner and annuitant, and successor owner and successor annuitant.

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