A lasting legacy for the next generation

The Cascading Life Insurance Concept can provide a possible strategy to efficiently transfer wealth between generations with life insurance.

Foresters Financial

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Approximately $750 billion in personal wealth will be transferred from one generation to the next in Canada over the next decade.[1] This means that many of your prospective and existing clients will be looking for strategies to pass their wealth to the next generation.

Life insurance from Foresters Financial™ can provide your clients with an effective way to transfer their wealth to their children or grandchildren.[2]

Cascading wealth down to the next generation

The Cascading Life Insurance Concept (also known as the Waterfall Concept or Intergenerational Wealth Transfer) is one possible wealth transfer strategy. First, a parent or grandparent purchases a whole life insurance policy on a child. The ownership of the policy can eventually be transferred to the child.

A valuable asset

Once the policy has been transferred, the child may be able to access funds by surrendering paid-up additional insurance or by requesting a policy loan. They may even choose to use funds from surrendering paid-up additional insurance to purchase a policy for their own children, further cascading wealth down to the next generation.

In most cases, the younger and healthier the insured is, the lower the life insurance premiums. Purchasing life insurance on a child can be relatively inexpensive. Another possible advantage of this strategy is that it can protect the child against future uninsurability. Buying life insurance on a child or grandchild can help guarantee they have life insurance coverage, even if future health changes make them uninsurable.

Options to keep in mind

Contingent owner

It is generally a good idea to name a contingent owner for a life insurance policy. It is even more important when using a cascading life insurance strategy as the age difference between the owner and the insured can often be significant. If a grandparent is buying the life insurance policy for their grandchild, they may consider naming the parent as a contingent owner. This may help avoid complications that may arise if the grandparent passes away before the policy can be transferred to the child.

Irrevocable beneficiary

The purchaser of the life insurance policy may want to put controls in place to help ensure funds are used as intended once the policy has been transferred to the child. Adding an irrevocable beneficiary can put such controls in place as an irrevocable beneficiary must give their consent before any changes are made to the policy. For example, a grandparent may name the parent as the irrevocable beneficiary so the parent must be consulted any time the child wishes to surrender paid-up additional insurance or request a policy loan.

Case study

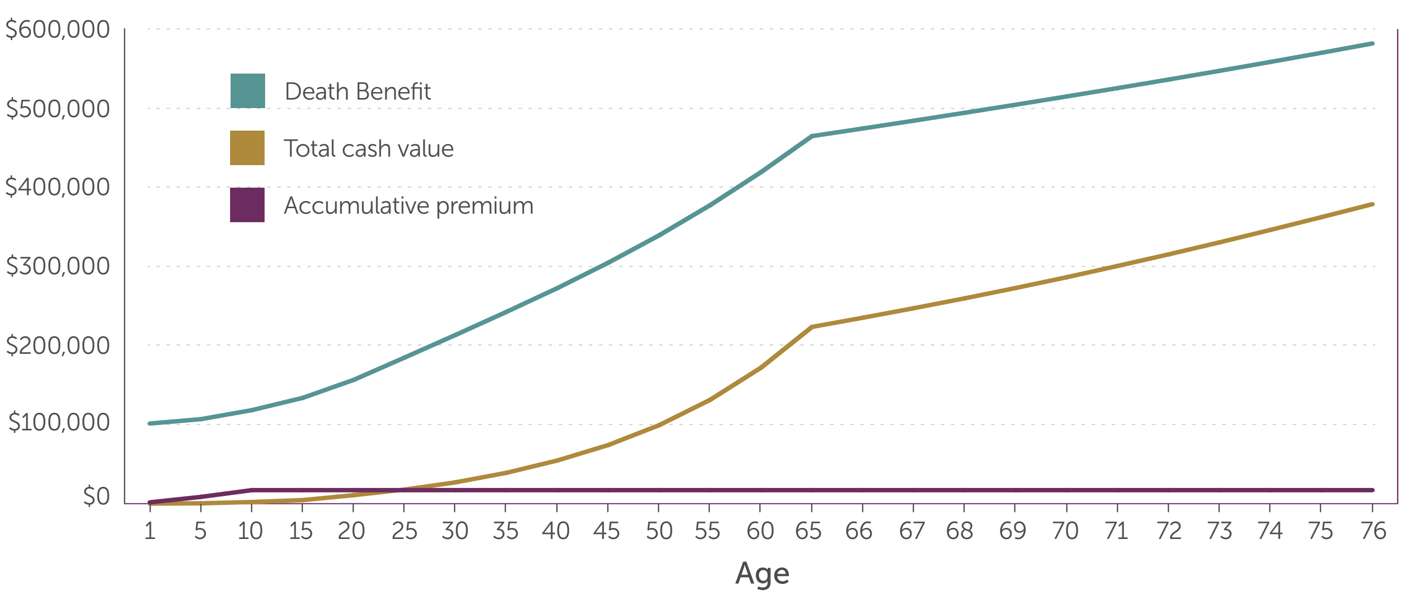
Jackie, the daughter of Carl and Marianne, recently gave birth to her first child, Clara. The proud grandparents would like to transfer some of their wealth to their new granddaughter to help provide for her future.

After consulting with their life insurance advisor, Carl and Marianne decide to purchase a whole life insurance certificate for Clara. They purchase Foresters Advantage Plus[3] participating whole life with the Paid-Up Additional Insurance dividend option and a premium paying period of 10 years. Clara is the insured and Carl is the owner. Jackie is named as the irrevocable beneficiary and contingent owner. Clara receives a standard rating for a juvenile female age 0. An annual premium of $1,707 provides her with initial coverage of $100,000.

When Clara reaches the age of 16, the ownership of the certificate is automatically transferred to her. At that time, the certificate has a Death Benefit of $137,610 and Total Cash Value of $5,933 (note that the values used in this case study include non-guaranteed values based on current dividend scale).[4] Clara may decide, with her mother's approval, to request a policy loan to help cover the cost of education.[5]

Assuming Clara does not take out a policy loan, at age 25, the Total Cash Value has grown to $17,771, exceeding the premiums her grandparents have paid for the certificate. At age 65, the certificate will have a Total Cash Value of $223,291 and a Death Benefit of $464,387. At this time, Clara may decide to surrender some of the paid-up additional insurance to purchase certificates for her own grandchildren and cascade part of her wealth down to the next generation.

At the age of 76, Clara passes away. She did not need to access the Cash Value of her certificate during her lifetime but always had the comfort of knowing it was there if she needed it. As a result of her grandparents' prudent wealth transfer upon her birth, Clara leaves behind a Death Benefit of $581,367 as a lasting legacy for her beneficiaries.



The Foresters difference

At Foresters Financial, we're proud to help everyday families achieve long-term financial health and security. But we're so much more than an international financial services provider. As part of our purpose, Foresters offers our members a wide range of unique and complimentary benefits.

Foresters current member benefits[6] include:

- Scholarships[7] to provide financial assistance to students as they work towards their educational goals.
- Well-being benefits including our confidential phone-based financial helpline and access to a secure online service that helps prepare and store important documents such as wills, powers of attorney and healthcare directives.
- Opportunities to become involved in volunteer activities such as playground builds.
- Fun family events that give a chance for your clients and their loved ones to relax and connect with each other such as amusement park tickets and baseball games.

Over the course of a member's lifetime, our member benefits may provide thousands of dollars of value.

The gift of a lifetime of financial protection

The Cascading Life Insurance Concept may be a useful strategy to help your clients transfer wealth to the next generation. Possible benefits of the strategy you can discuss with your clients include:

- Assets can be transferred to the next generation in a generally tax-efficient manner.
- Owner can pay lower premiums because insured is very young.
- Children or grandchildren protected from future uninsurability.
- Upon becoming the certificate owner, insured may have access to funds throughout their lifetime as long as the insurance remains inforce.
- Parent or grandparent provide a valuable gift and lasting legacy to the next generation.

For more information about the Cascading Life Insurance Concept, contact your Foresters Regional Vice President today.

[1] Source: Financial Post, http://business.financialpost.com/personal-finance/parents-will-pass-on-750-billion-to-kids-over-next-decade
[2] Foresters, their employees and life insurance representatives, do not provide, on Foresters behalf, financial, estate, tax or legal advice. Individuals should consult their tax, estate or legal advisor regarding their situation.
[3] Underwritten by The Independent Order of Foresters
[4] Dividends are not guaranteed.
[5] A loan would accrue interest and would reduce any settlement under the certificate, such as the death benefit or surrender value when it is payable, by the amount of the debt.
[6] Foresters Financial member benefits are non-contractual, subject to benefit specific eligibility requirements, definitions and limitations and may be changed or cancelled without notice.
[7] Available to eligible members. Please visit https://www.foresters.com/en-ca/foresters-difference/scholarships for eligibility criteria.

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