

You Want to Keep the Summer Cottage for Your Family



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EXAMPLE

- Both husband and wife are 50 years old and non-smokers.
- Upon both their deaths, there will be Capital Gains tax to pay on their summer cottage in the amount of **\$300,000.**

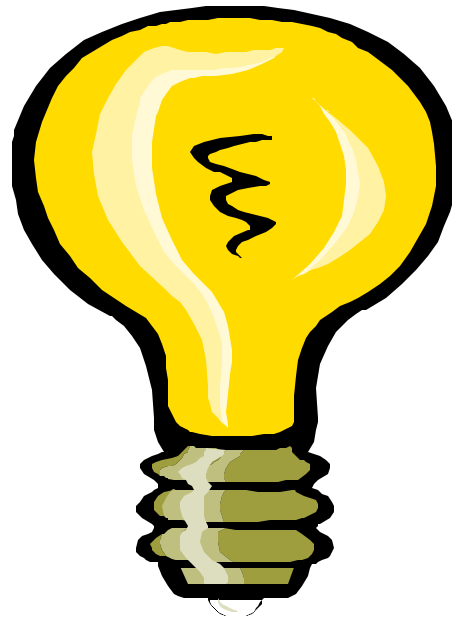


Pay The Capital Gains Tax With Life Insurance

- Death is the **“trigger”** which creates the capital gains tax liability.
- Death is the **“trigger”** for the life insurance company to pay the TAX FREE death benefit.



**Buying Life Insurance is buying
future dollars at a
large discount !**



How Does An Actuary Calculate the Life Insurance Policy Premium?

- **Step 1**

- The actuary determines the “present value” of the death benefit.

- **Example**

- A \$300,000 death benefit may have a present value of \$30,000.

- This means if \$30,000 was invested with interest this would be worth \$300,000 by the time the insured is expected to die.



Step 1– cont'd

- **The \$30,000 is a single deposit.**

If the policy is paid over 10 years:

- **The \$30,000 payment is amortized with interest over ten years, similar to a mortgage.**



- **Step 2**

- Many people cash out of and cancel their policies early, say, after 10 years.
- The insurance company gets off the risk of paying the death claims.
- So the actuary calculates into everyone's premium a large discount because the insurance company gets off the risk of paying death claims.



EXAMPLE:

- Male- age 50, Female- age 50, non-smokers, Joint Last to Die policy, last dies at age 80.
- \$300,000 Level annual premium \$1,500.
- \$1,500 annual deposit for 30 years to age 80.*

	<u>VALUE</u>
Interest net after tax = 8%	\$183,519
Interest net after tax = 10.5%	\$299,811

*does not include cost of insurance which the actuary has to pay before he can invest the \$1500 premium.

For Example– if they both died after only 5 years, 10 years, or 20 years, the policy will stay pay out \$300,000.



To Keep the Summer Cottage:

- You are buying tax free dollars exactly when it is needed with discounted dollars.
- These are very low cost dollars.
- Perhaps your children may wish to pay the **\$1,500** per year instead of paying **\$300,000** in capital gains tax to inherit your summer cottage.

