

The Personal Asset Transfer Plan



Someone is going to profit from
your client's hard work.
Shouldn't it be their family?

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Introduction

The strategies outlined in this guide offer powerful, targeted solutions for the individual insurance market. When paired with a BMO Insurance permanent life insurance policy, they can help build a plan designed to meet your clients' protection needs and create a smart, tax-efficient way to transfer personal wealth to future generations.

Whether they opt for universal life or whole life coverage, your clients can be assured that their plan is backed by one of Canada's leading financial services organizations.

To support presenting the Personal Asset Transfer Plan to clients, please ensure you use the latest version of our Wave Illustration software.

Note: The ideas presented in this guide should be reviewed for suitability to individual circumstances. The information contained in this guide is general in nature and should not be construed as legal or tax advice. You and your clients are encouraged to seek the advice of other professionals such as legal and tax experts to ensure that the ideas presented are appropriate for the circumstances of the individual(s) for whom this plan is being considered.

Overview of the Personal Asset Transfer Plan

The Personal Asset Transfer Plan from BMO Insurance is an effective life insurance strategy that facilitates a tax effective transfer of wealth from individuals to their heirs.

The Opportunity

Many individuals who are completing the asset accumulation phase of their lives have accumulated surplus investment assets that trigger a high annual tax bill. When they die, they want to transfer these funds to their heirs.

The Personal Asset Transfer Plan may be an ideal solution to accomplish that goal in a tax effective manner. The idea is simple: the Personal Asset Transfer Plan gives individuals who have surplus funds in a personal investment portfolio the ability to transfer a portion of these assets into a tax-exempt life insurance policy to cover their insurance needs and to benefit from the tax-deferred growth within the policy. Then, upon death, the plan allows them to transfer these sums tax efficiently to their heirs. When compared to traditional taxable investment options, this approach can maximize the after-tax transfer of this wealth to their heirs.



The Personal Asset Transfer Plan

A life insurance strategy for individuals designed to increase the after-tax transfer of their personal assets to their heirs.

Target Market

The Personal Asset Transfer Plan is targeted at Individuals (or couples) who have accumulated significant assets and want to maximize the amount they transfer to their heirs.

Typical Client Profile

- individuals who have completed (or are nearing completion of) the asset accumulation phase of their lives
- are looking at wealth transfer strategies
- are age 50 to 80 and require permanent life insurance
- are in good health and are able to qualify for life insurance
- have surplus investment assets and enough income now and in the future to meet their lifestyle needs
- intend on passing on this wealth to their heirs
- are interested in a tax efficient and flexible way to invest a portion of their surplus investment portfolio

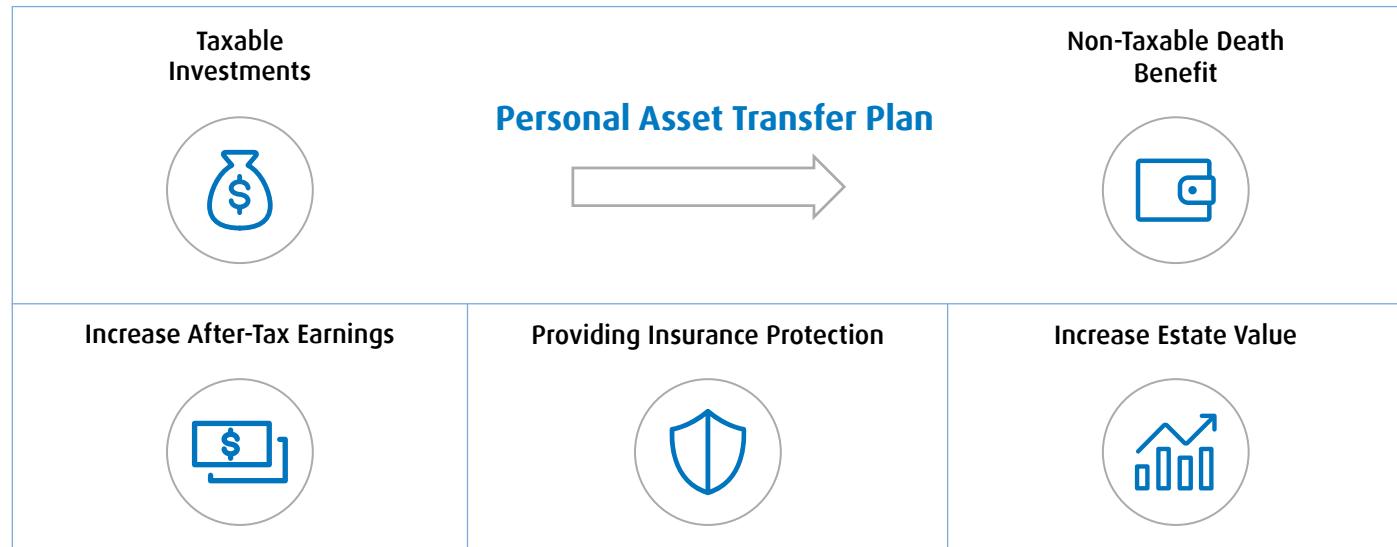
The Permanent Life Insurance Solution

Step	Personal Asset Transfer Plan
1	Determine the amount of permanent life insurance your clients need based on their individual financial objectives
2	Select whether a universal life or whole life insurance policy from BMO Insurance suits their needs
3	Work with your client to determine what portion of their surplus personal investment portfolio they would like transferred into the policy and how quickly they want to do this
4	Select an appropriate premium schedule
5	If they select universal life, have them choose an investment mix from the list of available options ¹ that's aligned with their long-term financial objectives and risk tolerance
6	Have them apply for the insurance designating themselves as the owner(s) and life insured(s) on the policy. Their heirs should be designated as the beneficiaries Note: in the case of couples, the insurance should be issued on a Joint Last to Die basis.

The Results

By using the Personal Asset Transfer Plan from BMO Insurance, your clients will benefit from the following:²

- The size of the individual's estate value is immediately increased.
- A reduction in their future taxable income, since assets are transferred into a life insurance vehicle with tax-deferred accumulation.
- Upon death of the insured, the life insurance benefit is paid to their heirs tax-free.



Note: Before proceeding with any proposal, your clients and their team of professionals should determine the tax consequences of transferring assets from other investment vehicles into the Personal Asset Transfer Plan.

The Permanent Life Insurance Solution (cont'd)

Is the Personal Asset Transfer Plan Right for Your Clients?

When considering the Personal Asset Transfer Plan for any of your clients, you may want to run through the following checklist to determine if the plan is appropriate for their specific needs:

Checklist for the Corporate Asset Transfer Plan

- Have my clients completed (or are nearing completion of) the asset accumulation phase of their lives?
- Do they require and qualify for life insurance?
- Do they want to leave funds for their heirs?
- Do they want to simplify the transfer of their estate to their heirs?
- Would they like to transfer taxable investments into a tax-deferred investment vehicle?
- Do they want to reduce personal income taxes on investment income?

If your client answers "yes" to these questions, then the Personal Asset Transfer Plan may be an ideal solution for them.

Tax Considerations

Before proceeding with any proposal, you should determine the tax consequences of transferring assets from other investment vehicles into the Personal Asset Transfer Plan. This includes potential tax on unrealized gains, sales charges, and other costs that may apply to the liquidation of personal assets.

To have a more complete understanding of the benefits and tax consequences of the Personal Asset Transfer Plan, we encourage you to prepare a personalized projection for your clients using the most current version of the Wave illustration software.

We strongly advise that when you and your clients are working on structuring a Personal Asset Transfer Plan and have tax and estate planning issues to resolve, you consult with legal, tax and accounting experts.



Case Study

Client Details

- Sam, male age 55 and Sally, female age 55
- both professionals earning a good income
- have set aside enough money for their retirement
- they currently have \$400,000 in an investment portfolio specifically earmarked for their children, Bill and Betty
- Sam and Sally want to minimize their personal tax bill and maximize the amount that's available for transfer to their children

Assumptions

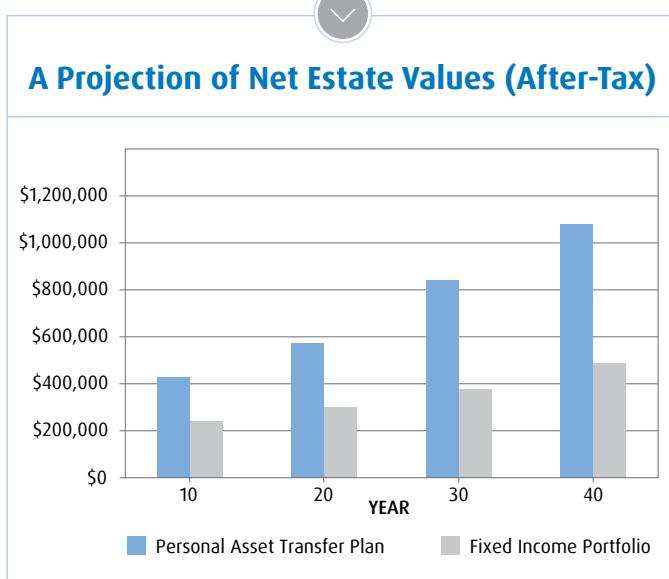
- Insureds: Sam and Sally on a Joint Last to Die BMO Insurance Whole Life policy
- Owner of policy: Sam and Sally
- Beneficiary: Bill and Betty
- Planned deposits: \$20,000 for ten years (half of the surplus assets to address any liquidity concerns)
- Projected values illustrated assuming a 4.75% (Performance Bonus Rate)
- Projected Alternative Investment values illustrated at a 5.25% net return before-tax in a fixed income portfolio, 1% probate fees, 45% individual dividend tax rate
- Personal marginal tax rate: 50%

Comparison of Projected Values

The Personal Asset Transfer Plan vs. the Alternative Investment

Year	Personal Asset Transfer Plan using BMO Insurance Whole Life (projected at 4.75% Performance Bonus Rate)			Alternative Investment (Fixed income portfolio projected at a 5.25% annual rate of return)	
	Cash Value	Death Benefit	Net Estate Value (after-tax)	After-Tax Account Value	Estate Value (net of taxes)
10	\$62,332	\$418,768	\$418,768	\$231,273	\$228,960
20	\$283,623	\$586,530	\$586,530	\$299,679	\$296,682
30	\$583,067	\$837,371	\$837,371	\$388,319	\$384,435
40	\$897,983	\$1,090,791	\$1,090,791	\$503,176	\$498,144

Case Study



Comparison of After-Tax Values

Year	Personal Asset Transfer Plan	Fixed Income Portfolio	Personal Asset Transfer Plan Advantage
10	\$418,768	\$228,960	\$189,808
20	\$586,530	\$296,682	\$289,848
30	\$837,371	\$384,435	\$452,936
40	\$1,090,791	\$498,144	\$592,647

The Result

- By using the Personal Asset Transfer Plan, Sam and Sally will have significantly increased the value of their estate.
- Over a ten year period, \$200,000 of their taxable investment portfolio (net of charges) will grow tax-deferred within the whole life policy, greatly reducing their annual tax bill.
- Upon death, the life insurance can be paid to Sam and Sally's heirs tax-free.
- Using the Personal Asset Transfer Plan, capital gains may be reduced as life insurance is not a capital property and therefore would not trigger capital gains tax on death. Conversely, without this Asset Transfer Plan, capital gains taxes would reflect any unrealized gains in an alternative investment portfolio.
- Estate administration taxes can be reduced using a direct beneficiary designation.
- If they select a universal life or whole life policy from BMO Insurance, Sam and Sally may also have access to valuable living benefits including the Joint Last to Die Special Death Benefit (Fund Value Payout on first death) and a Disability Benefit.³

Note: These examples are based on a BMO Insurance Whole Life Estate Protector (The Wave v 56.0) policy and are merely a projection of future results, using a set of assumptions that will change over time. Actual results are not guaranteed and will vary.

Underwriting and Administration Considerations

When proposing a Personal Asset Transfer Plan, you should consider the following:

- Check to ensure that the amount of insurance you are proposing on any life is reasonable and justifiable; this amount will need to be approved by a BMO Insurance Underwriter.
- Refer to BMO Insurance's Underwriting Guidelines found under the Underwriting Guidelines menu of the Wave illustration software for details on age, amount and financial underwriting requirements [here](#).
- To ensure that the Underwriter reviewing the application for insurance understands the purpose of the insurance, include a covering letter with a summary of what is being proposed.
- Run a personalized illustration for your client, using the latest version of the Wave illustration software and include a signed copy with the application.

- When filling out the application for insurance, use the following as a guideline:

	Personal Asset Transfer Plan
Life Insured	Your client
Owner	Your client
Beneficiary	Heirs of the insured

- To ensure that the Underwriter reviewing the application for insurance understands the purpose of the insurance, include a covering letter with a summary of what is being proposed.

Tip

Use Rovr AI, BMO Insurance's digital assistant designed to evolve field underwriting.

Visit bmorovrai.com to learn more, or log in to your advisor support account for access.



Frequently Asked Questions

1. What types of life insurance plans should be considered for the Personal Asset Transfer Plan?

The primary goal of this strategy is to transfer wealth at the time of death. Therefore, a key consideration is the projected death benefit of a permanent life insurance plan (either whole life or universal life).

Note that if your clients are focused on the accumulated cash value of the plan and if short term liquidity is a concern, the Personal Asset Transfer Plan may not be appropriate for them as they could incur early withdrawal penalties (i.e. surrender charges that will reduce the amount they receive) or tax that may be due on the amount withdrawn from the policy.

Being overly conservative may result in missed opportunities and a less than optimal amount being transferred to their heirs.

Therefore, a starting point should always be based on the client's investment risk tolerance.

For clients who want some flexibility, are looking for a choice of investment options and are comfortable with some investment risk, universal life insurance may be appropriate. With universal life insurance plans from BMO Insurance, they can choose from a wide range of investment options based on their tolerance to investment risk. Visit bmoinvestpro.ca for more details.

However, if they prefer not to do this, the BMO Insurance Whole Life may be more appropriate for them.

3. What are some of the key differences in the tax treatment of personal owned life insurance vs. traditional investments?

Life insurance has a preferred tax treatment. An exempt life insurance policy is not taxed like a traditional investment which is either taxed annually or when sold.

A life insurance death benefit received by an individual beneficiary is not taxable in Canada and the credited return of an exempt life insurance policy is not taxed annually.⁴

So, by transferring their surplus investments into a life insurance policy, they can minimize (or eliminate) the annual tax that they would have paid on the annual investment and qualify to have the death benefit distributed to their heirs tax-free. This can result in an increase in their estate values when compared to the alternative investment options.

2. This strategy involves allocating funds to a life insurance policy rather than investing in alternative taxable investments. What should a potential client consider as far as investment choices of the life insurance solution?

- The credited return on the policy's cash value is important since small variances in actual returns over an extended period can have a significant impact on the resulting death benefit and future premiums due.
- Selecting investment options that are aggressive set up false expectations which are unlikely to be realized.

4. Are there limits as to how much insurance clients can buy for the Personal Asset Transfer Plan?

Life insurance is acquired to cover an insurable risk. The value associated with that risk limits the amount of life insurance coverage that can be acquired. Unlike traditional investments, clients can't simply buy as much as they can afford; there needs to be an insurance justification for the amount applied for. In addition, health buys life insurance, money only pays for it. If clients are not healthy they will be precluded from utilizing this estate planning solution. Most clients that fit the ideal profile have significant tax liabilities upon death. Those liabilities form an insurable risk and can be used to justify the insurance amount applied for.

Therefore, when submitting an application for insurance for the Personal Asset Transfer Plan, it is a good idea to include a covering letter to describe the intent of the insurance as well as a signed illustration.

5. How will the re-allocation of funds from traditional investments into insurance impact estate taxes?

Traditional investments typically form part of a person's estate and their FMV would be subject to a form of estate tax in the provinces that administer such taxes. Life insurance allows the owner to designate a beneficiary. Death benefits are paid directly to the beneficiary and bypass one's estate, (unless the estate is listed as the beneficiary). As such, estate taxes would be reduced on the amount of assets allocated to the Personal Asset Transfer Plan.

Let's connect

To find out more about BMO Insurance products, please call your MGA, contact the BMO Insurance regional sales office in your area or call 1-877-742-5244.



Ontario
1-800-608-7303



Quebec – Atlantic Region
1-866-217-0514

Western Region
1-877-877-1272

bmoinsurance.com



¹ Visit bmoinvestpro.ca for details.

² Based on Rules and Regulations in effect at the time of writing this guide.

³ Refer to the Wealth Dimensions Product Guide (709E) and BMO Insurance Whole Life Advisor Guide (753E) for more details.

⁴ Subject to certain limits.

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Insurer: BMO Life Assurance Company

800E (2025/06/30)