



## WHY IT PAYS TO CHECK YOUR CREDIT RATING

With so much riding on your credit rating these days, it is more important than ever that you keep a watch over your credit history.

An error on your credit report can block you from receiving personal lines of credit, credit cards and even car loans or mortgages. Yet most Canadians are unaware of how to obtain a copy of their credit history.

"Investigative reports show that errors on credit reports are very common," says Andrew Holt, executive director of Credit Counselling London, a London, Ontario-based agency that helps people cope with consumer debt crises. "Regardless of what you think may be on your report, it is very important to actually check it. Especially if you've been turned down for credit. In many cases,



*"Regardless of what you think may be on your report, it is very important to actually check it..."*

you are being turned down because of an error that has nothing to do with reality."

W e a v i n g *Cont'd on Page 2*

## LEAVING A LEGACY AT DEATH

Life insurance's most obvious and significant benefit is the lump sum payment it provides when the insured person dies. This lump sum is paid directly to the beneficiary designated in the life insurance policy and it's not taxable. The specific need this lump sum payment addresses will vary with one's individual need, which could include protection for surviving dependants, estate preservation or creation and funding to ensure that an estate is distributed equitably.

### Protecting Dependants

The most common use of life insurance is to protect a

person's dependants. If that person dies, his or her dependants could have to deal not only with the loss of a loved one, but also the loss of that person's present and future income. The tax-free, lump sum payment that a life insurance policy provides can replace the deceased person's earnings, pay debts and other liabilities, and cover education costs and daily living expenses. In fact, a court often mandates this protection when a couple separates or divorces. The court can require that life insurance is in place to ensure that financial support for dependants continues after an individual dies. *Cont'd on Page 3*

### THE INTEGRATIS SUITE OF SERVICES -

- » Employee Benefit Plans
- » Life Insurance
- » Disability Insurance
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- » Critical Illness Insurance
- » Group RRSP Plans
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- » Annuities
- » Business Succession
- » Financial Planning
- » Estate Planning
- » Tax Sheltering
- » Buy-Sell Funding
- » Disability Management Programs
- » RCAs (Retirement Compensation Arrangement)
- » IPPs (Individual Pension Plans)



## THE 2006 INDEPENDENT LIVING AWARDS

Congratulations to **The Independent Living Centre of Waterloo Region** on the success of their 8<sup>th</sup> Annual **ILC Awards** held June 1, 2006. **Integratis Benefit Solutions Inc.** had the distinguished honour of once again presenting the **ILC Staff Recognition Award** to this year's recipient **Jadranka Mocevic**.



Vanessa Moore presenting award to Jadranka Mocevic

The **ILC Awards** were created in 1999 to celebrate and recognize individuals, corporations, staff and volunteers who support those with disabilities and continue to make a difference towards creating a more inclusive community. **The Independent Living Centre** has been in operation since 1982 and has been making a difference in our community ever since! **The Independent Living Centre of Waterloo Region** was the first of it's kind, and can boast a proud history of creating awareness and facilitating change as advocates for person's with

disabilities. **The ILC of Waterloo Region** is the only Independent Living Centre across Canada that provides attendant care.

Their vision is simple: **"Together, Freedom Through Access and Choice"**

This is achieved by the countless individuals and corporations that work diligently to ensure this objective is met with dignity and equal opportunity.

Nominated by their peers, seven amazing individuals received awards at this year's ceremony:

**James Hunsberger**, recipient of the **Influential Advocate** award

**Stephanie Carruthers**, recipient of the **Skills Development** award

**Jadranka Mocevic**, recipient of the **ILC Staff Recognition** award

**Joan Ginn**, recipient of the **Distinguished Volunteer** award

**Sue Morgan**, recipient of the **Barrier Free Access** award

**Frank Prospero**, recipient of the **Community Partner** award

**Tom Jeary**, recipient of the **Outstanding Individual** award

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## WHY IT PAYS TO CHECK YOUR CREDIT RATING

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through the maze of credit bureau protocol can be an unsavoury task, but once you've broken through the initial barriers, obtaining your credit history is surprisingly simple.

In Canada, there are two credit bureaus: [Equifax Canada](#) and Trans Union Canada. Most national and international creditors, such as banks and department stores, are registered with both bureaus, so the chances are good that whatever shows up on one credit report will also appear on the other. This makes it simple for you to check your history. You really need to check only one bureau's records. Equifax is probably the more accessible of the two bureaus. Their main office is located in Montreal, but

they also have branches in most provinces. You can contact them by calling (800) 465-7166, or (514) 493-2314 if you live in Montreal. You should note that these are merely customer service lines. Neither Equifax nor Trans Union will take requests for credit information over the phone.

The most expedient way to receive a copy of your credit rating is to visit a branch office of one of the two bureaus. These can be found in most major Canadian cities. If you live in an area where there is no branch office, you will need to communicate with the bureau either through the mail or by fax.

Standard Credit Rating System

Category	Explanation
0	Too new to rate
1	Pays account within 30 days
2	Pays account within 60 days
3	Pays account within 90 days
4	Pays account within 120 days
5	Account is 120 days overdue but not yet rated 9
7	Making payments under consolidation
8	Repossession
9	Bad debt, placed for collection

If you do notice an error on your credit report, you can request to have it corrected.

~ Corbin Andrews

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In addition to making sure their dependants are covered financially, individuals can actually set the terms and conditions of how the life insurance proceeds will be paid after they die. They can instruct his or her Trustee to distribute the proceeds in a way that ensures the timing and minors, mentally incompetent or individuals simply not capable of prudently managing their own financial affairs.

Another way an individual can ensure their dependants are taken care of after they die is by choosing a specific settlement option when they purchase their policy. These settlement options offer alternatives for how the death benefit is paid. For instance, they can specify that the lump sum death benefit payment will be put into an annuity. This annuity would then pay installments to the beneficiaries over a period of time.

**Estate Preservation**

Another use of life insurance proceeds is to pay debts, tax liabilities and other estate costs so the estate's assets don't have to be eroded or borrowed against to cover these expenses.

In the following paragraphs, we discuss some of the financial liabilities that can threaten one's estate and how life insurance can help protect the assets one has worked so hard to build.

**CAPITAL GAINS TAXES**

Life insurance can provide funding to pay for capital gains tax that an individual owes. Here's a quick look at how this works. When a person dies, the Canadian Income Tax Act (ITA) considers them to have disposed of each capital property they own. The ITA specifies that this disposition took place immediately before the person died and at a price equal to the fair market value of their property at that time. Capital property includes depreciable and non-depreciable property. Shares of a corporation, partnership interests, mutual or segregated fund circumstances are appropriate. This is particularly useful in situations where intended beneficiaries are property or if there's a chance that market conditions won't provide the estate with enough money to cover the property's fair market value. And what if the tax



payable due to capital gains and recaptured depreciation is deferred beyond a person's death? This happens when the property in question is passed on to an individual spouse or common-law partner. The tax would then have to be paid when the spouse disposes of the property or dies. Joint life insurance, with the benefit payable on the second insured's death, is an excellent way to cover off the tax liability that arises in this situation.

**REGISTERED PLANS AND TAX LIABILITIES**

If a person has saved carefully over the years and gets a great deal of satisfaction in knowing that the money will be passed on to his or her heirs. But will it? When a person dies, any registered funds he or she owns will create a tax liability for the estate. Life insurance offers an effective way to offset that liability. How does it work? When the individual dies, the Income Tax Act considers registered funds to be disposed of at their fair market value. This applies to both registered retirement savings plans (RRSP) and registered retirement income funds (RRIF).

This amount will be included as regular income and it is fully taxable in the year of death, unless it is rolled over to a spouse's or common-law partner's RRSP or RRIF, or to a RRSP or RRIF for a child or grandchild who is financially dependant upon the deceased, or to an eligible annuity for the child or grandchild. Life insurance is an effective solution for bringing registered funds into income, regardless of whether the tax liability is triggered by one's death or his or her spouse's. Joint first-to-die or joint second-to-die policies offer solutions structured to your client's particular situation.

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## ESTATE TAXES

There may be individuals who will be liable for estate taxes in other jurisdictions when they die. For example, the United States imposes estate taxes (income and gift taxes) on its citizens' worldwide assets, regardless of where they live. Developing financial plans to offset these liabilities is a must. Life insurance can address estate taxes in other jurisdictions, such as the United States. But you will want to be cautious in these situations. The laws of the jurisdiction should be carefully reviewed and professional advisors in the foreign jurisdiction consulted to ensure that appropriate planning occurs.

## PROBATE FEES AND OTHER ESTATE COSTS

Life insurance can provide the funding that you estimate will be needed to cover probate costs as well as other estate costs. Other estate costs could include funeral and burial expenses, estate administration costs such as executor's fees, valuator or appraiser fees, and legal and accounting fees. Probate validates a deceased's will and confirms the appointment of the executor by confirmation of the court. The probate fees are based on the value of the estate and vary from province to province. Ontario and British Columbia currently have the highest probate fees in the country, while Alberta has capped its probate fees and Quebec has virtually no fee. The estate may be liable for probate fees in more than one province. Unfortunately, there is no mechanism to credit fees paid in one jurisdiction against fees owing in another jurisdiction. Naming a beneficiary in a life insurance policy or an annuity contract is one way to avoid probate fees. Life insurance proceeds are paid directly to the named beneficiary and do not form part of the assets of the estate for valuation purposes. It's important to keep in mind that this approach won't work if the insured's estate is named



as the beneficiary under the policy.

## BUILDING AND PRESERVING AN ESTATE

As we all know, it's not easy to accumulate money and it's even harder to amass significant funds to leave behind to your heirs. Because an exempt life insurance policy's proceeds are paid tax-free to the beneficiary, life insurance can be an efficient way to create an estate and to transfer wealth to later generations. Investing money into an exempt policy can potentially provide more funds to heirs than would be the case if the funds were invested outside the policy. This is because growth on funds invested outside the policy is generally subject to annual accrual taxation. Life insurance is often used to replenish an estate so that debt does not erode funds that were intended for beneficiaries. If life insurance proceeds are used to pay the estate's debt, the estate itself can be left fully intact for beneficiaries to receive their share.

During their life, some people choose to donate property to a charity and they then receive tax credits for that donation. To make sure the estate is not depleted by a charitable donation of property, the donor can purchase life insurance to replace the donated capital. Another instance where a life insurance policy is used for capital replacement is within the insured annuity concept, a financial strategy that allows a person to maximize income during his or her life and also preserve capital at death. With this concept, the individual buys a prescribed annuity, along with a life insurance policy. A prescribed annuity contract is not subject to annual accrual taxation. Instead, the ITA characterizes the annuity payments as an equal blend of capital and income. This results in more favourable tax treatment. Because the annuity purchase requires an outlay of capital and consequently reduces the size of the estate, a life insurance policy is purchased to replace those funds when the person dies. Life insurance can also be used to facilitate the equal or equitable distribution of an estate among beneficiaries. A common example

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is where an estate includes shares of a family business that will be distributed only to family members who are active in that business. Often, the business is the estate's major asset and the amount remaining for family members who aren't involved in the business is significantly less. Life insurance can provide a lump sum to the family members who don't have an interest in the business to ensure a fair inheritance.

### **Creditor Protection**

Some people are interested in protecting their assets from creditors' claims. Life insurance can offer this protection, depending on provincial laws and how the policy is set up. In the common-law provinces (all provinces except Quebec), provincial legislation protects an insurance policy from being seized by the owner's creditors as long as one of the following has been named the policy's beneficiary: the life insured's spouse (depending on the province, this may include a common-law or same-sex partner), child, grandchild or parent. In Quebec, creditor protection is based on the relationship between the owner of the life insurance policy and the beneficiary. If the beneficiary is one of the owner's ascendants or descendants, then the policy's assets are protected from creditors. If a beneficiary is named irrevocably, the policy will be exempt from seizure by the owner's creditors. Where there is a named beneficiary other than the estate, the death benefit passes directly to that beneficiary and is not subject to creditors of the insured.

### **Withdrawals, Policy Loans and Leveraging**

Once a significant cash value has accumulated within an exempt life insurance policy, it can be used to supplement the owner's retirement income or provide funding for other needs. The cash values within the policy may be accessed directly through a cash withdrawal or policy loan. These transactions would be considered dispositions of the policy and are potentially subject to taxation. Even if the withdrawal or policy loan is taxable, there still may be a tax advantage to investing in life insurance. This is because of the potential to accumulate more in an exempt life insurance policy than if the same funds had been invested in a traditional investment that is subject to annual taxation. Leveraging is another option that allows the policy owner to access the value within the policy without triggering the tax consequences that often accompany a disposition. It involves creating an

income stream by using the life insurance policy as collateral security for a loan.

### **Collateral Insurance**

Life insurance can also help your clients get a loan from a lending institution. Lenders will often require a life insurance policy as collateral security for a loan. Under this arrangement, the borrower is the life insured under the policy. If he or she dies, the lender is assured that the debt secured by the policy will be repaid quickly. When a policy is purchased for this purpose, the lender will require that it be collaterally assigned. The borrower owns the policy and has the right to name a beneficiary. The collateral assignment assures that the death benefit proceeds will first be used to repay the lender, with any remaining amount paid to the designated beneficiary. Depending on how the borrowed funds are used, the life insurance premium may be deductible for tax purposes.

### **Intergenerational Wealth Transfer**

A life insurance policy can serve as a vehicle for transferring accumulated wealth to the next or succeeding generations while your client is still alive. This is possible because, under specific conditions, ownership of a life insurance policy can be transferred without triggering tax consequences. To qualify for this treatment, the interest in the policy must be transferred for no consideration to the policy owner's child. In addition, the policy owner's child or a child of the transferee must be the life insured under the policy. In regulating this tax-free transfer, the Income Tax Act's definition of child includes grandchild, great-grandchild, a spouse of a child, a child of the person's spouse or an individual under 19 years of age who is wholly dependent on the policy owner for support and is in his or her custody for the relevant time. The Act also allows a tax-free rollover of a policy to a spouse at death. For the rollover to apply, both the policy owner and the spouse or common-law partner (or former spouse or common-law partner) must be resident in Canada.



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**Other Personal Insurance Strategies**

Life insurance can be purchased by an inter vivos family trust for the benefit of the beneficiaries of that trust.

Investing in a life insurance policy generates the following benefits for the family trust:

- the 21-year deemed disposition rule does not apply,
- no annual income is allocated to the beneficiaries, and
- the trust may be able to deduct the policy’s premiums

from its income as an expenditure made on the beneficiaries’ behalf. Another strategy that uses life insurance is a split dollar arrangement between family members. One family member may need a permanent, level amount of insurance to pay a benefit when they die, while the other may need a tax efficient investment vehicle. They purchase a policy jointly and enter into a formal split agreement. Each person would pay a portion of the premium for the benefit they receive.



**Conclusion**

Life insurance provides a solid financial solution to a wide variety of needs. From the basic instinctual need to protect our loved ones to the need for highly sophisticated financial strategies, you can count on life insurance for a flexible and customized response. And it’s a lasting solution that won’t grow stale with time.

The same life insurance policy can often be

adjusted to transition with someone as their needs change.

People have their hopes and their dreams...for themselves and for future generations. It’s an incredible responsibility and one that becomes considerably easier when you understand life insurance’s versatility and the many ways it can help them reach their goals.

*~ Source: Manulife Financial*

***Did you know....***

- The Mona Lisa has no eyebrows. It was the fashion in Renaissance Florence to shave them off.
- In Tokyo, a bicycle is faster than a car for most trips of less than 50 minutes.
- A lightning bolt generates temperatures five times hotter than those found at the sun’s surface!
- Almost half the newspapers in the world are published in the United States and Canada.

***Independent Living Centre Cont’d***

Congratulations also to all the distinguished nominees who may not have received an award this year. Your dedication and efforts are greatly appreciated and do not go unnoticed!

Integratis Benefit Solutions looks forward to continued support of this amazing event. Wishing you all a successful year to come!

For more information regarding the Independent Living Centre of Waterloo Region, please visit [www.ilcwr.org](http://www.ilcwr.org).

*~ Vanessa Moore*

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