

Permanent Insurance for a Wasting Freeze

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We've been asked over the years if there was a permanent insurance solution for a "wasting freeze". This strategy typically involves a business owner acquiring preferred shares of a private corporation that are redeemed over time to provide income and capital in retirement.

As well, the wasting freeze strategy is designed to reduce the value of the shareholder's holdings in the corporation – sometimes to zero. Unfortunately, that doesn't always happen as circumstances can change over the years following the freeze. Perhaps redemptions are ceased because there isn't enough cash flow to fund the strategy each and every year – and then someone dies.

Amongst my clientele, I have two freezes where there has been virtually no reduction, so the capital gains tax continues to be a primary concern as a future liability of the estate.

One of the major insurers has come up with a product which could be quite useful for these types of situations. The plan is permanent universal life - available for a single or joint life, but begins to reduce at age 70 (or sooner, depending on the design) until it hits either 50% or 25% of the original sum insured. The actual risk charge on the policy is quite low, as would be expected, but additional funds may be deposited to a tax sheltered account which, over time, may be withdrawn, used to pay future premiums or used to restore the death benefit should that become necessary with changed circumstances.

There is a lot of flexibility with respect to investment options for the tax sheltered account, including professionally managed accounts and well known mutual funds at minimal MER's.

This product will have other uses, but it does seem to fit many wasting freeze requirements.