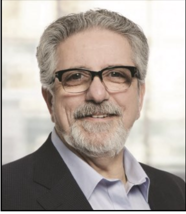
Kleinburg PRIVATE WEALTH

Carte WEALTH MANAGEMENT INC.

KPW LIFE PLAN—IMAGINE YOUR FUTURE

VOL. 12, ISSUE 3 MAR 2023

"Banking Is Necessary, Banks Are Not" **Bill Gates**



Sergio Simone
EDITORIAL COMMENT

Kristina De Souza, CFP
PLANNING FOR LONGEVITY: CAREGIVER CONSIDERATIONS

Ryan Simone, CFP, CLU, CHS
CAN I BORROW YOUR LIFE?

EDITORIAL COMMENT

Sergio Simone

In my last editorial I touched on how some professional analysts offer advice based solely on historical evidence. They advocate managing an investment portfolio entirely by looking in the rear-view mirror. Although I believe the past acts as a type of barometer for future events, in no way should the information be used as the sole mechanism to forecast future events. I believe the best way to serve our clients needs is by planning for multiple scenarios in advance and always understanding that not all the strategies may work at the same time. The best way to accomplish this is through diversification. Whenever a directional strategy is initiated we should always ask, "what if I'm wrong, and if I am, how will I mitigate the risk?"

PLANNING FOR LONGEVITY: CAREGIVER CONSIDERATIONS

Kristina De Souza, CFP

Although in a very different stage of life, I can vouch for the fact that taking care of a loved one is no small feat. There are times when it can feel like a thankless job, while simultaneously being extremely fulfilling and emotionally rewarding. The emotional and physical aspects of caregiving are a major factor; however, we need to consider the financial impact as well. And though they have their similarities, the caregiving I am currently providing is fundamentally different from caring for an aging loved one, however, I still feel I can offer some guidance in going over some of the financial considerations.

CAN I BORROW YOUR LIFE?

Ryan Simone,
CFP, CLU, CHS

William Shatner is 91 and he just completed a documentary about his life called "You Can Call Me Bill". From what I've read, he made this documentary because he recognizes he doesn't have much time left and wants to share his life story and provide a way to connect with future generations.

According to Statistics Canada there are almost 352,000 people in Canada over the age of 90. You probably know one of them; you may be one yourself! When you're over the age of 90, financial planning needs tend to narrow down to estate planning and wealth transfer. Segregated funds are an amazing estate planning tool and a great way to transfer wealth. They offer guarantees, they offer control, they help reduce taxes, and they can keep up with inflation. The problem is that the over 90 crowd can't really own a segregated fund (aka seg fund). Well, sort of.

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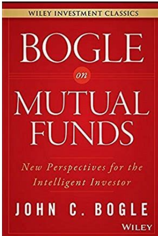
BOOK OF THE MONTH

BOGLE ON MUTUAL FUNDS

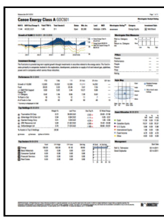
- by John C. Bogle



The former Vanguard Chief Executive, Bogle has long been mutual funds' most outspoken critic; in this classic book, he provides guidance on what you should and shouldn't believe when it comes to mutual funds, along with the story of persistence and perseverance that led to this seminal work. You'll learn the differences between common stock, bond, money market, and balanced funds, and why a passively managed "index" fund is a smarter investment than a fund managed by someone making weighted bets on individual securities, sectors, and the economy.

FUND OF THE MONTH

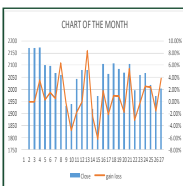
BMO GLOBAL ENHANCED INCOME FUND



This fund's objective is to provide income and long-term capital growth by investing primarily in a diversified portfolio of higher yielding global equity exchange traded funds, with such funds expected to be predominantly or exclusively funds that are managed by us or one of our affiliates or associates. The fund may also invest in other mutual funds or invest directly in individual fixed income and equity securities. Ideal for investors looking for regular monthly cash flow from global investments with the potential for capital gains.

CHART OF THE MONTH

WEATHERING THE STORM



History shows that significant downturns are followed by sharp, sustained recoveries over time. Here's a look at the percentage returns for the S&P 500 following major declines dating back to the Vietnam War. On average, the index has delivered a total return of 333% to investors 10 years after a market crisis— if they remained invested (click to view chart)

BLOG OF THE MONTH

The Real Economy Blog

RISING UNCERTAINTY STIMULATING A FLIGHT TO CASH

Uncertainty over the business cycle, a more restrictive monetary policy and the impasse over raising the nation's debt ceiling are spurring a classic migration to the preferred habitat of spooked investors: risk-free securities.

With the U.S. two-year yield now exceeding 5% and the Federal Reserve's repo facility offering a return of 4.5%, capital is flowing into short-term securities in search of safety and yield rather than into more productive longer-term investment. Investors are attracted to the yield on short-term paper, which is paying roughly 100 basis points more than comparative long-term paper.

The shift is reflection of a changed outlook in the market, which is now pricing in a hard landing to the economy as the Federal Reserve lifts its policy rate to a minimum of 5.5% and possibly to 6% by the middle of the year.

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PRIVATE WEALTH

INFORMATION AND SOLUTIONS FOR HIGH NET WORTH INVESTORS

WISERADVISOR.COM

7 WEALTH STRATEGIES FOR HIGH-NET-WORTH INDIVIDUALS 2023

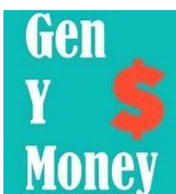
High-Net-Worth Individuals (HNWIs) have a net worth of $1 million or more in liquid assets. In general terms, a high-net-worth individual is someone with substantial wealth and a mix of liquid assets, such as cash, stocks, and bonds, as well as non-liquid assets, such as real estate and privately-held businesses. HNWIs often have specific financial needs and goals, such as wealth preservation, tax efficiency, diversifying investments, and estate and succession planning for their wealth. Due to the complex and diverse range of their financial assets, these individuals also require specialized high-net-worth financial planners and personalized investment management tailored to meet their specific needs.

MONEYTALK

ADVANCED TAX STRATEGIES FOR HIGH-NET-WORTH INDIVIDUALS

Just as your ambitions are uniquely your own, so too is your tax situation. No single tax strategy will fit all scenarios. Instead, your tax obligations may require a personalized guiding plan with annual tinkering and consultations with tax advisors as your wealth accumulates or your business evolves.

“Tax management can be important, particularly if you have worked hard to build up a business or a career. You want to be able to enjoy what you have earned and protect it,” says Geoff Chen, a High Net Worth Planner.



ULTRA HIGH NET WORTH VS HIGH NET WORTH IN CANADA

How much money does a high net worth individual or an ultra high net worth individual in Canada have? We all like to compare ourselves to others even though we don’t want to outwardly admit it. Net worth shouldn’t equate to self worth, but you might wonder if you would fall into this (what many would consider) ‘elite’ category as you saw your investment accounts increase dramatically in 2021.

ESTATE PLANNING IN CANADA: A CHECKLIST

While most of us do not like to consider death, the costs of not planning for it can be high. Whether you have specific instructions for family heirlooms, want to prevent unnecessary stress for loved ones, or save money on probate and taxes, estate planning is for you. Actually, everyone can benefit from it, and the process of estate planning in Canada is not as difficult as you may think.

This guide will cover some of your estate questions and provide a checklist for creating an estate plan and preserving your wealth.

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CORPORATE CULTURE

CORPORATE DEFAULTS SET TO RISE INTO 2024: MOODY'S

The corporate default rate surged in 2022, primarily due to the fallout from Russia's invasion of Ukraine and turmoil in China's property market, and they are set to rise even further in the year ahead, as growth slows and financial conditions tighten, Moody's Investors Service says.

The rating agency reported that the global default rate for speculative-grade companies rose to 4.3% by the end of 2022, more than double the 1.8% rate that prevailed at the start of the year, as the number of defaults during the year almost tripled.

CORPORATE TAX 2023

There are several options available when doing business in Canada. The choice of structure is generally dictated by a number of factors, based mainly on tax and liability considerations. The most used structures are:

corporations; unlimited liability companies (ULCs); partnerships; joint ventures; and sole proprietorships.

5 CYBER SECURITY THREATS EVERY BUSINESS SHOULD WATCH FOR IN 2023

As cyber security incidents have become more prevalent and newsworthy in recent years, businesses of every size have become more aware of the threats they face at the hands of cyber criminals. But with uncertain economic conditions, high employee turnover and changing workplace models, the threats continue to shift, requiring extra diligence and vigilance by business owners.

In a recent conversation, Michael Argast, Co-Founder and CEO of Canadian cyber security firm Kobalt.io shares the top cyber trends to watch out for in 2023 – and how to help protect your business from them.

HEALTH CARE BENEFITS - CANADA

In Canada, employees want healthcare coverage, but more specifically, the prescription drug coverage that forms part of an employee's healthcare cover. In Canada, this is called 'extended healthcare,' which means your employees will have better access to affordable prescriptions. After health cover, Canadian employees rank these four benefits in this order of importance: Disability, Retirement, Death, and Wellness Programs.

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FUND MANAGER COMMENTARY

Sadiq S. Adatia, Chief Investment Officer

BMO Global Asset Management

A WINTER OF SUNNY SURPRISES

As we approach the second quarter of 2023, the big question investors are facing are—where are we in the economic cycle, and what does that mean for markets?

The consensus view, which we share, is that the economy is starting to weaken. But the outcome remains unclear. Will the downturn be bad, meaning a potentially long and deep recession? Or does the economy weaken more modestly, resulting in a soft landing or even no landing? There also remains the question of timing. Going back to last year, expectations were that the impacts of a weakening economy would be felt by the latter part of Q1. Now, that's been pushed back to late 2023 or even 2024. In short, the pain has been delayed by six months or more. This is good news for the economy but leaves the future somewhat uncertain.

David Stonehouse, SVP & Head of North American And Specialty Investments

AGF Investments Inc.

WHY IT'S TOO EARLY TO CLAIM VICTORY OVER INFLATION

Less than three months into the new year, the prevailing narrative has changed substantially for the economy. In the fourth quarter of 2022, the consensus view was that peak inflation was behind us and that the economy was decelerating at an alarming rate, both in North America and globally. In fact, by some measures, expectations for an imminent recession were at record levels going back through decades of history.

Sebastien Mc Mahon, Chief Strategist and Senior Economist

IA Investment Management Inc.

Silicon Valley Bank (SVB): The Tip Of The Iceberg Of A Major Crisis?

Will the successive flash bankruptcies of Silicon Valley Bank and Signature Bank lead to a reform of the U.S. banking system? Monetary policy, interest rates, business model problems or situation that could spread rapidly—Sébastien Mc Mahon sheds light on the situation!

Fred Demers, Director, Multi-Asset Investments

BMO Global Asset Management

Big Trouble At Small Banks: Time To Fear A 2008 Banking Crisis Redux?

In recent days we saw U.S. regulators take control of nearly USD $175 billion of Silicon Valley Bank's (SVB) assets and deployed measures to contain the crisis, making this the largest institutional failure since the financial crisis of 2008. Another small U.S. bank (Signature Bank) also collapsed shortly after, thereby sparking concerns of contagion and stability of the U.S. financial system (Source: Reuters). This seismic shock was severe enough to negatively impact Canadian banks and their global peers. Unlike 2008 where bad loans were responsible for the subprime crisis, the ongoing crisis around SVB and other small, regional banks is more about an old-fashioned liquidity crisis and bank run

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10 DUMB WAYS RETIREES BLOW THEIR SAVINGS

WOMEN IN THE BOARD-ROOM TIED TO CREDIT QUALITY

POWELL: 'A LONG WAY TO GO' ON TAMING IN-FLATION

IS THE STOCK MARKET STARTING A NEW BULL MARKET RALLY? (TECHNICAL ANALYSIS)

STICKY INFLATION FUELS SOME OF ECB'S WORST FEARS

BANK OF CANADA HOLDS RATES AT 4.5% EVEN AS FED PUSHES HIGHER

STAGNATING EURO-ZONE GDP IS WORSE THAN IT SEEMS

DON'T UNDERESTI-MATE FEMALE INVES-TORS

CANADIANS SAY THEY'RE GETTING OVERTAXED AS TOTAL BILL EATS UP 45% OF INCOME

STRONG US JOB GROWTH PERSISTS

The U.S. economy added jobs at a brisk clip in February, but monthly wage growth slowed and the unemployment rate rose, pointing to some labor market loosening and prompting financial markets to dial back expectations that the Federal Reserve would raise interest rates by half a percentage point

MACKENZIE Investments

INCOME SPLITTING STRATEGIES

Increase Your After-tax Income.

One of the easiest ways for families to reduce taxes is through properly structured income splitting. Income splitting can be an excellent way to shift income in a family from a member in the highest tax bracket to those who pay a lower rate of tax. The resulting effect is to increase after-tax income. This will leave the family with more funds available for other financial planning goals.

VIDEO AND PODCAST LINKS

OECD ECONOMIC SUR-VEY OF CANADA 2023

JEROME POWELL SIG-NALS INCREASED U.S. RATE HIKES IF ECONO-MY STAYS STONG

SVP STOCK HALTED, BANK SHUT DOWN AMID MULTI-BILLION DOLLAR COLLAPSE

FINANCIAL CALCULATORS

INVESTMENT GROWTH CALCULATOR

Find out how much your savings will grow over time by making regular investments

FIDELITY myPLAN SNAPSHOT

The Fidelity **myPlan** Snapshot enables you to get a glimpse into your retirement finances in seconds.

RRSP SAVINGS CALCULATOR

Estimate how much your registered retirement savings plan will be worth at retirement

EDITORIAL COMMENT - CONTINUED

Although the makeup of a portfolio will generally have similar characteristics it can lean more aggressively or conservatively depending on the client's risk tolerance and time horizon. A good advisor will learn to use certain open-ended questions or comments to lead clients into making statements that will more definitively bare their risk tolerance. Asking, "are you a conservative investor or an aggressive investor", just doesn't cut it. A better question might be, "how would you feel about your portfolio if you experienced a 5% drop? How about a 15% drop?"

Over the last few years we at KPW have deliberately kept exposure to Fixed Income at a bare minimum, if holding the asset class at all. This in no way means we did not have an alternative in place. We did! We replaced the fixed income exposure with high-quality dividend producing mutual funds. Not only did they offer an income as fixed income funds did, but they benefitted from the bullish markets we were in as the fixed income funds underperformed.

I recently read a comment by Fred Demers from BMO Capital Markets that I thought perfectly stated our current thinking about fixed income. He said: **"the death of the balanced portfolio has been greatly exaggerated."** I couldn't agree more. We are not anti-fixed income, we just felt that during the last few years there were better alternatives. Our opinion is changing. Balanced portfolios may have gotten a bad rap in 2022, but I do not believe it will be repeated in 2023.

The last thing I want to do when making allocation recommendations is to do so by looking in that rear-view mirror. So, if I am looking forward, I see there are two possible economic outcomes that we face. We will either face a hard landing or a soft landing. Some hypothesize that a "perfect landing" is also possible, but if that were the case, I would lump it into the "soft landing" category. As an advisor I am faced with making recommendations that will prepare for both, trying to achieve above average returns while mitigating risks.

2023 marks the 13th time since 1954 that the Federal Open Market Committee began raising the federal funds rate on bank reserves in a series of recurring steps. Of the 13 times, only four achieved a soft-landing while nine resulted in hard landings.

Let's take a look at the possible scenarios and how we might deal with them.

A hard landing would be viewed as an OMG moment for the Fed, should it occur. This happens at the point they realize they were too aggressive in their rate increases that results in too much damage to the economy. If this realization occurs, the Fed would likely do an immediate about face and begin easing much sooner as the alternative of a longer and deeper recession would cause great distress to both consumers and the labor markets.

By stepping back and looking at the big picture, I realize that the Fed's primary goal is to avoid a double-dip recession like we experienced in the 1980s. That was catastrophic to many people and companies. This is a significant risk faced by the Feds if they choose to raise rates too quickly. The counterargument is that, "yes there would be a lot of pain felt by many, but it would be short-lived". Some advocates of the "quick fix" scenario liken inflation to a campfire. **"You can't just splash a bit of water on it and expect it to be put out for good, you need to really douse it and make sure that every last ember has stopped burning."**

I believe that should a hard landing occur, Fixed Income might be a good place to have some exposure. Afterall, you can expect higher yields as we experienced in 2022 especially when compared to the yields over the previous decade. And, with the ultimate acceleration of rate cuts, there is a high probability of earning some capital gains on Fixed Income investments. I also believe that a more conservative exposure among equities, with a focus on Higher Quality and Value, will benefit investors. The ideal solution is a **Balanced Fund** that focuses on longer duration bonds and high value equities. The cherry on the cake would be a fund that also gives its manager(s) discretion on the ratio between the two asset classes.

The alternative to a hard landing is a soft landing. This is a low probability outcome that occurs if the U.S. Federal Reserve can successfully thread the needle and all we experience is a mild, short-lived recession. Should this occur, we can expect equity markets to react strongly and positively.

We experienced a mild dose of this earlier this year when the markets began the year like kids in a candy store. Investors jumped on the soft landing bandwagon as indicators pointed to the end of rate increases as evidenced by the smaller 25 bp increases. Their optimistic reaction was truly euphoric.

This can become a problem for the Fed. Their concern is that if they continue to give dovish signals, the optimism might get out of control causing an unwarranted and hasty rise in markets. To temper this concern, the Fed had to take a more severe position by basically telling the markets to "not count their chickens before they hatch." They wanted investors to understand that inflation may still take some time to get under control.

EDITORIAL COMMENT - CONTINUED

Should the Feds thread that needle, and should we experience a soft landing, we can expect both equities and bonds to rebound to some degree, albeit, we can expect equities to rebound more forcefully. The question that lingers in my mind is: “If the Fed pauses rate increases, how long will they pause for?” Historically, the sooner they stop raising rates, the longer the pause is likely to be and vice versa.

My conclusion is that, in a soft landing scenario, investors would do better if slightly overweight in equities and remain in fixed income as opposed to cash, especially as rates decline. In this case, I still lean towards balanced funds but funds that have more aggressive underlying equity positions.

There is a lot of data available to investors these days that can help them assess the probability of a recession. Unfortunately there is so much data that investors can become bewildered by the information. The following five key indicators most often provide us with the necessary information to help forge a high probability outlook on inflation. Our acronym for these indicators is Hi Cie.

Housing: Although resale prices have been declining, newly constructed home prices still rose 3.9% year-over-year on a national basis. Unfortunately, we also saw a deterioration in housing affordability, which is a direct result of stable prices and higher mortgage rates. Six years ago it took about 45% of the average paycheck to afford a detached bungalow. By Q2 of 2022 that figure had climbed to 60%. While this has been happening, rent has also skyrocketed, which impacts disposable income, which reduces spending as well as the potential to save for future housing. This contributes to a downturn in the economy.

Interest Rates: By paying attention to what the central bankers are saying, especially when it comes to whether they intend to pause or continue their rate increases, is a good sign that indicates how they see the economic picture unfolding. It is also important to note that changes in monetary policy are not felt immediately. It is a slow moving, lagging mechanism so, although we pay attention to this indicator, it is given little emphasis on whether a turning point has been reached.

Consumer Credit: Although recent credit card, mortgage and auto loan defaults has been on the rise, they have not reached anywhere near levels that would signal a hard recession. A major uptick might signal a potential for a longer and more severe economic downturn. This is definitely an indicator to keep an eye on.

Inflation: A one month reading has little value but by looking at a three-month rolling inflation rate, we are better able to gauge the direction and trajectory of inflation. Another important relationship to be aware of is between core inflation and headline inflation. While headline numbers may be declining due to volatile energy prices, core inflation is stickier due to the integration of wage and housing costs as part of the overall measure.

Employment: A good historical indicator has been the four-week rolling average for U.S. initial unemployment claims. Once they get up to the 300,000-400,000 claims per week, we can conclude that the labor market and to some extent, the economy, is in trouble. Recent numbers have been sitting at around the 200,000 range, which leads us to conclude that the labor market is nowhere near being in any kind of trouble.

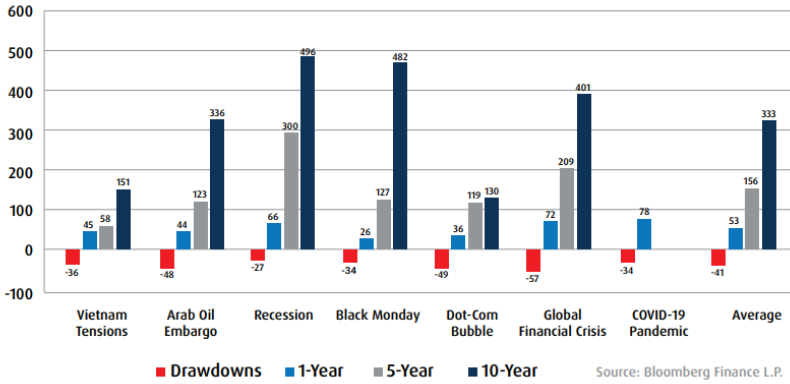
In conclusion, we are leaning towards the scenario of a “soft landing”. We expect a relatively short and somewhat painless recession. Initially, our belief was that this would occur earlier in 2023. Now we are leaning to this event taking place later this year or in the early part of 2024.

One of the reasons we give this scenario a high probability is that the current high inflation is caused, in part by the supply side rather than purely driven by an overheated economy.

Whether we are faced with a hard landing or a soft landing, I believe that exposure to balanced funds in an investment portfolio will be beneficial. The key for each individual investor is to assess their risk appetite and invest in a Balanced Fund that satisfies that appetite.

One last piece of wisdom. Remember, it is about time in the market and not timing the market that produces successful portfolios.

CHART OF THE MONTH - CONTINUED



SADIQ S. ADATIA - CONTINUED

The other question we've been considering is whether the recent market rally means it's time to lock in gains, or if there's room for markets to move even higher. To put it another way—after a punishing 2022, will markets recuperate their losses? That debate has led us to reiterate our preference for balance at this time.

You might call it a goldilocks position: not too much risk, not too little risk, but rather a risk profile that's just right for the current environment. With the economy slowing down and job losses mounting, the downside risk is evident. But there are also positive signs: an announced rate hiking pause by the Bank of Canada (BoC); a likely pause from the Federal Reserve (Fed) later this year; and earnings numbers that weren't as bad as some were expecting, which gives investors three months to breathe before the next round.

As a result, we think there's room for markets to move higher in the near term, which means that staying the course is the right strategy. It's likely that volatility will continue as the bulls and the bears fight it out. But overall, we think that the bull case is short-term and the bear case will occur later this year, which might explain the good start to the year.

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Planning For Longevity: Caregiver Considerations—Continued

Although you cannot put a price tag on the value of caring for a loved one, the numbers speak for themselves, and the bottom line is clear: it can be expensive.

It has been found that the average annual out-of-pocket expense for caregivers is upwards of $7,400, one in three workers with caregiving duties have had to quit their job because of it, and three quarters of caregivers are women. Hiring outside help for caregiving can range from about $18,000 per year for adult day care, to $50,000 per year for in-home care, to upwards of $100,000 per year for a private room in a nursing home. The sad reality is that many families are both surprised by and unprepared for these expenses.

Though some caregiving responsibilities can be assimilated in our busy personal and professional lives, many face a crossroad where they need to decide between caring for an aging loved one and keeping their job. When it comes to this decision, it's important to think carefully before you do this because the costs to you in lost income and future earning potential can be significant.

The key is to crunch the numbers on what it may cost to take a step back from work to care for a loved one. Understanding the numbers behind these types of decisions provides a more meaningful comprehension of the tradeoffs of whichever choice you make. As I have mentioned, this is truly more than a mathematical decision, however, even the finances are not as straightforward as you may think.

Some of the variables that contribute to the financial impact include your current income, age, whether you are you actively contributing to a workplace retirement savings plan, when you started working, whether you expect to receive government retirement benefits, and how long you expect to be a full-time caregiver, to name a few. Some of the less obvious financial implications of caregiving and leaving the workforce that some may lose sight of is the potential to lose access to health insurance as well as the ability to continue saving for retirement.

For some, it may be worth it anyhow, as taking on caregiving responsibilities is the choice that feels right for them. This may be based off the need to honor a commitment, wanting to enjoy time with a loved one who needs them, or simply feeling well-suited to the job. For some, it may be a fulfilling act of love or a way to ensure that you oversee the care your loved one is receiving. But it's important to bear in mind that depending on the type of care and the needs of your loved one, others may not fully understand the day-to-day demands on you.

You want to try and consider each task your loved one currently needs help with and evaluate the amount of time each takes. You want to ensure you don't take on more responsibility than is realistic without draining yourself, especially if you have a career and your own family.

This journey can last many years, so it's also important to acknowledge that you may require some support or relief along the way. You must not be afraid to ask for it and never feel guilty, as even medical personnel have teams and support.

We acknowledge that we can't plan for everything, but we certainly can discuss what's most important with those who matter most. These conversations can actually bring us closer to our loved ones while simultaneously creating the foundation of a care plan that's right for us when the need arises.

At the most basic level, I recommend that everyone get started on their own estate plan if they don't have one already, including a will, power of attorney, and health care proxy. I am increasingly reminded of the fact that if you fail to document your wishes, someone else will end up having to do this for you.

Part of our process at KPW is designed to help our clients lay the groundwork to talk about their wishes for care through the end of life, in order for these wishes to be understood and honored.

Can I Borrow Your Life?—Continued

There is a seg fund strategy that can help those over 90 to transfer wealth outside of their estate, meaning they can by-pass expensive probate fees. This strategy is called the "Borrowed Life" strategy. Sounds weird, I know. But I don't name these things, I just know about them.

To understand the strategy, I'll need to explain how a seg fund works. Seg funds are an investment that provide a maturity guarantee after a certain number of years (for example 10 years), and they provide a death benefit guarantee. Kind of like a GIC with better returns most of the time. You can use a seg fun as an income source or as a method for passing along an inheritance. There are three important roles attached to every seg fund: There is the role of the Contract Owner, the role of the Annuitant, and the role of the Beneficiary. There's also a fourth role of "Successor" but I'll get to that later. The Contract Owner is the person who enters into the contract with the insurance company and thus owns the seg fund. In the "Borrowed Life" strategy, the contract owner would be the person over 90. Pretty straight forward so far.

Here's where it gets fun: a seg fund is tied to a person's life but it's not the contract owner's life. Rather, the duration of the contract, the maturity guarantee, and the death benefit guarantee are all based on the annuitant's life. Sounds a bit like a life insurance contract, doesn't it? Well, that's because it kind of is, since a person's age may restrict the amount of the guarantee. For example, a 70 year old may only be able to guarantee 75% of their money; whereas, a 25-year old could be offered a 100% guarantee. (To be honest, it's a bit more complex than that but the point is made). In the "Borrowed Life" strategy, the annuitant would be under the age of 90 and would be "the borrowed life". Remember when I said that you can't own a seg fun over the age of 90? Well you can, as long as you aren't the annuitant.

In this strategy, the annuitant would also be named the "Successor Owner". This allows the assets to pass from the 90-year old Contract Owner to the Successor Owner on the death of the original Contract Owner. Since no will is used in the process, the money passes over privately, creditor protected, and without probate fees.

Let me re-iterate:

Private, creditor protected, and no probate fees.

I didn't mention the role of the Beneficiary since it's not overly important to the 90-year old's strategy. However, just know that the beneficiary is the person who will receive the money when the annuitant dies. Just to be clear, the seg fund pay out is tied to the life of the annuitant - not the Contract Owner.

However, if a Successor Owner is named in the contract, then when the annuitant dies, the successor owner inherits the contract. In other words, the contract remains in force and the beneficiary will not yet receive the money.

This structure is different than a Joint with Rights of Survivorship setup (or "last man standing wins" as some like to call it). The Successor Owner has no ownership interest in the contract until the passing of the original Owner. This will remove a lot of the potential risks and liabilities that come with a Joint with Rights of Survivorship set-up.

It might seem a bit complicated right now, but I'll make it easy to understand in a case study.

Let's suppose we have a Mom who is 93 years old and a widow. She still has her wits about her, or as those lab coats down the street keep reminding her, she's "still of sound mind". Mom just sold her house for $900,000 and owes nothing in taxes because of the principal residence exemption. Mom has one adult child – a daughter who is 64 years old. Mom is going to move in with her daughter. Everyone's excited because Mom makes a mean baked pasta.

$900,000 richer, Mom decides to contribute the money to a Seg fund for use in a Borrowed Life strategy. It's perfect for her needs because she knows it can produce an income from the money and she knows it will go to her daughter when she dies – at no cost to the estate.

Mom is the Contract Owner. She controls the assets and makes all of the investment decisions and reports all taxes associated with the contract (mostly involving the income part).

Mom makes her daughter the Successor Owner so that her daughter can assume ownership of the contract when Mom dies.

Mom also makes daughter the Annuitant because her daughter is under 90 and will be the measuring life (aka the borrowed life) for the death benefit payment.

Mom will name herself as beneficiary, just in case her daughter passes away first. If this happens, Mom will retain the asset.

Mom will name her grandkids as contingent beneficiary. This way, when Daughter assumes ownership of the contract, there will be named beneficiaries already in place.

Can I Borrow Your Life?—Continued

As far as estate planning goes, Seg Funds can play a key role in the asset transfer process. Planning an estate is tricky because nobody knows when the plan will need to go into action. Seg funds take out some of the guess work because they offer creditor protection, are probate free, and provide a guaranteed market value. The Borrowed Life strategy is one way individuals over 90 can take advantage of those characteristics usually only available to the younger cohorts.

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Discuss the risks associated with leveraged mutual fund purchased with an investment funds advisor before investing. Purchases are subject to suitability requirements. Using borrowed money to finance the purchase of securities involves greater risk than a purchase using cash resources only. If you borrow money to purchase securities, your responsibility to repay the loan and pay interest as required by its terms remains the same if the value of the securities purchased declines.

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