Income Focus Checklist

AN ADVISOR'S GUIDE

Prepared By:
Dave Faulkner CLU, CFP

The Advisor Guide to the Income Focus Checklist

When creating a decumulation plan, some of your clients will have income and estate goals that conflict. They have accumulated enough savings to fund their lifestyle or to leave an inheritance, but not both. If your client is still working, they may be able to increase savings to achieve both goals. But clients that are retired or cannot commit to the additional savings will need to consider other options if they want to *"have their cake and eat it too"*.

One strategy you may want to consider uses a compound-interest line of credit secured by permanent life insurance. An Insured Retirement Plan (IRP) is a financial strategy that combines life insurance with a line of credit. The line of credit is used to create tax-free income, while the life insurance provides security for the line of credit and pays off the debt when the life insured dies.

What makes the IRP an effective financial strategy is how it takes advantage of current income tax rules by combining tax-free loan advances with the many tax-advantages of life insurance, but it is not for everyone. While the IRP strategy can provide both income and an inheritance, it is a complex financial product with pros and cons that need to be carefully considered before recommending it to a client.

When considering the IRP strategy, you must carefully analyze your client's financial situation and objectives. By thoroughly assessing retirement income goals, you can determine whether the IRP strategy aligns with their needs and best interests.

Analysis

Suggested action:

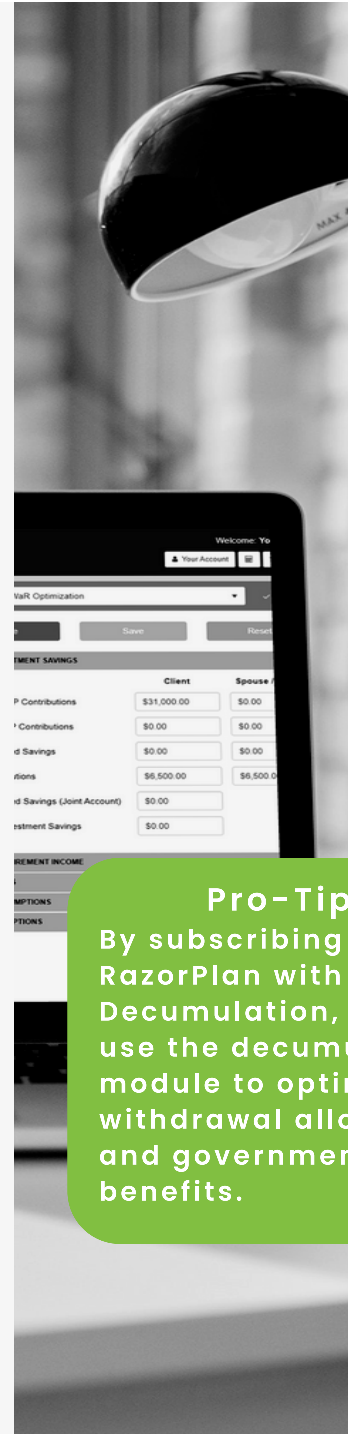
- If your client answers Yes to all the Analysis statements, proceed to the Investing and Taxation section for further assessment.
- If your client answers No to even one of the Analysis statements, the IRP strategy may not be appropriate for your client at this time, and you should consider recommending other options.

1) I have a comprehensive analysis illustrating my current financial situation.

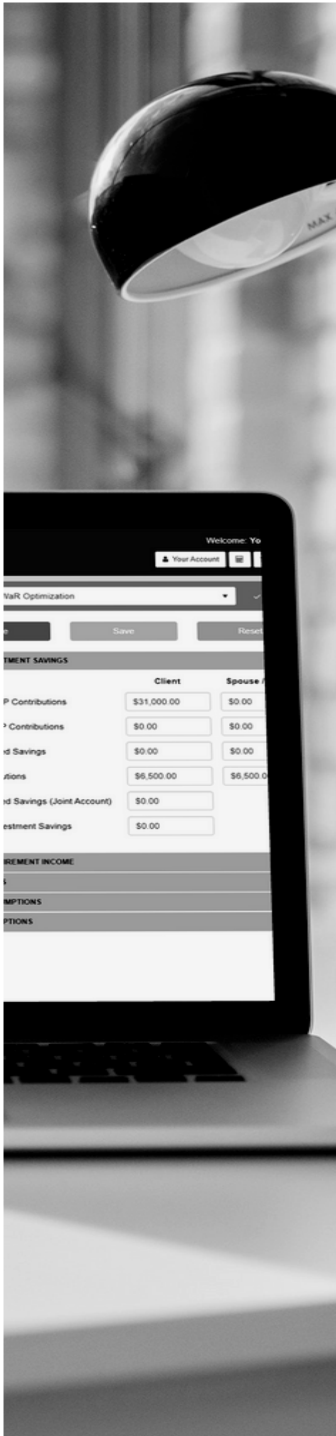
Using an IRP strategy to enhance retirement income is a complex financial product that should only be considered as part of a comprehensive financial planning engagement. Proper analysis of the client's situation can help ensure that an IRP recommendation aligns with the client's overall financial goals and objectives.

2) I am projected to have more assets than I will need to fund my retirement.

Your comprehensive analysis should demonstrate that the client has enough savings to fully fund their retirement income needs. Clients that do not have adequate savings to meet their income needs in



Pro-Tip:
By subscribing to RazorPlan with Decumulation, you can use the decumulation module to optimize withdrawal allocation and government benefits.



retirement should consider other decumulation strategies over the IRP.

3) I will have taxable investments that will be used for income in retirement.

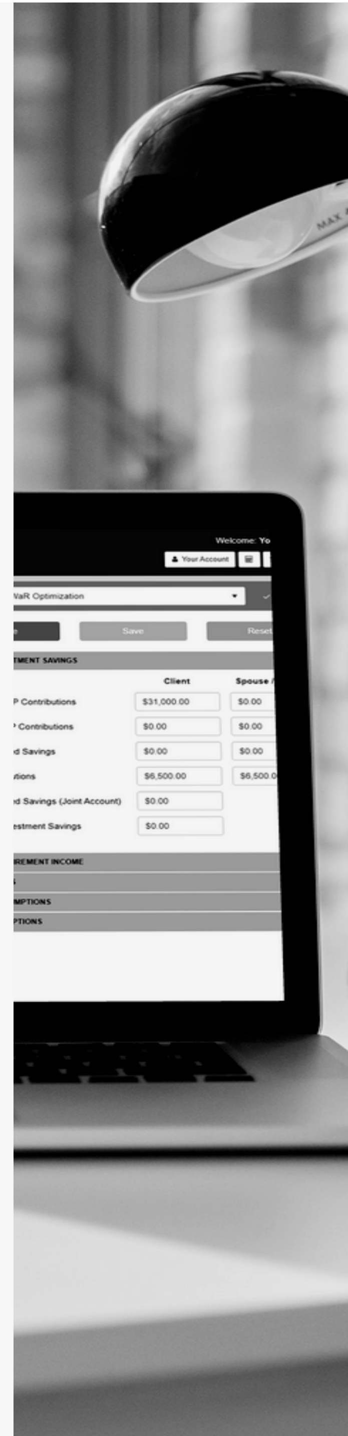
Funding the IRP strategy requires making premium deposits to fully fund a permanent life insurance policy. Allocating these investments to life insurance will tax-shelter future investment returns that if declared as income could impact the claw-back of Old Age Security (OAS) and/or the Age Credit.

4) I am comfortable making an investment with limited liquidity for several years.

Funding a permanent life insurance policy as part of an IRP strategy can require 10 years or more of premium deposits with limited liquidity. It is important that your client understands this limitation and has other liquid sources of capital to draw on should they need to.

5) I am comfortable carrying a large amount of debt secured by life insurance.
Once the IRP strategy is fully funded, the cash value is used to secure a line of credit. Tax-free loan advances are then drawn from the line of credit to support income needs.

Clients need to be comfortable with the idea that the debt accumulated through an IRP strategy can only be paid off without triggering additional taxes, upon the death of the insured, even though it is secured by the cash value of the life insurance policy.



Investing &Taxation

Suggested action:

- If your client answers Yes to all the Investing and Taxation statements, the IRP strategy may be a good fit and further consideration and analysis is suggested.
- If your client answers No to one or more of the Investing and Taxation statements, the IRP strategy may have limited advantages and you should proceed with caution.

1) I have utilized all my past RRSP contribution room.

If your client has unused RRSP contribution room, before recommending the IRP strategy, you should prepare a comparison analysis that allocates the life insurance premiums to RRSP contributions. Doing this comparison will help to validate the effectiveness of the IRP strategy to achieve retirement income and estate planning goals.

2) I plan to contribute the maximum to my RRSP each year.

Maximizing RRSP contributions should be a priority for clients that are in the retirement accumulation phase of planning. Funding an IRP strategy with additional savings can be a tax efficient way to invest.

Pro-Tip:

By subscribing to RazorPlan with Decumulation, you can use the decumulation module to optimize withdrawal allocation and government benefits can help to reduce the amount of income producing assets the client needs.

3) I have utilized all my past TFSA contribution room.

Before recommending an IRP strategy, you should question why your client has not fully utilized their past TFSA contribution room. Clients who have not taken full advantage of TFSA contributions should evaluate the advantages of TFSA investments before considering an IRP strategy.

4) I plan to contribute the maximum to my TFSA each year.

Clients will often view TFSA as something you contribute savings to, and will stop making contributions once they retire. But TFSAs should continue to be used by allocating other savings and/or excess income to take advantage of the tax-free investment growth. Using savings that could be allocated to TFSA to fund an IRP strategy should align with the client's overall financial goals and objectives.

5) My pre-retirement marginal tax rate is projected to be greater than 40%.

For pre-retirement planning, the IRP strategy works best for clients that have a marginal tax rate of 40% or more.

Allocating non-registered investments to permanent life insurance when investment income is taxed at 40% helps to enhance the long-term advantages of the tax-sheltered investment in life insurance.

6) My marginal tax rate in retirement is projected to be greater than 30%.

For post-retirement planning, the IRP strategy works best for clients that are projected to have a marginal tax rate of approximately 30% or more. If your client is projected to have a significantly lower marginal tax rate in retirement, you should ensure the IRP strategy aligns with the client's overall financial goals and objectives.

7) My average tax rate in retirement is projected to be greater than 15%.

Your married clients will be able to split certain types of income in retirement to lower income taxes. When recommending an IRP strategy to clients that are projected to have a combined average tax rate in retirement of less than 15%, you should validate the effectiveness of the IRP using a comparison analysis to ensure the advantages outweigh the risks.

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