Tax advantages of life insurance
Make room for RRSPs and life insurance in your plan
Retirement planning

If you were to ask a typical Canadian what type of savings plan is the most favourable from a taxation point of view, he or she would probably answer, "RRSPs."

The more accurate answer is: it depends on your current situation, your long or short-term goals and your needs. Choosing the best financial product for your situation takes some planning since different types of financial products serve different purposes, resulting in various tax advantages and depending on which product you choose. For example, an RRSP is designed to defer taxable income from the employment years to the retirement years. A life insurance policy is designed to provide protection when there is a life insurance need. Depending on the type of life insurance product you choose, for example, a permanent life insurance policy, there may be additional benefits for you. Since the tax advantages vary by financial product, such as an RRSP or permanent life insurance, it's worth knowing how and when each fits into a financial security plan.

A permanent life insurance policy (such as universal life and participating whole life) can allow you to accumulate cash values inside the life insurance policy, within certain legislative limits, without paying income tax on the growth. Cash withdrawals are subject to taxation based on the rates and rules in effect at the time you withdraw the funds. The death benefit is paid to the beneficiary of your choice tax-free upon death.

Which is the best product for you?

For Canadians who have maximized their RRSP contributions and have a need to protect their income or their family's lifestyle, a permanent policy can also offer a way to provide tax-advantaged savings. For other Canadians who have identified a permanent need for life insurance and have purchased a permanent policy, they will also receive another benefit: having a tax-advantaged asset while they're alive.

If you have a permanent life insurance policy, the cash values can be accessed to supplement a retirement income through a policy loan or partial surrender, or you may be able to use the policy as collateral for a consumer loan at a third-party lending institution. As well, the combination of a single-life annuity pension and a permanent life insurance policy can maximize your pension income while living and provide funds for a surviving spouse after your death. So not only does the cash value in a life insurance policy allow the policyowner a tax-advantaged way to save, it may also be possible to use the funds that have accumulated toward a special financial goal in a tax-advantaged way.

Contact your financial security advisor for more detailed information about the options and methods for accessing the accumulated cash value in a permanent life insurance policy and the benefits and risks associated with each option.

This information is provided by London Life Insurance Company.