Protect your lifestyle and accumulate wealth

Personal Insurance Strategies

TD Waterhouse

Ensure your financial well being

Financial success is a result of hard work, smart decisions and sound planning. No one knows that better than you. And the more you have, the more you – and your family – have at stake.

But there is a cost-effective way to manage the risks to the lifestyle you've built for yourself and your loved ones. Insurance can minimize the impact of life events such as illness, disability or death. With the right insurance strategies in place, you can be confident of your financial security at every stage of life.

As a TD Waterhouse® client, you have access to a broad range of financial experts who work together to deliver sophisticated wealth management solutions including:

- Financial planning
- Portfolio management
- Cash management
- Tax planning
- Estate planning
- Succession planning
- Retirement planning
- Insurance planning

By giving you one-stop access to experts in each of these fields, TD Waterhouse can provide you with a comprehensive wealth management solution that meets your needs today. And we'll be there to review and adapt those strategies as your needs change or become more complex.

Security plus tax-advantaged growth

For most people, insurance is the most effective way to secure their family's standard of living. Insurance can provide the money to pay your bills if you become seriously ill or disabled. It can enable your family to stay in their home in the event of your death. It can ensure you don't become a financial burden, should you require long-term care. In fact, insurance can be used to help offset virtually any risk.

On top of this exceptional security, certain life insurance policies have an investment component that has special status under the Income Tax Act. The impact can be so significant that many experts regard tax-advantaged life insurance as a distinct asset class and, therefore, an important part of a diversified investment portfolio.

Life, health and wealth protection

This combination of lifestyle protection and wealth accumulation has been refined into a variety of insurance-based strategies that can be used to help:

- Pay off your mortgage if you become disabled, suffer a critical illness, or die
- Ensure your family has enough money to live on in the event of your death
- Protect your standard of living in case of accident, sickness, disability or critical illness
- Potentially protect some of your assets from creditors
- Shelter your investments from income tax
- Supplement your retirement income
- Provide long-term care for you and your loved ones
- Build and preserve your estate
- Minimize the impact of taxes on your estate
- Reduce probate fees
- Leave a legacy to charity

While your unique circumstances require the expert advice of an insurance specialist, the overview of some typical life stages[1], below, will give you a better idea of how the various personal insurance strategies on the following page can be used to meet your specific needs – now and in the future. NOTE: not all the circumstances in each life stage need apply in order for the strategies to be appropriate.

LIFE STAGES

STARTING OUT (Page 6)

CIRCUMSTANCES: Young children, self-sufficient parents
Moderate income
Short- and long-term debt
Beginning asset accumulation

CONCERNS: What happens if I become disabled or die?

STRATEGIES: 1 2

BUILDING WEALTH (Page 8)

CIRCUMSTANCES: Older children, aging parents
Entering peak earning years
Decreasing debt
Increasing assets

CONCERNS: How do I maximize my investments and eliminate debt?

STRATEGIES: 1 2 3 4

PRE-RETIREMENT (Page 10)

CIRCUMSTANCES: Children generally self-sufficient, parents may require care
Peak earning years, may decline
Debt being reduced
Peak asset accumulation

CONCERNS: How do I maximize wealth, plan for retirement and protect my family?

STRATEGIES: 1 2 3 5 6 7 9

RETIREMENT (Page 12)

CIRCUMSTANCES: Reduced family obligations
Assets being used for living
Debt being reduced

CONCERNS: How do I maximize my quality of life and make sure the value of my estate passes to my heirs?

STRATEGIES: 1 2 3 5 7 8 9

NOTE: the strategies shown below often apply to more than one life stage.

STRATEGIES

1 **Income Protection**:
Provides sufficient income to your loved ones in the event of your death. (**Page 7**)

2 **Living Benefits:**
Protects your family's financial well-being against serious illness or disability. Makes sure you can afford the best quality care. (**Pages 7, 9, 11, 13**)

3 **Income and Estate Preservation**:
Enables your family to inherit your assets not your tax liability and other expenses at your death. (**Page 9)**

4 **Tax-Advantaged Investing**:
Uses universal or whole life insurance to give your investments preferred tax treatment. (**Page 9**)

5 **Family Wealth Transfer**:
Funds your estate plan to pass inheritance to your children and your grandchildren, tax-free. (**Page 11**)

6 **Insured Retirement Plans**:
Leverages the cash value of your insurance policy for retirement income while maintaining your life insurance coverage. (**Page 11**)

7 **Segregated Funds:**
Protects you from market volatility and may also protect these assets from creditors. (**Page 11**)

8 **Insured Annuity**:
Increases and guarantees the income stream, while maintaining your principal. (**Page 13**)

9 **Charitable Giving**:
Reduces your taxable income now or at death, while leaving a lasting legacy. (**Page 13**)

STARTING OUT

With a young family, moderate income and both short- and long-term debt, protecting the family in the event of death or disability is a major issue. Low cost life insurance, designed to replace income and pay down debt, coupled with living benefits in the event of critical illness or disability, can ensure the family's financial stability against personal crisis.

Imagine Anna and Steve[1] ...

Married for six years, Anna, 33, and Steve, 35, have two children, ages five and three. Their combined annual income is just over $140,000. Through dedicated saving and knowledgeable investing, they've accumulated a portfolio of almost $200,000. But, other than property insurance, they'd assumed their employee benefit coverage was the only other insurance they really needed.

When Anna's mother was diagnosed with cancer, circumstances dictated that she move in with Anna and Steve. Her mother's loss of income due to the lengthy illness, the expense of life-saving medications as well as the cost of in-home care were all things that Steve and Anna had never really thought about before. Realizing that there might be gaps in their own coverage they asked their investment advisor for help. After evaluating their circumstances the advisor referred them to an insurance specialist[2] who carefully reviewed their situation and presented them with a range of options.

Their insurance specialist identified two shortfalls in the couple's employee benefit plans. First, neither of their company-paid life insurance policies would pay even half their existing debt, let alone help provide an ongoing income. Second, both their company disability plans had an "any occupation" clause which meant that if either of them became disabled and, after two years could perform any occupation – as opposed to the occupation they had trained for – payments would stop.

Since during the working years, a 35-year-old has a 50% chance of suffering a disability with an average duration of almost three years[3], both Anna and Steve have a significant uncovered risk.

STARTING OUT STRATEGIES FOR ANNA AND STEVE[4]

Income Protection

Anna and Steve could use creditor insurance or term insurance – on top of their group plans – to cover their existing debts and ensure some income replacement in case either of them died. They could also use permanent insurance to lock in lifetime coverage while they are still relatively young and premiums are relatively low.

In both cases, the insurance benefit could be used to pay final expenses such as funeral costs and tax liabilities, as well as provide money for their family's ongoing needs.

Living Benefits

To protect the family against the financial burden of a lengthy illness or disability, both Anna and Steve could buy a combination of critical illness and disability insurance. Personal disability insurance could be used to ensure benefits were payable for the duration of their working lives if either of them became disabled and could not perform the occupation they've been trained for. Critical illness coverage would give them an important level of security – particularly given Anna's family history – that, in the event of a serious medical condition, there would be a lump sum benefit to pay for specialized treatment or whatever else the family needed.

BUILDING WEALTH

Mid-life brings new responsibilities and concerns. Income and assets are increasing, debt is decreasing, but family obligations – both to parents and children – define the "sandwich generation". It's still essential to have protection in the event of illness or death, but family wealth also needs to be secured. Permanent life insurance can play a central role in safeguarding the family's standard of living and eliminating the tax burden in the event of death. Sudden health issues also need to be addressed. Living benefits coverage from critical illness and disability insurance will ensure the retirement plan is still achievable and that quality health care remains affordable.

Imagine Frank and Shelly[1] ...

Frank, 51, and Shelly, 43, have three children ages 21, 18 and nine. Frank's combined salary and bonus last year was just under $200,000. Shelly has been at home since their youngest child was born. Active investors, the couple's portfolio stands at $320,000 – a third in non-registered investments. Frank has maximized his RSPs, but with Shelly not working for the past nine years, their contributions have been based on his income alone. The combined mortgage on their house and cottage is just over $300,000.

Frank's parents are both over 80 and he's concerned they won't be able to live on their own much longer. While there's no financial obligation yet, he doesn't know what their financial situation is. With one child in university, and two to follow, Frank and Shelly are feeling the financial pressures intensify.

When they expressed their concerns to their new investment advisor, he urged them to follow-up on his referral to an insurance specialist. The couple had looked at their insurance situation a couple of times in the past and bought mortgage credit insurance to cover the mortgage on the family home and a 20-Year Term Insurance policy shortly after their youngest child was born. Except for Frank's employee benefit coverage and their property insurance, that was it.

In their first meeting with the insurance specialist, he asked them a question that helped put their insurance needs into perspective: "Do you want your family to inherit your assets or a tax liability?"

WEALTH BUILDING STRATEGIES FOR FRANK AND SHELLY[4]

Living Benefits

As their retirement plans are largely dependent on Frank's income, the couple could help secure their financial future using a combination of critical illness and disability insurance. In addition to the risk of disability (see last paragraph, page 6), one in four Canadians develops heart disease and one in three develops some kind of cancer.[5] By combining the policies, they could continue to save for their retirement, if Frank became disabled. And, in the event of a critical illness, they would have a lump sum benefit to use however they wish without withdrawing funds from their retirement savings for treatments or living expenses.

Income and Estate Preservation

Frank and Shelly could use a variety of creditor, term and permanent life insurance products – individually or in combination – to protect the family lifestyle in case of Frank's death. In addition, those same products could ensure that the estate they want their loved ones to inherit is a significant legacy that is not eroded by taxes.

Tax-Advantaged Investing

The cash value of a universal life insurance policy enjoys tax-advantaged investment growth, so it could effectively optimize the returns on the couple's fixed income investments. This strategy would use a small portion of their investment to pay a reducing cost of insurance, while the balance of the investment would grow in a GIC-type investment inside the policy. Often the cost of insurance is actually lower than the tax that would be payable if the money was held outside the insurance contract and, eventually, the entire value of the policy flows to the beneficiaries, tax-free.

To review other strategies that may also be appropriate for your wealth-building phase, please refer to page 4.

PRE-RETIREMENT

Earnings are still at their peak, debt is coming down and children are generally self-sufficient. But parents may now require full-time care, taxes are a real issue and it seems more important than ever to maximize and protect assets. Segregated funds can serve a valuable role as risk tolerances shift toward protection. Insured retirement plans, living benefits from critical illness and disability insurance and long-term care coverage can help secure the retirement planning process and then extend that security throughout the retirement years.

Imagine Sandra and Dan[1] …

The years of hard work and commitment have been good to Sandra and Dan, both 55. They have three grown, self-sufficient children, four grandchildren, a house and cottage both fully paid for, and invested assets of just over $650,000.

With the help of their financial planner, Sandra and Dan have been working on their retirement plans. Sandra would like to retire at 60, while Dan feels he will continue working to age 65 to get in 10 more years of savings. The couple has used all their RSP room and, for the past several years, have been increasing their non-registered investments.

With a decreasing tolerance for risk, Sandra and Dan have also been rebalancing their asset mix in favour of fixed income investments. They want the security – but they also need as much growth potential as they can get.

Over the years Sandra and Dan have looked at a variety of insurance proposals and had bought some creditor and term insurance. But with retirement coming up and their financial plans not quite there, the couple was grateful for the review their financial planner set up with an insurance specialist.

PRE-RETIREMENT STRATEGIES FOR SANDRA AND DAN[4]

Living Benefits

With their retirement plans needing a few more years of asset growth, a combination of critical illness and disability insurance would ensure that Sandra and Dan could maintain their standard of living and continue saving for retirement in the event of a major health issue. Given the uncertainty surrounding accessibility and costs under Canada's health care system, long-term care insurance would give the couple the reassurance that their family will not have to take responsibility if either of them become unable to look after themselves.

Family Wealth Transfer

Sandra and Dan wish to pass some of their good fortune to their children and their grandchildren. Using permanent life insurance and carefully structuring the ownership and beneficiary designations, they could ensure that benefits flow through to two generations – tax-free.

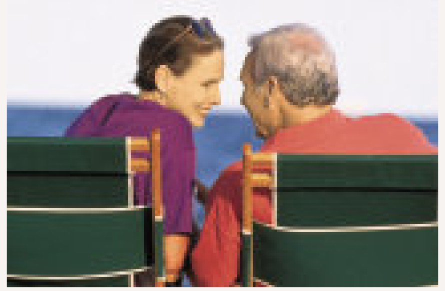
Insured Retirement Plans

Using a permanent insurance product that includes a cash value, the couple could move a portion of their assets into a tax-advantaged investment, then access the investment component to help support their retirement. One particularly tax-effective way to generate income is to use the policy as collateral for a consumer loan. The other advantage to this strategy is that the residual value of the policy would be transferred outside of their estate to their heirs, with no probate or taxes payable.

Segregated Funds

At this stage of their lives, Sandra and Dan want some protection from the fluctuations of the market, while maintaining the growth potential of equity investing. Using segregated funds, they could ensure the bulk of their principal is guaranteed. Reset options may be available which would allow them to periodically lock in gains. Their investment would potentially be protected against creditors. And because proceeds from segregated funds pass directly to beneficiaries and not through the estate, the delays and expenses of probate will be avoided.

To review other strategies that may also be appropriate for your pre-retirement phase, please refer to page 4.



RETIREMENT

Retired, with limited family obligations, the focus shifts from earning an income to staying healthy, providing an inheritance for family members and leaving a legacy. Insured annuities can guarantee a lifetime income while replacing the capital used with a death benefit that flows to beneficiaries, tax-free. Charitable giving through an insurance policy takes the money out of the current tax stream and avoids any estate liquidity issues that could arise if the gift had been willed. And living benefits from long-term care insurance can ensure a sense of security and dignity.

Imagine Kevin and Pam[1] ...

Pam had been urging her husband to retire for years. The pressures of running a successful franchise were taking a toll on both of them. So, at age 60, Kevin found a buyer for the business and he and Pam started the next phase of their lives.

Now age 69, Kevin has to decide what to do with his RSPs before his next birthday. He and Pam are also concerned about the taxes they're paying on the non-registered investments they bought when they sold Kevin's business. With a history of longevity in both their families, they're worried about the possibility of outliving their retirement savings. They also want to make sure there's a nest egg left for their only daughter, as well as a special legacy for their favourite charity.

Their financial planner did a preliminary needs analysis and recommended that the couple consult an insurance specialist to see how various personal insurance strategies could help them achieve both their short- and long-term goals.

RETIREMENT STRATEGIES FOR KEVIN AND PAM[4]

Living Benefits

Long-term care insurance for both Kevin and Pam would give them the comfort that they will not become a financial and/or emotional burden on their daughter and her family should either of them become unable to look after themselves.

Insured Annuity

An insured annuity could enable Kevin and Pam to increase their after-tax retirement income over what they are netting from their traditional non-registered investments – and eliminate the concern about outliving their savings. A life annuity would guarantee the income stream and a life insurance benefit would replace the capital used to buy the annuity so their daughter can inherit the original amount, tax-free, and avoid the probate process.

Charitable Giving

Kevin and Pam could use a permanent insurance policy to insure the legacy to their charity and avoid any liquidation issues their estate might face if they were to make the gift by will. By moving the capital to a life insurance policy now, the money would be removed from the current tax stream. If they assigned ownership of the policy to the charity, they would receive a charitable donation receipt that they could use immediately. Otherwise the donation would provide tax relief to their estate.

To review other strategies that may also be appropriate for your retirement phase, please refer to page 4.

Take the next step

The strategies reviewed on the previous pages have hopefully given you a better understanding of how insurance can be used to assure your financial well-being. By helping you to manage risk far more efficiently than you could do on your own, these insurance strategies can provide significant financial benefits and real peace of mind. And by giving you access to tax-advantaged investment opportunities, they can also contribute to the accumulation of wealth for yourself and your loved ones.

Your TD Waterhouse insurance specialist will work with you and your financial advisor to determine the insurance strategies that best meet your needs. In developing these recommendations, TD Waterhouse draws on a full range of life, health and wealth protection products from Canada's leading financial services companies.

You've worked hard for your success. Let the TD Waterhouse team help you develop effective strategies to protect and enhance it. For more information or to confirm your appointment with one of our insurance specialists, please call your advisor today.

Core insurance products[6]

LIFE

- **Term Life Insurance** provides a death benefit for a fixed number of years (e.g., 10-year term) or until the insured reaches a specific age.
- **Permanent Life Insurance** is a generic term for coverage that can last for life. Included in this category are:
  - **Whole Life Insurance** – which remains in force for the life of the insured and offers a tax-advantaged build-up of cash value.
  - **Universal Life Insurance** – which provides lifelong coverage combined with tax-advantaged investment options that you control.
  - **Term to 100** – offers guaranteed lifetime protection with premiums typically payable to age 100.

CREDITOR

- **Creditor Insurance** is protection that provides a benefit that can eliminate or make payments on outstanding debts such as a mortgage, loan, or line of credit, in the event of death, disability, or critical illness.

LIVING BENEFITS

- **Disability Insurance** – income replacement if you are unable to work because of illness or injury.
- **Long-Term Care Insurance** – funds that can be used for living assistance if you become unable to care for yourself.
- **Critical Illness Insurance** – lump sum payment if you are diagnosed with a medical condition such as heart attack, cancer or stroke.

INVESTMENTS

- **Life Annuity** – a contract sold by insurance companies that provides a guaranteed income for life with possible tax advantages.
- **Insured Annuity** – a two-part plan that combines income (annuity) with a guaranteed return of capital to your estate (life insurance).
- **Segregated Funds** – investment funds offered by insurance companies that combine the growth potential of mutual funds with the security of insurance.

[1] The persons and situations described here are fictitious and the circumstances emphasize the attributes of the products and strategies being described.

[2] Estate Planning Advisors are licensed insurance agents of TD Waterhouse Insurance Services Inc. They offer insurance products from a variety of leading insurance suppliers.

[3] Source: Commissioner's IDA Morbidity and Commissioner's SO Mortality Tables, Society of Actuaries.

[4] The insurance strategies described are not appropriate for all individuals. Particular insurance strategies should be evaluated relative to each individual's objectives and in consultation with an Estate Planning Advisor or other professional.

[5] Source: Heart and Stroke Foundation of Canada and National Cancer Institute of Canada.

[6] All insurance products contain certain restrictions, limitations and terms for continuing coverage as outlined in the specific policy documents. Please be sure to read all materials carefully.

All insurance products and services are offered by licensed agents of TD Waterhouse Insurance Services Inc., a member of TD Bank Financial Group.

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