JW S05E06Mark Halpern

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SPEAKERS

Mark Halpern, Pat Bolland

Pat Bolland 00:16

We've talked many times on this program about Canadians not really having a will and not doing things like estate planning. But what if you could use estate planning, maybe insurance, and also blend that in with philanthropy. Mark Halpern will be joining us ... Mark, good to see you again.

Mark Halpern 00:53

Great to see you. Pat

Pat Bolland 01:02

Mark ... people who don't know your background, give us a little bit of how you got started in this space.

Mark Halpern 01:07

For sure. So I'm almost 35 years in professional practice, but my real start actually, Pat was in 1974 and that's when my father, a blessed memory, and unfortunately, died of a heart attack at the age of 50. I was 11. I was youngest of four boys, and my mother had to go back to work to support our family. Why? Dad loved us, but he was a busy engineer, and unfortunately, there wasn't a will, there was very little savings, and there was no life insurance. So, you know, it's very tough for us. We had to develop a struggle muscle. But you know, fast forward, you know, I work with some of Canada's most successful business owners and entrepreneurs and solopreneurs and families, and you think they'd have everything all organized and together. Pat but it's not the case. Unfortunately, the majority of people don't have this in place.

Pat Bolland 01:52

Yeah, okay, aside from the wealthy people, though, how do Canadians as a whole appreciate how important estate planning and insurance and even philanthropy are do you think they have an appreciation?

Mark Halpern 02:05

I don't think so. I think a lot of people are very transactional. So in other words, they might have different people who are getting them involved in different structures or schemes or strategies. But when it comes to looking at holistic planning, comprehensive planning, I think the key there is that everyone really needs a team, like we're living at a time when things are much more complex. So you need a team of professionals who are specialists. You need a lawyer, you need an accountant, you need an investment person, an insurance person, a philanthropy threat, philanthropy person, and they've got to be speaking together about your particular situation. And you don't have to be Warren Buffet or Bill Gates to need all this. You just need people who are actually going to be a little bit more proactive as opposed to reactive, because you want to take care of this bat while the sun is shining. Unfortunately, I've been on the other side of situations where people had the best intentions, but without planning, they left terrible, terrible results for the people that they loved and left behind.

Pat Bolland 03:00
Yeah, they left it too late. Let's break it down a little bit into bite sized chunks. Let's start with estate planning. What are the keys, or a key, for estate planning?

Mark Halpern 03:10
Number one is, for sure, having a will. You know, apparently, 50% of Canadians don't have wills, and the other 50% who do. The question is, is it really up to date? And you might need two wills. If you have some complexity, meaning you have an operating company or a holding company or investment company, you might need to have a couple of wills. So really important to have that conversation, and it's really simple. It's ink on paper. Just find somebody who's good at looking after that. We know some great people that we can introduce you to. Otherwise, what happens is the government has a formula for how your assets are going to be distributed. And if you have young children, meaning under the age of 18, and you're married, what's going to happen is they have a formula that says the first 300,000 of your estate goes to your spouse, and then the balance is divided up between your spouse and your minor children equally, and your minor children's portion is, is invested by a public trustee in GICs until they're 18, in which kids then they get all the money. Is, that's what somebody what somebody would want, absolutely not. We want to stay as far away from that as possible. So wills number one. Number two, Pat is having powers of attorney. Each of us need to have two powers of attorney. That's one that says if you become incapacitated, it allows someone to make health decisions for you, or one that, if you become incapacitated, allows somebody to make financial decisions for you. That's really lovely when it's your husband or your wife, but hey, Pat, you've gone off traveling with your spouse, I'm sure, as I have, what happens if, God forbid, there's a common disaster who steps up then to take care of all this stuff. So it's that's those are the two main ones. And the third one that I think is really very important is people need to have an estate directory Pat. And that is that most of us have all of our passwords and our affinity markets and our banking. Accounts sitting between this real estate between our ears, and it's scary. It's really scary, and they've got lots of stuff all over the place. So it's really important that people put together an estate directory, just it doesn't have to be too formal. We have a writable estate director directory. It's a PDF available on our website for free. So please, anybody can go to wealthinsurance.com and get that. But we suggest fill it out, put it someplace that somebody other than the husband and wife know its whereabouts at all times. So at least that takes away the Government of Canada, the Bank of Canada, having their billions of dollars of dormant bank accounts because nobody has been there because they don't even know that those accounts exist, or the safety deposit boxes, or,

you know, the passwords to get into Facebook, LinkedIn, Instagram and all that sort of thing. So I'd say those are three major components. Then the fourth one is, once you do have the will done, it Instructure, executors to pay off all outstanding debts, legal fees, accounting fees, everything, first to other people before your family gets it. So it's really important that people sit down and put together a proper financial plan to basically get a big check mark that says, hey, I'm never going to run out of money. But here's the tax bill today, and based on all my assumptions, here's what the tax bill is going to be, you know, at 90 and here's all this. Never spend money that I have, that I'm just basically partnering with the government on. Can I use some of that money to preserve it in full for my family or for charity or for both? And that's really a part of our planning that we love, which is the whole idea of legacy planning, being able to convert taxes into charity. And I'd love to speak to you more about that. Pat,

Pat Bolland 06:42
Absolutely. Just two quick questions. That directory you're talking about isn't just passwords, it's all your other assets as well. Whether it's, as you mentioned, bank accounts, but it could be, could be cars, it could be boats. Could be ...

Mark Halpern 06:56
... Shareholders agreements, limited partnerships, you know, deans. You know, where is it all? It's a scary thing.

Pat Bolland 07:05
Let's talk about the big word. I was surprised actually, when you said that young families get, you know, the government steps in and takes care of but the other area the government steps into, you mentioned it taxes. Let's talk about taxes. How do you preserve taxes? And then we'll take the next step on how do you, you know, do philanthropy?

Mark Halpern 07:24
Yeah, let's, let's talk about taxes. First of all, to begin with, first people have to know is that if you're married and you have a spouse and you die, everything rolls over, tax free to your surviving spouse. Taxes are not due until the second to die of a husband and wife, which means anybody listening to this. Who's single, widowed or divorced, really has to pay attention, because they're one incident away from a huge tax distribution. So what gets taxed in Ontario, if you have RSPs or rifts, basically, the government's going to take 54% of that money, anything over $220,000 they're taking 54% that means if you have a million dollars of RSPs, which is not huge, it's only worth 470 Hello, that's one thing. Number two, if you have any investment, real estate, not your principal residence, or you have appreciated securities, or you have investment, or you have a business, private equity, the government is going to want 27% of the gain, 27% of whatever, if he cost you a zero, and now it's a million, they're going to want $270,000 of that. And there was proposals to increase the capital gains to where it would be 36% of that. So that's a big number. And then, of course, if you have any other assets, let's say a business, and you might have a holding company or an investment company, there's a potential of a double taxation there of anywhere between 27 to 70% if you haven't done planning so. And then, of course, we have probate taxes, which in Ontario, if you have any assets, even if you're married and you have a house that's in one spouse's name, the government's going to want one and a half percent of

the market value of that so add it all up, and you're not worth as much as you think. So it's really important to do the planning to say, hey, I don't like this. I know this is my default, but what can we do now to preserve it? And that's really some of the things we wanted to talk about, which is around insurance or philanthropy, or both.

Pat Bolland 09:22
Let's get into that insurance, because we mentioned it at the very top. How do you use insurance to get around some of the taxes?

Mark Halpern 09:30
So listen, we don't have a lot of tax shelters left in Canada. I like to talk about shelters, but let's talk about tax advantage investments, other than your principal residence, right, which the government's looking at taxing that's going to happen. So question, if it's question of when, and tf essays which are limited, right? Or lotteries, you don't get taxed on lotteries here, so don't buy your lottery ticket when you're travel, traveling to Florida. But life insurance is one of the last of the tax shelters left in Canada, and what. They do, and that's all part of the tax act. What it is is there are three kinds of people who buy life insurance. Pat. One person buys life insurance because they love somebody and they want to make sure that person isn't left with any debts. There's kids, education programs, food on the table. That's called, let's call that the civilian insurance, and that's probably 80% of the population. But then there's another group who buys insurance. They buy it because they don't like the government, and they know the government has their hand out to benefit from their success during their lifetime. So they use life insurance for either pennies on the dollar or on a cash flow neutral basis to provide the 100 cent dollars to pay those taxes so they don't have to sell their cottage or sell their business or sell their investment real estate or the like. And then the last people who buy life insurance, Pat are people who feel that they're paying too much insurance while they're alive. Say they look at life insurance, permanent life insurance, almost as kind of like a a no limit. TFSA, so think of it this way. You know, right now we can put in $7,000 into a TFSA. Imagine being able to take money and putting as much as you want into like this shelter, this umbrella where your money grows tax free, where you can access that money tax free, and you can pass it along, tax free. That's how insurance works. And most people know what insurance is, but they haven't really had it explained to them what it does. So those are sort of the way. So in this in this situation, Pat, where you said, how are they going to pay these taxes? Well, all of us are going to be in a situation either you have the cash on hand to pay the taxes, or you're gonna have to borrow money to pay the taxes, pay back without any interest deduction. Or you're gonna have to sell assets. You have to sell the cottage, you have to sell, you know, house. You have to sell the building. You have to sell, you know, the company to come up with those taxes. Or you use life insurance. And as I said, it's a very it's not like you necessarily need it. The question is, is there an opportunity, and let's measure that versus what you're doing currently.

Pat Bolland 12:07
I mean, I get how insurance is important to young families, for instance, that that would be critical, and I myself did that. But suppose I'm getting on in years. Not that I'm planning this, but suppose I'm getting on in years. I'm 85 years old, for instance. Is it too late to get insurance for that kind of tax related planning?

Mark Halpern 12:27
It really is. Like 85 is sort of the top end in terms of being able to qualify for insurance. And most of the time that those types of insurances for what we call the estate planning, or the tax planning, people are acquiring a type of insurance called Joint last to die insurance. What it means is, it's not on one person's life. You're actually applying for it on, let's say, a husband and wife together, and they put that husband and wife into an actuarial Time Machine. Instead of them being 75 years of age, which they are now, they're like a 65 year old male, and that's what it's priced at. So there's some arbitrage there. That's very, very good, but the point is that the cost of that is much less expensive, and it pays out on the second to die of a husband and wife, which is when the taxes are due. And I think the challenge Pat is that a lot of people carry around a lot of baggage around life insurance, because, like you, they thought of it when they were younger. They had a mortgage, they had kids, etc, but that baggage, unfortunately, they carry that around with them all of their life, and they have to look at it as life insurance for those older ages, is really about for paying taxes. There's a way of paying taxes or for state equalization. Let's say you have second marriages, new spouses. How do you? How do you? How do you play the merry go round on everybody you know, make sure the musical chairs everyone's looked after and you're satisfied. Or for shareholders agreements, or for converting corporate dollars into personal dollars using corporate owned insurance, or it could be for philanthropy, and that's really what I love to talk about, which is, how can we turn those estate taxes actually into legacies for families?

Pat Bolland 14:13
let's do that, because it'd be easy to just name the beneficiary as the charity, and that's your philanthropy. Is it that simple?

Mark Halpern 14:23
Well, I'd say that most people the the most advanced strategic philanthropy they're doing is in their will, they have a bequest for a certain dollar amount to a charity or to several charities that they care about. And that's it. It wasn't really part of a plan. So I think to take one step back, we have to appreciate that while you're alive, charitable donations can be used to mitigate up to 75% of your net taxable income, 75% and those donation receipts can be carried forward for up to five years. Most people know that. Probably you know. Your accountant does. Maybe you're not as well versed, because most of us are giving money when somebody has a bicycle ride to bury, to help conquer cancer, and then here's the credit card, right? But on death Pat, charitable donations can be used to mitigate 100% of estate taxes, 100% including going back the year before. That means for every $2 that you give to charity, upon death, you turn $1 of tax into charity. $1 of tax becomes charity, and the CRA doesn't get anything at all. So for all of our clients, what we do is we'll build something in let's just say, as an example, let's say somebody has a want to try to bring it down in terms of the value of the estate. But let's say somebody has a five, $5 million estate, right? And they're going to have a million dollars of tax that they're going to do, and that's not so unusual. Imagine if they have a $2 million RRSP, million dollar will be a tax so, so what we do is we try to build in using life insurance for pennies to create, let's say, a $2 million gift of insurance that we then have in the estate going to charity when they die. That $2 million from the insurance goes to charity upon death, creates a $2 million charitable receipt, and now a million dollars of tax doesn't go to the CRA it now becomes charity, and you're remembered for leaving $2 million to charity, as opposed to writing a million dollar check to the government.

Pat Bolland 16:33
When I reached out to you to do this discussion, you said you turned three and a half million dollars. I think it was, uh, in estate taxes into a $7 million donation to a charity. Is that an example? You're talking about the kind of ...

Mark Halpern 16:49
Exactly so in December I was I got introduced to a real estate family where mother and father, who were the, you know, the patriarch and matriarch had died, and there was a over $3 million tax that the mother was going to be owing to the to the tax department, and we met, I met with some of the siblings, and got introduced to their accountants, and we looked through the will, and instead of giving that $3 million to the CRA instead they wrote a $7 million check to a Family Foundation, which they had now that $7 million goes to the Family Foundation, which creates a receipt that now turns that $3.4 million of tax all into charity. And they were so grateful to do that. Now they did have to come up with that $7 million right Pat, who has that? But again, it's all scalable, so don't look at these numbers as such big numbers. It could be 700,000 it could be 70,000 whatever the case might be. But if we sit down and do that estate planning, and we know if the tax bill will be in advance, which we can figure out, now let's use that permanent life insurance at a very inexpensive cost to create that donation, using the insurance upon death to either a donor advised fund or to your own foundation or directly to a charity, and now that will turn all the taxes to charity. The point is, is that there's a huge opportunity here for people, and unless the accountants and the lawyers and the investment insurance people are speaking about it, or the charities are speaking about it, unfortunately, the vast majority Canadians don't even know about this, and if they knew that they had a choice where their taxes go, that they could give those causes they care about, as opposed to writing a big Check to Ottawa, they'd want to do it., or know about it.

Pat Bolland 18:42
Sure would ... Where can they go? I mean, do they go to your website or their other does the government of Canada have websites that explain it and let you walk through it a little bit slower? I mean, you know, 10-15, minute podcast doesn't explore all the venues.

Mark Halpern 18:59
Well, I would suggest if people want to go and just search Mark Halpern idea city. Mark Halpern idea city, I did a very cool TED talk a few years ago at Moses Nimr idea city, and I was in the disruptors category, and it's called the new philanthropy. The new philanthropy, it'll really help frame a lot of what we're speaking about and give people, I hope, ideas that they're not aware of idea or alternatively, they can reach out to me, send me an email to mark@wealthinsurance.com or go to our website. There's no obligation to have a first time conversation or get a second opinion on things we recommend. Bring your professionals as well. We'd like to collaborate with advisors from across the country. So I think that would be a second thing. Or if they send me an email, I'm happy to send them some great articles I write, you know, quite, quite a lot for different publications, and we can send them information. One of the ideas that I think Pat you would love. Something that we call CPP, philanthropy. CPP, that's correct, so Pat. You probably haven't heard this before, but when you turn 65 you can start receiving CPP, right? And most people look at it as, oh, I'm a pensioner now. Is this fun? Like, you know? And but for

the more, for a lot of people, they don't really need that money every month that they're receiving, it's it's taxed, they reinvested, and it's taxed again. But also, when they die, that CPP disappears as well. If they don't need that money, and they're very and they're philanthropic, we can take that $1,700 a month that they're receiving, and we could create a an insurance gift of close to a million dollars that, if that gift is owned by a charity, now, that million dollar policy is owned by a charity now, then their CPP is considered a charitable donation. Now, they're paying no tax on the CPP, but they've created a million dollar gift. Or alternatively, take the CPP and make your children the beneficiary of that million dollar insurance policy and donate that RRSP or RIF that would be taxed at 54% to charity. Now the charity is getting, let's just say, $2 million of your RSP or RIF, where your kids would have only gotten less than a million, but now they're getting that, and your kids are still getting the million dollars that they would have to them through the insurance proceeds, and all you did was that was using the CPP just by moving the shells around to be more efficient. And there are many, many other strategies that people just have to really look at to see if they really fit their particular situation.

Pat Bolland 21:41
Mark, fascinating discussion. Thank you so much for your time

Mark Halpern 21:45
It's great. Thank you so much for having me. Pat I really appreciate it.

Pat Bolland 21:49
Mark Halpern from wealthinsurance.com