

# ADVISOR POST



## More for the leaving

Tridelta's plan rests heavily on mortality benefit



**JONATHAN CHEVREAU**  
*Well Advised*

These facts are at the core of several innovative estate planning strategies coming from Canada's insurance agents, brokers and financial planning boutiques.

For example, one I first wrote about back in 1997 is insured retirement plans, or IRPs, which are offered by life insurance companies. These use a bank loan and universal life insurance. A more recent innovation is the Smith Manoeuvre, a way of making a home mortgage tax-deductible and leveraging into the stock market.

A relatively novel strategy along similar lines is the TriDelta Estate Maximizer, devised by Asher Tward and Ted Rechtshaffen of TriDelta Financial Partners. TriDelta and Rechtshaffen were profiled in this column last August. Tward is the senior insurance advisor at TriDelta Insurance Solutions.

He provides the example of a 70-year-old woman with a paid-off home worth \$600,000. That untapped home equity is idle money that could be used to leave a hefty estate for her heirs. TriDelta suggests she take out a \$300,000 home equity loan (say at 5.5% interest; floating or fixed) and invest the proceeds in a conservative non-registered portfolio of tax-efficient income trusts, preferred shares, bonds and blue-chip stocks. The interest on the loan is tax-deductible (assume the client is at a 35% tax rate) and the investment return from the portfolio is expected to average 7.5% a year.

The investment income is used to pay the loan (interest



Asher Tward, who helped devise TriDelta's estate maximizer strategy, says it allows several paths to exist with minimal downside.

nets out at \$10,725 a year) and to fund UL insurance premiums of \$15,000 a year. Should the homeowner die within the next 20 years, the tax-free death benefit will range from \$411,000 if the death occurs in the first year, to \$621,000 if the client reaches 84. It remains at \$621,000 thereafter.

What's interesting is the real gain to the client (or more precisely, the client's beneficiaries) comes from the combination of the death benefit and the residual

value of the investment account. Even though the initial \$300,000 investment may gradually fall during the period (to below \$200,000 by age 81 and to \$116,000 at age 90), that is compensated for by the net gain achieved by the insurance benefit and any investment gains. Thus, if the client dies at age 81, you add the remaining investment capital of \$191,701 to a death benefit of \$561,000 for a total bequest of \$752,701. Relative to the original stake of \$300,000, that's a net gain of \$452,701.

The beauty is this is funded with no drain on the client's cash flow. TriDelta sets it up so automatic debits flow from the investment account to pay both the mortgage and insurance premiums. The investments are managed by its four investment suppliers. It is transparent to the client, all based on some home equity that was otherwise untapped.

Because of the UL component, the strategy seems to bear a superficial resemblance to IRPs. But the two are quite different, Tward says. "Our strategy leaves a huge amount of breathing room that can accommodate any variability in the borrowing costs or investment returns, unlike the insured retirement, which requires significant investment gains over many years in order to work."

Unwinding or collapsing IRPs entails potentially huge tax liabilities after 20 years. By contrast, TriDelta's strategy "allows for a significant number of paths to exit if required — with minimal

downside," Tward says.

While IRPs rely on strong investment returns over a long period, TriDelta's is based chiefly on the mortality benefit of the life insurance. The investment returns need only be modest to fund the insurance and borrowing costs. The UL investment account is invested in fixed income with contractually guaranteed rates.

Moshe Milevsky, finance professor at York University's Schulich School of Business, says the twist is "life insurance is being purchased to give you some psychological comfort in knowing you will get your money back, at death. The tax-favoured status of the inside buildup makes the after-tax expected return higher."

However, such strategies can entail risk, he warns. "You are implicitly telling an 85-year-old to leverage into the stock market. Personally, I would want to see some sort of risk analysis about the probabilities over time."

To this, Tward says the strategy is typically sold to clients younger than that. As well, "since the strategy is explicitly for estate planning, it is not assumed the capital will be needed by the 85-year-old during his or her lifetime." Every case is different.

More detail is available at [www.tridelta.ca](http://www.tridelta.ca).

Further to last week's piece, BMO Nesbitt Burns says it ranked first out of the bank-owned brokerages with a score of 8.5 in *Investment Executive's* 2006 report card, compared with RBC's 8.3. The source document we were working from showed BMO at 8.1, which apparently was an error.

Speaking of bank-owned brokers, ScotiaMcLeod recently held its annual FABAs conference in Mont Tremblant, Que. FABAs stands for For Advisors By Advisors and was held for the first time last year in Whistler, B.C. Next year the conference will be in Banff.

This time around, 250 advisors paid their own way to hear top producers share secrets on how to build businesses by focusing on the client and referrals. According to branch manager and director Craig Jarvis, 25 of the 30 President's Council members attended.

A highlight was the sales secrets of two billion-dollar producers from Quebec. More on that next time.

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## Don't let clients lose assets to divorce

BY TARA SIEGEL BERNARD

NEW YORK • The tabloids in the grocery store line keep you current — whether you like it or not — on how many celebrity weddings end in divorce and the high-stake battles that ensue. But as one of North America's oft-cited statistics proves, you don't need to be rich or famous to get divorced.

As more people enter second marriages, with assets and children in tow, it pays to come to an agreement over who gets what should the union dissolve.

The wedding season underway serves as a timely reminder about when a prenuptial agreement — even a postnuptial one — might be a useful tool, whether it is to protect assets earmarked for children from a previous marriage or to allay parents' concerns the family business or vacation home remain in the family.

"We've seen a major uptick in prenups," says Sheila Riesel, a partner at Blank Rome LLP, a New York law firm. She is also seeing more younger couples without many assets signing prenups for an unusual reason — to avoid having to divvy up the dental degree, or other advanced degree, acquired during marriage: "Under New York law, an advanced degree [earned during marriage] is a

marital asset that can be capitalized upon divorce," Ms. Riesel says. "When you have to divide something you don't have in hand and something you can't sell, it's a hard nut to swallow."

The classic prenuptial agreement occurs when one party comes from a wealthy family or is set to inherit significant sums of money that the family wants to protect in the event of a divorce. (Remember when *Sex and the City's* Charlotte was presented with a prenup by her future mother-in-law, Bunny?) If one party is the breadwinner, you usually negotiate alimony or maintenance

sign, parents will need to take extra measures to protect assets slated for their children, through trusts, family partnerships or limited-liability companies. They'll also have to consider how much "lifestyle" support they'll give to the couple because they don't want that to be on the bargaining table in the event of a divorce, a private banker advises.

"You can bulletproof [assets] a little bit, but it might not be fully protected," says Joanne Johnson, a wealth advisor at JPMorgan Private Bank. "A correctly drafted, processed and executed prenup can be foolproof and the other strategies may or may not work. It depends on how life evolves."

Prenups also commonly arise when one or both parties is on a second or third marriage. "When both have children and both have assets, they usually have the same mindset," she adds.

Starting the prenup process well before the wedding, at least several months, is also a good idea, so as not to spoil the mood. But there are legal reasons for completing it early, too.

"If you present someone with a document like this to sign at the eleventh hour, that person can later try and build a case [it was signed under] duress," Ms. Johnson adds.

Dow Jones

**CLASSIC PRENUP**

**KEEPS INHERITED**

**ASSETS IN THE FAMILY**

payments. (Bunny valued Charlotte at US\$500,000 — after Charlotte consulted with an attorney friend, she felt she was worth US\$1-million, and ultimately negotiated that into the agreement.)

Getting parents involved can actually be a good idea, because it shows the future spouse this isn't something being dictated by the fiancé, experts say. If a child refuses to ask their betrothed to