

FAIR MARKET VALUE OF A LIFE INSURANCE

In a nutshell

What is the fair market value of a life insurance?

Despite widespread assumptions, the fair market value (FMV) of a life insurance policy does not necessarily correspond to its cash surrender value. It is generally accepted that the FMV of an asset represents the highest price likely to be obtained in an open market for a transaction between arm's length parties acting prudently and without any compulsion to act.

To determine the FMV of a life insurance policy, an appraisal must be carried out, considering several factors recognized by the Canada Revenue Agency (CRA), such as the age and health of the insured, the policy issue date, the terms of the contract, the cash surrender value, the economic environment, etc.

In which situations should the FMV of a life insurance policy be appraised?

Unless special circumstances arise, policyholders do not need to know the FMV of their policy. However, in the case of donation, distribution or disposition between related persons, it is recommended to have this value appraised.

Moreover, it is agreed that a new owner designation constitutes a transfer of ownership. It is therefore important to determine the FMV of a policy when requesting a change of ownership.

Why is it important to determine the FMV?

The transfer of ownership of a life insurance policy may have tax implications. These can vary depending, notably, on the arm's length relationship between the parties and the amount of the transfer.

To determine the FMV of a life insurance policy, it is essential to consult a professional appraiser. Independent actuaries and accredited appraisers are generally qualified. It is understood that the insurance company issuing the policy contract should not perform this valuation, given the potential conflict of interest. It is further recommended to consult a financial advisor for optimizing your financial and tax situation.

iA Financial Group's Large Case Solutions team can help propose customized and tailored solutions for the valuation of the FMV of a life insurance policy. Please do not hesitate to contact us.