



Snapshots™

## COTTAGE INSURANCE

OWNING A COTTAGE BRINGS RESPONSIBILITIES FOR ADEQUATE PROPERTY INSURANCE AND LIABILITY COVERAGE. LIFE INSURANCE IS ALSO APPROPRIATE IF YOU INTEND THE COTTAGE TO BE INHERITED WITHOUT THE INHERITORS' NEEDING TO PAY YOUR CAPITAL GAINS TAX.

### Property Insurance for the Cottage

Insuring a cottage often poses greater risks for an insurer than does insuring your home. This is because most cottages don't have the level of fire or police services that would be available at home. A cottage road that is not cleared in winter, so that your property might not even be accessible for emergency vehicles, magnifies this situation.

Features common to cottages can also be the source of insurance claims, such as a septic system that backs up, a wood-burning stove that overheats, or proximity to water that causes flooding. For these reasons, you'll pay more for your cottage premium based on its property value compared to your home. Plus, you may find it far more difficult to find an insurer for the cottage because there is a greater likelihood of a claim being made.

Other factors that enter the equation for cottage insurance are the amount of time you spend at the cottage and whether it is rented out. Long periods when the cottage isn't used is a concern to the insurer if, for instance, the water pipes could freeze without your knowledge.

You'll also want to provide insurance coverage for cottage contents, detached structures on the property such as a boathouse or shed, and watercraft. If you add a building, such as a sleeping cabin, make sure you update your policy to reflect such a change.

You may find you can list your cottage as a secondary or seasonal location on your home policy, or you may acquire a separate policy for the cottage alone. Be prepared for the cottage insurer to also want your home insurance business; insuring both properties is one way the insurance company spreads its risk in respect to the cottage.

### To Reduce the Likelihood and Severity of a Claim

Make sure your cottage street address is easily visible from the end of your lane or local road. Ask yourself if the local volunteer fire department could easily find your property if they had to look for it, and could they find it at night? If you have a wood-burning fireplace or stove, you may be required to have an annual WETT (Wood Energy Technology Transfer) inspection of the chimney; don't overlook this requirement. Have the septic tank pumped out regularly. If you have large trees close to structures, it is a good idea to have them inspected every year or two to see if the trees themselves or any large branches are likely to fall and damage a roof or add-ons, such as a deck. And, just like home, if vandalism may be a problem, consider installing an alarm system that you can monitor when you are elsewhere. Use the Snapshots handy [Cottage opening and closing checklist](#) to help with the maintenance of your cottage.

## Liability Coverage at the Cottage

Slips, trips, and falls are far more likely to occur at cottages than at home. Surfaces tend to be uneven, debris may collect on paths or steps, lighting may be inadequate.

Liability insurance is essential to cover you from any claim arising from someone being hurt at your cottage, whether a guest or someone working on the property.

## Life Insurance for the Cottage Owner

If the cottage is not your principal residence and you hope to keep it in the family, you may wish to acquire a life insurance policy to help pay future tax and pave the way for property transfer after your death. (Please see Snapshots, [Transferring to a Family Member](#) for tax details.)

Capital gains tax will be due when the property is transferred from your estate to an inheritor.

The higher the adjusted cost basis (ACB) of the property, the lower the capital gain. This translates into less capital gains tax. There are many expenses that contribute to the ACB, such as the costs of acquiring the property, renovations, and improvements. Document these expenses with before-and-after photos, invoices and proof of payment and keep the paperwork with your will. Regular repair or maintenance costs do not count towards the ACB.

**Planning Point** – Term life insurance is not the best life insurance solution for estate purposes. A permanent type of policy is the better choice; a term-to-100 life insurance policy has the lowest premiums for the coverage provided. But, other choices for permanent life insurance – such as, participating whole life insurance and universal life insurance – can be designed to increase the death benefit over time to keep pace with increasing property value and its attendant increase in tax.

Explore life insurance options with a licensed life agent to determine what best suits your needs and your wallet. If you have any questions, require clarity or would like more information, please call.

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