CHARITABLE LIFE INSURANCE

Creating a substantial charitable bequest

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Contents

Charitable Life Insurance

The Charitable Life Insurance concept is a legacy building strategy designed to create an immediate and substantial bequest to your chosen charity using only that portion of the estate which people don't intend to spend.

Enhance the value of your charitable contributions

- Many people are unaware that they can create a much larger charitable gift through the purchase of life insurance!
- Any healthy individual can purchase a life insurance policy with the intention of having the proceeds used as a charitable donation. If the charity is named as the owner, then the individual may receive tax receipts for the premiums paid to keep the policy in force.
- If the charity is named beneficiary directly on the policy or through the will, this is done through the individual's estate, then the sum insured is eligible for charitable donation tax credits up to 100% of income in the final tax return and for the immediately preceding taxation year.

How it works

- Using your annual charitable contribution to purchase a life insurance policy with the charity as the owner and beneficiary can significantly increase your total charitable contribution.
- Canadians may donate up to a maximum of 75% of net income in any one year to qualify for charitable donation tax credits. Overpayments may be carried forward for up to 5 years. The limit on charitable donations is 100% of an individual's net income in the year of death and in the immediately preceding taxation year.
- The charitable insurance strategy uses a permanent life insurance policy. This creates an immediate and larger after-tax legacy compared to other investments. If the life insurance policy is set up with the charity as the owner and beneficiary, then each premium paid is treated as a donation and results in a tax credit for the individual paying the premiums.
- The proceeds may be creditor-protected and not subject to probate fees.

Give at least 66%* more to your favourite charity without increasing your donations

*Based on the example shown on pages 10 - 11 and provided premiums are paid.

The benefits

Why set up a charitable life insurance program?

For qualified individuals and registered charities, this concept offers:

1. a cost-effective way to significantly increase bequests to the charity of choice
2. reduce the time and cost for estate settlement if a charity is named as beneficiary(s)
3. possible creditor protection for individual and charities named as beneficiary(s)
4. the choice of present or estate tax savings for donors
5. security knowing that the intended donations will be fulfilled provided premiums are paid.

Who it's for

This strategy is designed primarily for people:

- interested in significantly enhancing the net worth of their estate to provide a larger bequest for their chosen charities
- with sufficient disposable income to commit to ongoing premium payments to complete the program
- with adequate assets and cash flow to assure an ongoing, comfortable lifestyle for themselves
- who have a desire to create a charitable gift through regular contributions, and have that gift donated as an estate bequest.

CASE STUDY

Meet Bill and Kay

Bill and Kay each donate $750 annually to their favorite charity. But lately they have been wondering how they might turn this annual contribution into a larger, more meaningful gift. Bill and Kay had heard of people using life insurance to gift larger amounts of money to charities so they contacted their financial advisor to find out more.

Bill

62 year old male
non-smoker
healthy, active lifestyle

Kay

60 year old female
non-smoker
healthy, active lifestyle

Objectives

- Create a significant bequest to their favourite registered charity through small monthly donations
- Provide a safeguard that bequest will not be contested
- Optimize tax benefits

Opportunity

With the recent government cutbacks in charitable funding, charities are faced with an increased reliance on private donations. Fortunately, donor demographics present a huge opportunity for charities and institutions. Estimates are that approximately $1 trillion of wealth will transfer from one generation to another over the next 20 years. This wealth transfer coupled with recent tax changes increases the incentives for gift planning. Research has shown:

- Only 44% of Canadians make a will
- Only 7% of those who make a will have included a charitable bequest[1]
- When asked, 42% would consider including charitable giving in their will[2]
- 3.7% of users of LegalWills.ca in 2014, included a charitable bequest in their will.
- 80% of all charitable bequests come from people over the age of 80 who are dying[3]

[1] Who Gives, Statistics on Giving, Statistics Canada, 2019 [2] Charitable Giving by Canadians, Statistics Canada, 2010 [3] Russell James; Planned Giving: the state of charitable bequests in Canada

Finding a Solution

After meeting with Bill & Kay, their advisor considers possible approaches to enable Bill & Kay to make a more substantial donation to their favorite charity. The Advisor decides to recommend using the Charitable Giving through life insurance strategy from Empire Life for the following reasons:

The Strategy

- Enables the creation of a substantial bequest through the use of life insurance
- Allows a tax deduction today
- Using life insurance can create a much larger bequest than simply saving money in a non-registered account

Charitable Life Insurance – How it works

The donor arranges with a charity to purchase a life insurance policy based on the donor's life.

The donor receives a tax deduction for their annual premiums paid

The charity owns the policy and is the named beneficiary

When the donor dies, the life insurance proceeds are paid to the charity tax free outside of the donor's estate

Policy Ownership & Beneficiary Considerations

There are a number of options available and each has a valid use depending on the objectives of the donor.

A simple way of setting up the policy to get the annual tax credits for the premiums paid is to establish the charity as the owner and beneficiary of the policy. The donor, who is the life insured, then gifts a sum equal to the annual life insurance premiums to the charity (mindful of the 75% of taxable income rule) who then pays the premiums to the insurer. The gifted premium must fall within the charity's quota of undisbursed gifts (for public foundations and charitable organizations).

A common variation of the payments is for the donor client to make regular payments that keep the life insurance policy in force, directly to the life insurance company. The donor then provides confirmation of the premium payments to the charity and receives a donation receipt for the premiums paid.

An alternative is to use an existing policy on the donors' life and owned by the donor and then make an absolute assignment of the policy to the charity. At the date of assignment, the cash value of the policy, plus the premium for that year will be eligible for treatment as a charitable donation less any advantage to the donor. Where the gift of the life insurance policy is made within three years of its purchase or within 10 years if it is reasonable to assume the policy was acquired with the intention to make a gift, then the value of the donation is deemed to be the lesser of the fair market value of the life insurance policy and its adjusted cost basis. The donor may have to include some value of the policy in income since (s)he is deemed to have disposed of the policy for income tax purposes. The donor then continues to pay premiums to the insurer and receives a tax receipt from the charity once proof of payment of the premiums has been furnished to the charity.

The more common, certainly simpler approach would be to have the charity named as beneficiary. This avoids a challenge in the will and any issues with estate settlement and other estate costs as well as creditor concerns.

A variation is to name the estate as beneficiary and have the terms of the will dictate who gets the proceeds, how much they get and how the proceeds are to be distributed.

The Recommendation:

Bill & Kay's advisor recommends an EstateMax® 100 permanent participating life policy from Empire Life with the Enhanced Coverage dividend option. This dividend option uses the annual policy dividend to provide the largest coverage amount for the policy premium in the early policy years.

Policy structure: **Joint-last-to-die**

Single equivalent age: **Male non-smoker Age 51**

Initial coverage amount: **$100,000**

Annual premium: **$1,927.28**

Using Empire Life's Envision sales illustration software, Bill and Kay's advisor was able to create a charitable insurance sales presentation to help present the advantages of the charitable insurance strategy over investing funds in an alternate non-registered investment account.

Here is an overview of the assumptions used in creating the charitable insurance sales presentation:

Concept assumptions

Insureds

Life insured 1:	Bill, Male, age 62, non-smoker
Life insured 2:	Kay, Female, age 60, non-smoker

Product

Name	$100,000 EstateMax, Joint last-to-die Life Pay (49 years)

Alternative Investment

Growth breakdown	100% interest
Effective tax rate on interest	48.00%
Projected annual growth rate	3.000%

Policy year	Annual investment	Alternative investment			Life insurance policy			
		Annual growth	All income tax payable	Benefit to the charity	Total donation	Tax savings portion	Benefit to the charity	Advantage to charity
20	1,927	1,345	646	45,529	1,927	880	100,000	54,471
21	1,927	1,424	683	48,194	1,927	880	100,000	51,803
22	1,927	1,504	722	50,906	1,927	880	100,000	49,094
23	1,927	1,585	761	53,658	1,927	880	100,000	46,342
24	1,927	1,668	800	56,452	1,927	880	101,510	45,058
25	1,927	1,751	841	59,290	1,927	880	104,719	45,429
26	1,927	1,837	882	62,172	1,927	880	108,083	45,911
27	1,927	1,923	923	65,100	1,927	880	111,607	46,507
28	1,927	2,011	965	68,072	1,927	880	115,292	47,221
29	1,927	2,100	1,008	71,092	1,927	880	119,146	48,054
30	1,927	2,191	1,051	74,158	1,927	880	123,170	49,012*

Values shown are at end of policy year and are for illustrative purposes only. Any non-guaranteed portion of the Total Cash Surrender Value and Total Coverage Amount depends on the annual dividends that are declared on the policy, which are not guaranteed, and values shown assume dividends are declared each year using Empire Life's current dividend scale. *Advantage to charity is 66% higher at policy year 30 and thereafter using life insurance rather than an alternate investment for this specific example only. The advantage of using life insurance versus an alternate investment will vary based on the life insureds' ages, gender, health and coverage amounts and date of death of last to die.

The illustration output from the charitable life insurance strategy highlights the amount of the charitable gift available when comparing accumulated values in an alternate investment account to the use of a life insurance policy.

Comparing the values in the 'benefit to the charity' columns, Bill & Kay can see that through the use of the charitable life insurance strategy, the amount of their gift to the charity using the life insurance policy is almost double the amount available using an alternate investment at policy year 30.

Bill & Kay's advisor uses Empire Life's online Fast & Full® eApplication sales process to complete the application for life insurance from his office while Bill & Kay are in the comfort of their own home. Empire Life's Non Face-to-Face sales process makes the application process very convenient for everyone involved.

The application is instantly received at Empire Life's head office and after the policy is issued, Bill & Kay receive their policy contract electronically using Empire Life's eContract delivery process. Empire Life's online eApplication sales process Fast & Full offering a Non Face-to-Face sales process and eContract delivery is a real time saver for the advisor and the clients, saving all those trips to complete the application and deliver the policy contract. Bill & Kay were very impressed with the online sale capabilities and contract delivery. It makes doing business with Empire Life Simple, Fast & Easy for advisors and clients alike!

Definition of Gifts

The traditional common law definition of a gift requires:

- An intention to give (impoverish the donor and enrich the recipient)
- A transfer of property
- The transfer must be voluntary, without any contractual obligation
- No consideration or expectation of a benefit can be received by the donor

The Canadian Income Tax Act has been amended to allow a concept of a “gift” where the donor receives a benefit.

Any healthy individual can purchase a life insurance policy with the intention of having the proceeds used as a charitable donation. If this is done through the individual’s estate, then the amount of the donation is subject to the 100% of income rule in the final tax return, may not be creditor proof, and may be subject to probate fees. If the charity is named as beneficiary and the policy is assigned to the charity when it is issued, then each premium paid is treated as a donation and results in a tax credit for the individual paying the premiums. The proceeds can be creditor-proof, and not subject to probate fees.

Any form of life insurance qualifies, but if the individual has significant income and wants to “quick” pay the policy then a limited pay Participating Life plan makes excellent sense. Depending on the structure of the policy, the dividend value may be paid out to the charity in addition to the basic face amount on death, which enhances the amount of the gift.

For more information on whether this strategy is right for you, contact your financial advisor or visit empire.ca.