CHARITABLE INSURANCE

A legacy building strategy

Providing charitable gifts using life insurance

Empire Life™

Many people have a portion of income that they invest and wish to leave as a legacy for favourite causes; assets they never intend to spend themselves.

The **Charitable Insurance** concept is a legacy building strategy designed to optimize the value of that portion of the estate which people don't intend to spend. It is set up to provide guaranteed, tax-free monies earmarked for charities. It creates an immediate and substantial charitable bequest.

How does it work?

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 donations tax credit applies to donations of RRSP, RRIF and insurance proceeds that are made by way of direct beneficiary designations.

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Many people are unaware that they can create a much larger gift through the purchase of insurance than they can by simply saving money in non-registered accounts!

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 also eligible for charitable donation tax credits up to 100% of income in the final tax return and for the immediately preceding taxation year.

> Many people are unaware that they can obtain a tax credit today for certain gifts donated later as a final bequest.

The charitable insurance strategy uses excess income to purchase a permanent life insurance policy. This creates an immediate and larger after-tax legacy compared to other investments. 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 are creditor-protected and not subject to probate fees.

This concept demonstrates that a life insurance policy can be used successfully for annual contributions that are intended to provide maximum tax-free dollars to a registered charity.

If premiums are not paid for the life of the policy, the fund value of the life policy is used to pay the ongoing annual cost of providing life insurance from tax–deferred earnings.

In alternative investments earmarked for charities, annual growth is reduced by taxes, prior to reinvestment. Income earned can disqualify people ages 65+ in particular from many government tax credits and benefits.

For annual donations, if the donor stipulates that the charity may not disburse the donation for ten years, then it is not added to the calculation for the legislated disbursement quota, but the donor still gets a receipt in the year the donation is made.

Funding options

Deposits can be made on a monthly or annual basis, either for a set period of time or for life.

Optional lump sum deposits may be accommodated as well. Actual deposits and results vary with the age, sex, health and tax position of the individual.

> "A simple way of setting this up so as to get the annual tax credits for the premiums is to establish the charity as the owner and beneficiary of the policy."

Why set up a charitable insurance program?

For qualified individuals and registered charities, this concept offers:

1. cost-effective, streamlined funding of endowments
2. leveraged value of gift beyond what is possible by traditional donations
3. reduced time and costs for estate settlement if a charity is named as beneficiary(s)
4. possible creditor protection for individual and charities named as beneficiary(s)
5. the choice of present or estate tax savings for donors
6. comfortable expectation that intended legacy donations will be fulfilled – usually guaranteed.

Who is it for?

This strategy is designed primarily for people:

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

"Another method is to have the policy owned by the donor and the estate as beneficiary and the Will direct the executors to pay policy proceeds to one or more charities."

Policy Ownership & Beneficiary Considerations

There are a number of options available and each has a valid use depending on the objectives of the donor. Please refer to Empire Life's brochure, entitled; "Planned Giving, Insurance-assisted Tax Strategies Supporting Your Chosen Charity".

The Empire Life Insurance Company (Empire Life) offers competitive individual and group life and health insurance, investment and retirement products to help you build wealth and protect your financial security.

Empire Life is among the top 10 life insurance companies in Canada[1] and is rated A (Excellent) by A.M. Best Company[2]. Our vision is to be the leading, independently-owned, Canadian financial services company committed to simplicity, being easy to do business with and having a personal touch.

[1] *Financial Post Magazine*, June 2010, based on revenue
[2] As at June 22, 2011

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