Assante®
WEALTH MANAGEMENT

Be well-advised.

> The Role of Insurance in Wealth Planning

Insurance solutions for planned giving

ASSANTE ESTATE AND INSURANCE SERVICES INC.

Insurance solutions for planned giving

Charitable giving has always been instrumental among Canadians to help support worthwhile causes. Now, our government is encouraging charitable giving more than ever, through improved tax advantages to individual and corporate donors.

Making a positive contribution to society

> In the modern economy of controlled public and private expenditures, it is becoming increasingly more difficult for social organizations to fulfill their missions. Fortunately, we live in a country where a great many individuals are proud to help charitable organizations through significant financial contributions. If you are such an individual, you may gain the appreciation of those who benefit from your contribution, and attain the personal satisfaction of making a difference to our world.

The significance of "planned" in planned giving

> For a long period, charitable tax donation claims were limited to 20% of net income. But in recent years, the government has introduced favourable tax rules that make charitable giving exceptionally inviting. These changes create opportunities to benefit both the tax and estate components of your wealth management program. However, these benefits will only be realized when the giving is properly planned.

Tax rules for charitable donations

> The key tax rules governing charitable donations and tax credits include:

- Individuals will receive a tax credit at the lowest federal tax rate (15%) on the first $200 donated to Charity, and 29% on any remaining amounts, (Donations in excess of $200 qualify for the 29% credit rate, except to the extent that the 33% federal income tax rate applies; and will receive 33% credit rate on the lesser of the amount of those donations and the donor's taxable income in excess of $202,800).
- For charitable donations made during an individual's lifetime, individuals can claim a tax credit equal to the complete amount, up to a maximum of 75% of their net income. Life insurance premiums on a policy donated to a charity are eligible for this tax credit.
- If the tax credit exceeds the net income limit, an individual may claim the unused portion of the tax credit during the next five years.
- For donations made upon the death of the donor, up to 100% of net income can be claimed in the year of death, and the preceding year.
- Donations are 100% tax deductible for corporations.

The advantages of using insurance solutions

Thanks to new tax rules, insurance products are increasingly becoming instruments of choice in planned giving. For example, the Federal Budget of February 2000 introduced a new option allowing individuals who own a life insurance policy on their own lives to designate a charity as beneficiary. This applies to both existing and new policies. Upon the death of the donor, the charity receives the insurance proceeds and issues a charitable tax receipt for the entire amount.

To fully appreciate the advantages of insurance solutions, it's helpful to take a look at the traditional bequest, where you would leave a sum of money to a charity through your will.

Such a bequest does provide tax benefits to your estate, but there are quite a few disadvantages. The amount you wish to give may be eroded by estate administration costs, possible claims by creditors and taxes. In some provinces, dependents have the legal right to challenge the will in court. Also, your estate may not receive full value for the tax credit if your income was not high enough to claim all of the donation. In addition, if you wish to make your gift private, a charitable bequest through a will becomes a matter of public record.

Insurance solutions eliminate these disadvantages, and offer many unique benefits of their own:

- Permanent life insurance is a low-cost vehicle that enables you to make a larger gift compared to other means. One reason is that you can choose a policy that includes a savings component, where deposits grow tax-sheltered and ultimately go to the charity. Another reason is that the charity receives insurance proceeds tax-free. Also, should the donor pass away prematurely, the charity receives the full value of the policy, even if relatively few premium payments have been made.
- Solutions involving permanent life insurance are easier on your finances, as your donations are in the form of regular premiums – not a large, lump sum bequest.
- Certain insurance solutions give you the option of making a donation now, so your gift may be appreciated while you're living.
- Different solutions give you the choice between receiving tax relief during your lifetime or for the benefit of your estate.
- Some insurance solutions enable you to receive tax-advantaged retirement income as part of the planned giving strategy.
- You can choose a solution that enables you to donate assets to a charity now, without diminishing the value of your estate.

Popular insurance solutions for planned giving

You can choose from a variety of insurance solutions for personal and business planned giving. Here's a look at several of the most popular solutions widely used today.

Donating life insurance proceeds to a charity

There are two main methods of donating a life insurance policy to a charity. In both cases you name a charity as beneficiary, but the difference lies in which party owns the policy. And ownership determines the nature of the tax relief you receive.

If you make the charity the owner of a policy on your life, then you receive tax relief during your lifetime. Immediate tax relief comes in the form of a tax credit based on the policy's Fair Market Value. Also, you will receive donation receipts for all premiums paid after the charity owns the policy.

However, if tax relief for your estate better suits your financial situation than tax relief now, then you would choose to own the policy. Your estate receives tax relief upon your death, when a charitable tax receipt is issued equal to the amount paid to the charity. There are other reasons to choose this method: as owner, you would always have access to the cash value of the policy in case it's needed; and you could change the beneficiary at any time.

For both methods, policy proceeds go to the charity tax-free.

Charitable gift annuities

You would choose the charitable gift annuity solution if you are retired, want to make a sizeable charitable donation during your lifetime, and would like supplemental retirement income.

The solution begins with the donor making a lump sum donation to the charity. Then the charity uses a portion of the lump sum to purchase an annuity for the donor – either for a fixed period or lifelong. The donor receives a guaranteed stream of equal payments lasting for the life of the annuity. And the remainder of the lump sum becomes the donation for the charity's needs, which is usually 25% to 30% of the total lump sum.

A substantial portion of the donor's annuity payments can be received tax-free. In addition, the donor receives a tax receipt for the difference between the lump sum donated and the cost of the annuity. Furthermore, your gift is received by the charity during your lifetime.

Insured annuities

You would choose the insured annuity solution if you are retired, want to make a sizeable charitable donation upon death, would like supplemental retirement income – and you prefer to own the annuity.

You purchase an annuity, which provides you with a guaranteed income stream for retirement. Prescribed annuities receive favourable tax treatment, so your after-tax income will exceed the after-tax income you would have received from investing an equal amount in non-registered fixed income investments.

A portion of the increased after-tax income pays for premiums on a permanent life insurance policy. The charity is both the owner and beneficiary of the policy. Now you receive tax receipts for the insurance premiums.

With this solution, you gain increased after-tax income for retirement, and tax receipts for the insurance premiums. And upon your death the charity receives a sizeable donation, tax-free.

Wealth replacement insurance

Wealth replacement insurance is becoming a popular solution for donors wishing to donate assets to charity without diminishing their legacy to heirs.

The individual gives a donation of personal assets to a charity. Then the donor purchases a life insurance policy with a death benefit that equals the amount of the charitable gift. The beneficiaries are the donor's heirs, who will receive the proceeds tax-free when the donor passes away.

There are two common situations that make wealth replacement insurance a practical choice:

> **Donating non-cash assets:** Real estate, fine art or other non-cash assets can present problems for the estate. For example, they may need to be sold to pay capital gains tax, or may not be easily divided or sold when the asset is to be distributed among heirs. With wealth replacement insurance, these assets can be donated to charity and heirs can receive a legacy of equal value in the convenient form of tax-free cash.

> **Tax savings resulting from the gift:** In many cases, the amount of the charitable gift results in a reduction of the donor's effective tax rate. The donor saves tax, in effect freeing up a portion of the donor's income, which can then be applied to life insurance premiums. Simply put, the tax savings from the charitable gift can pay for the life insurance policy.

Corporate planned giving

Just as recent income tax rules have created more incentive for individuals to make charitable donations, so have they created tax-advantaged opportunities for businesses.

There is a wide variety of corporate giving strategies, from simple to sophisticated, each one offering specific tax and estate planning benefits to suit the unique needs of a corporation. Some of the more popular strategies include:

> **The charity is owner and beneficiary of the insurance policy:** The corporation makes a charity the owner and beneficiary of a new or existing life insurance policy on a shareholder's life. The corporation pays the premiums, qualifying as charitable donations deductible from corporate income.

> **The corporation donates insurance proceeds through the estate:** The corporation is the owner and beneficiary of a life insurance policy on a shareholder's life, and the charity is named in the shareholder's will. Insurance proceeds flow through the Capital Dividend Account to the estate to the charity. The amount of the gift is a tax credit in the year of death. The corporation could also use the proceeds to make the gift itself and utilize the tax deduction itself

> **Donation of shares:** The shares of private corporations are one of the largest potential causes for capital gains estate taxes. Through solutions involving the donation of shares as a charitable gift, such taxes can be avoided, while also providing tax relief to an owner during his or her lifetime.

If you have an interest in making a charitable donation through your company, we will bring in experts who specialize in corporate planned giving, so you can learn about all of the strategies available and their tax advantages.

Selecting between the various types of solutions

With such a wide selection of planned giving choices, you're likely to find an insurance solution that suits your financial situation and personal preference.

Summary of popular insurance solutions

> **Donating life insurance proceeds to a charity:** A donor makes a charity the beneficiary of a new or existing permanent life insurance policy on his or her life, and the charity receives insurance proceeds when the donor passes away.

> **Charitable gift annuity:** The charity receives an immediate donation, and the donor receives an annuity that provides guaranteed income for retirement.

> **Insured annuity:** An individual purchases an annuity for guaranteed retirement income, and upon death leaves a charitable donation equal to the capital invested in the annuity.

> **Wealth replacement insurance:** To make a charitable gift while protecting the value of an estate for family members, an individual donates personal assets to a charity then applies the resulting tax relief toward the purchase of a life insurance policy. The insurance proceeds ultimately received by heirs replace the value of the charitable gift.

> **Corporate planned giving:** Making a charitable gift through a corporation can result in greater tax savings than through a personal donation.

Choosing the solution that's best for you

In many instances, the appropriate solution will be determined by your particular financial situation. For example, if you have an existing permanent life insurance policy but no longer require the death benefit for your family's financial security, donating the policy to a charity may be your best solution.

Another determining factor is your personal philanthropic objectives. If you want to make an immediate donation to help a favourite charity now, but do not want to reduce your children's inheritance, then your ideal solution may be wealth replacement insurance.

In addition, when more than one solution may be suitable, your Assante advisor can illustrate how the different solutions compare in terms of tax savings and size of gift.

Ultimately, it's not a decision you make alone. Your Assante advisor will consult with you and any of your professional advisors, including your lawyer and accountant, to choose a solution that best suits you and the charity.

Planned giving:
Part of an integrated approach

Utilizing planned giving solutions is part of an integrated approach to wealth management, an approach that's essential to Assante.

The planned giving solutions not only include the two distinct components of insurance and investments, but the financial needs they meet involve the entire spectrum of wealth planning – including risk management, tax and financial strategies, and wealth transfer.

Consequently, your Assante advisor consults with specialists from Assante Estate and Insurance Services Inc. and any of your own professional advisors before recommending any planned giving solution as part of your wealth management program.

For more information

For additional information, or to learn more about Assante Estate and Insurance Services Inc., please contact your Assante advisor or visit www.assante.com.

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