



# GIFTS OF LIFE INSURANCE

A **gift of a life insurance policy** allows you to provide significant future support to a cause you care about and can be extremely useful for gift planning due to special tax treatment. Here are a few of the ways to use life insurance to help achieve your philanthropic goals:

## 1. Charity is named as beneficiary of a life insurance policy

- **How it works:** Donor retains ownership of the life insurance policy and names a charity as the beneficiary (or one of several). Donor is responsible for paying the policy premiums and can elect to change the beneficiary at any time (provided the designations are revocable).
- **Ideal donor:** Inclined to give but their personal and family needs may be subject to change and they are therefore hesitant to transfer ownership of a policy since it is irreversible.
- **Tax implications:** When the policy matures, the death proceeds are paid to the charity as the beneficiary and a donation receipt is issued to the donor's estate
- **Benefits:**
  - Donor is able to make a future gift to their charity.
  - A tax receipt will offset taxes paid by the deceased donor and/or the estate.
  - Donor retains access to the cash value of the policy if circumstances change and the funds are needed.
  - Donor maintains control over the gift and can change the beneficiary if family circumstances and/or their choice of charity change.

## 2. Ownership of an existing life insurance policy is transferred to a charity

- **How it works:** Donor transfers (assigns) ownership of an existing life insurance policy to a charity. Charity becomes the owner and names itself as beneficiary. The charity is now responsible for any remaining premium payments. Donor could choose to continue paying for the ongoing premium payments, and any payment made is a donation which is eligible for a tax receipt from the charity.
- **Ideal donor:** Has an older policy that is no longer needed; wants to make a large gift but has limited resources suitable for donating; and/or requires a donation receipt today.
- **Tax implications:** Donor receives tax receipt for current cash surrender value (CSV) or potentially a higher fair market value (FMV) of the policy at the time of donation, and for any future premiums paid.
- **Benefits:**
  - For a relatively small sum, the donor can ensure a large future gift for their chosen charity
  - Death benefit will bypass the estate thus avoiding probate and potential legal challenges

### 3. New life insurance policy is established, and ownership is transferred to a charity

- **How it works:** Donor purchases a new life policy on his or her own life. Ownership can then be transferred to the charity upon delivery of the policy by a completed assignment form from the insurance company.
- Charity is responsible for any remaining premiums and the donor can pay those premiums – see below.
- **Ideal donor:** Wants to make a large gift but has limited resources suitable for donation.
- **Tax implications:** All premiums paid by the donor (after the transfer of ownership) will qualify for a donation receipt; however, the death benefit is not considered for tax receipt purposes.
- **Benefits:**
  - For a relatively small sum, the donor can ensure a large future gift for their chosen charity
  - Death benefit will bypass the estate thus avoiding probate and potential legal challenges

#### How can Benefaction Help?

One issue to be aware of when considering a gift of life insurance, is that transferring ownership of a policy is an ultimate commitment since this form of planned giving does not allow for the donor to change their mind about which organization they want to support or allow them to support multiple charities with their gift. Benefaction presents a solution to these issues. Gifting life insurance policies and/or proceeds to a Benefaction Foundation Donor Advised Fund means that donors (or their successors or estates) have more flexibility in terms of redirecting which organizations to support as time goes on. As long as the recipients are registered charities or otherwise qualified donees, they can receive grants from Benefaction that are funded by the gifted insurance policy.

#### Valuation

The Canada Revenue Agency (CRA) permits the use of the fair market value of the policy as a basis for the eligible amount of the donation receipt. Benefaction will accept gifts of pre-approved existing policies when the donor obtains for Benefaction (at the donor's own expense), an assessment of FMV of the insurance policy from a Benefaction pre-approved qualified independent actuary.

#### Pre-approval Criteria for Existing Life Insurance Policies

Benefaction requires the following information prior to confirming acceptance of an insurance policy gift:

1. A copy of the policy contract.
2. A current In-force illustration from the insurance company showing death benefit and minimum premiums to keep the policy in force. The illustration should show the total death benefit each year and the required minimum premium until death. For policies where premiums are paid by dividends or accumulated account value, the In-force illustration must show the results of a drop in dividends or investment return of 1% and 2%.
3. Actuarial assessments (at the donor's expense) are required for existing policies, but not for a gift of premium payments. Independent valuations would be at the donor's cost; usually around \$3,000.
4. At a minimum, the policy should feature the following:
  - Face plus death benefit structure
  - Single or joint life policies. No multiple owner ("split ownership") policies
  - Guaranteed level premiums
  - Guaranteed cost of insurance (preferably level)
  - Interest rates < 3% and preferably guaranteed
  - Maximum number of premiums payable is 10-15 including 'premium holiday' type policies
  - IRR to charity on the premiums paid to age 100 > 5% (may not apply to new policies, but does apply to gifts of existing ones)
  - Guaranteed cash values
  - Guaranteed death benefit/paid up value

**For further information or to discuss establishing a Donor Advised Fund, please contact your Financial Advisor, or Benefaction directly at 416-915-0700 (toll free: 1-866-910-8227) or at [info@benefaction.ca](mailto:info@benefaction.ca).**