

# Planned giving using life insurance

Planned giving using life insurance as an estate planning strategy is an increasingly attractive concept for people who are charitably minded.

Planned giving is a strategy that can work for individuals who have achieved a degree of financial success, have a desire to support a charitable organization, and have an interest in offsetting current or future tax obligations.

This is great news for charitable and non-profit organizations that:

- rely on financial contributions from many sources, particularly as direct financial support from the government is shrinking, and
- continue to seek alternatives to traditional fundraising to provide more stable funding for the long term.

## How using planned giving through life insurance works

People have the option to distribute their assets to two of the following three groups -- a favourite charity, to heirs, or to fund taxes owing to Canada Revenue Agency (CRA or formerly CCRA). Planned giving using life insurance allows them to decide how their estate will be distributed.

A carefully arranged planned gift can be tax effective, and at the same time balance a client's final needs with the needs of their families. It can allow individuals to leave lasting personal legacies

and provide their favourite charities with stable funding over the long term, without reducing the estate available to their heirs or jeopardizing their future financial independence.

A permanent life insurance plan allows people to accumulate cash value growth inside the life insurance policy, within certain legislative limits, without paying income tax on the growth. Cash withdrawals are subject to taxation based on the rates and rules in effect at the time funds are withdrawn. The death benefit is paid to the identified beneficiaries of choice, tax-free upon death.

Methods to fund a charitable bequest or donation using life insurance:

1. funding a bequest through a will
2. charity-owned insurance policy
3. donor-owned insurance policy and names charity as beneficiary – this method was previously not recommended, but the 2000 Federal Budget changed this outlook. A donor may now name the charity as beneficiary and get full donation tax credit and sidestep probate and creditors

Consulting with a financial security advisor for a personalized example of how this concept applies is recommended.

*The above should not be taken as providing legal, accounting or tax advice. You should obtain your own independent professional advice from your lawyer and/or accountant to take into account your particular circumstances.*