

# Gift of Life Insurance

## Gift of a Life Insurance Policy to Charity

A gift of a life insurance policy to charity can be a wonderful way to make a significant future donation that leaves a legacy of support for the causes you care about.

### Two Options to Consider:

- + Donating the ownership of the life insurance policy to charity immediately.
- + Retaining ownership and naming the charity as the beneficiary of the policy.

The difference between the two options is when you receive your charitable donation receipt.

## Charity Becomes Owner of the Life Insurance Policy:

This gift planning option works best if you **require a donation receipt immediately**.

- + You irrevocably transfer the ownership of an existing life insurance policy to a charity. The charity owns the policy going forward.
- + You would receive a donation receipt for the fair value (FV) of the policy on the date of the ownership transfer.
- + In some circumstances, the fair value of the life insurance policy on the date of the ownership transfer might be higher than the cash surrender value (CSV). The age and health of the lives insured are two considerations that could impact the policy valuation and donation receipt. An actuarial assessment is required to determine if a donation receipt in excess of the cash surrender value could be issued.
- + If there are ongoing premiums to be paid on the policy, the charity is responsible for those payments as the owner of the policy.
- + You could choose to continue making the premium payments on the donated policy. You would receive a donation receipt for any life insurance premiums you pay.
- + When the policy matures, the life insurance proceeds are paid directly to the charity, as the owner of the policy. No donation receipt is issued to the donor's estate for the proceeds from the matured policy.

## Tax Planning Tips:

- + You will realize taxable income for the difference between the policy adjusted cost base (ACB) and the policy cash surrender value (CSV). Your professional advisor or insurance company would be able to identify the ACB and CSV for the policy you are considering donating.
- + If the policy has a fair value (FV) in excess of the CSV, the donation receipt will be issued for the FV.
- + The difference between the policy CSV and the FV is not considered taxable income, which results in a donation receipt in excess of your taxable income from the donation of the policy.
- + This excess donation receipt amount can be used to offset other taxable income.

## Example of a Gift of a Life Insurance Policy to Charity:

Heather has owned a life insurance policy for 47 years. Heather is 77 years old and no longer requires the life insurance policy for estate planning purposes. She wants to donate ownership of the policy to Abundance Canada. Here are the policy details on the date of the ownership transfer:

Face Value	\$1,000,000
Cash Surrender Value (CSV)	\$200,000
Fair Value (FV)	\$750,000
Adjusted Cost Base (ACB)	\$100,000
Annual Premium	\$2,500

Heather plans to donate \$2,500 to Abundance Canada each year to cover the annual premium payment.

Heather will receive a donation receipt for:

- + \$750,000, the FV of the insurance policy on the date the ownership transfers to Abundance Canada.
- + Any future donations she makes to Abundance Canada to cover the annual premium payment.

Heather will incur taxable income of \$100,000 from the deemed disposition of the policy (CSV of \$200,000 less \$100,000 ACB).

Heather will have \$650,000 of excess donation receipt above the taxable income from the policy disposition that she can use to offset other taxable income or perhaps fast track some estate planning strategies.

# Charity is Named a Beneficiary of a Life Insurance Policy

This gift planning option works best **if you need a donation receipt in your estate, not immediately or during your lifetime.**

- + You name the charity as a beneficiary of the policy.
- + You retain ownership of the policy; the charity does not own the policy.
- + You could choose to divide the policy among several beneficiaries. One could be a charity and the other beneficiaries could be family members.
- + If the beneficiary designations are revocable, you can change the named beneficiaries in the future, if your life circumstances change.
- + You continue to pay the policy premiums going forward. A donation receipt **will not** be issued for premium payments because charity is not the owner of the policy.
- + When the policy matures, any life insurance proceeds the charity receives, as a beneficiary of the policy, will generate a donation receipt for the policy owner.

## Tax Planning Tips:

- + Your estate receives a charitable receipt to help offset taxes owing.
- + The life insurance proceeds are paid directly to the named beneficiaries and do not flow through your Estate:
  - + Not subject to probate or estate administration fees.
  - + Payments received by beneficiaries more quickly.
  - + Not exposed to Estate creditors.

## Next Steps

Established in 1974, Abundance Canada envisions a world where everyone lives generously, because we believe *generosity changes everything™*. To learn more about donating a life insurance policy, contact Abundance Canada at **1.800.772.3257** to speak with a gift planning consultant. All consultations are confidential, with no obligations.



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