

CHARITABLE GIVING

An off-the-radar opportunity

Donating a life insurance policy to charity has many benefits. **Rick Braun-Janzen** of Abundance Canada explains what you need to know to help your clients take advantage of this option

AS AN INCREASING number of investors explore strategies for charitable giving, advisors have an opportunity to find another area of differentiation. There are various methods of charitable giving available to Canadians – more than many people think – and one that often gets overlooked is the idea of donating a life insurance policy.

receive a charitable donation receipt for the fair market value [FMV] of the policy. In this type of transaction, the charity becomes the legal owner of the policy and is responsible for the ongoing premiums, if applicable.

In some situations, the policy's FMV could be significantly higher than its cash surrender value [CSV], which is the amount

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Everyone’s life circumstances change. Many people take out a life insurance policy when planning for specific life events, only to realize that, as they approach or enter retirement, they won’t need to use the policy in the way they had planned. In such a scenario, the client can donate the policy to a charity and

you would receive if you asked the insurance company to wind up the policy and give you a cash payment. A common misconception is that the policy’s CSV is the same as its FMV.

“Many advisors don’t realize that if they have an older client or a client whose health is declining, the FMV of the life insurance

policy might be significantly higher than the CSV,” says Rick Braun-Janzen, director of gift planning at Abundance Canada. “If they donate the policy to charity, they can receive a donation receipt for the FMV. The donation of the policy would be a non-cash donation – gift in kind – and the resulting donation receipt would generate tax credits that could be used by the donor to accelerate other tax planning initiatives.”

Braun-Janzen notes that donating life insurance policies is not a new gift planning strategy; however, advisors and their clients might not be aware of the FMV versus CSV option for valuation of the donation receipt. “Life insurance often flies under the radar when considering a client’s charitable gifting strategy,” he says. “Gifts of publicly traded securities, due to their tax efficiency, are often top of mind.”

To use this strategy, advisors and their clients would need to transfer the ownership of the policy to a charity, which then becomes the owner and sole beneficiary. This simply requires the advisor or insurance agent to put the required paperwork in place. As long as there isn’t anything restricting the transfer of ownership (most notably, if the policy is owned by a corporation), then the transfer is fairly straightforward.

“In the 20-plus years that I’ve been involved in gift planning, I have yet to run into a policy that could not be donated to charity,” Braun-Janzen says. “It’s just a question of how much paperwork and levels of approval are needed for the transfer to take place.”

One area of complexity is determining the FMV of the policy. Insurance companies usually track and report the CSV to the policy owner; however, calculating the FMV often requires the expertise of an actuary. “The actuary looks at many factors, including the person’s age and their health situation, to determine the FMV,” Braun-Janzen says.

There are some distinct benefits of donating a life insurance policy, he adds, including better cash flow for the client. “First, the client is not out of pocket cash,



which is often the case when you make a donation to charity. The tax credit resulting from the donation of life insurance can be used to offset other taxes owing.”

To smooth out the process, advisors can work with a charity that has experience in this area. “When an advisor works with Abundance Canada, they know we have experience accepting and holding life insurance policies,” Braun-Janzen says. “We have been in this space for many years, and we continue to build on that experience.”

If an individual wanted to donate a policy to support multiple charities, for instance, they could donate the policy to Abundance Canada now and provide recommendations on which charities should benefit from the insurance proceeds after they’ve passed.

“One transfer, one charity owner going forward, multiple charitable beneficiaries – we simplify what could be a much more complicated process,” Braun-Janzen says.

Becoming familiar with creative gift planning options like this gives advisors another way to add value for their clients.

“Advisors work hard to help people develop a retirement plan in a tax-efficient/tax-deferred manner,” Braun-Janzen explains. “Individuals get to a point where they have significant assets in an RRSP or RIF, and the potential tax liability can be huge. Donating a FMV insurance policy might generate a significant donation receipt that could be used to offset the tax on larger withdrawals from an RRSP or RIF. For the advisor, it allows them to put something on the table for their clients to show how they can unlock this tax-deferred cash in a tax-efficient manner.”

To determine which clients might benefit from this strategy, Braun-Janzen says advisors first need to determine which of their clients are interested in making a gift to charity, adding that “if they don’t want to

make a donation, the strategy is a no-go.” The next step is to determine if they have a life insurance policy they no longer require. If the client is older or in declining health, the FMV option might come into play.

Assessing whether this strategy is a good fit requires being in tune with a client’s hopes and aims. It could be a good option for people who are retired, who may have had a business or to whom the advisor can say: “You took out this life insurance policy for these reasons, but those reasons probably don’t exist anymore. Do you want to keep the policy or explore something that addresses your charitable goals and helps with your retirement and estate planning?” **WP**

With regional offices in Abbotsford, Calgary, Winnipeg and Kitchener, **Abundance Canada** is a public foundation registered with the CRA. Since 1974, the organization has assisted individuals with charitable giving during their lifetime and through their estate. To learn more, visit abundance.ca.