

### **Gift of Life Insurance**

This form of gift enables a donor to make a significant future gift at a modest cost.

Gift Options and Tax Implications

- **Option 1:** Assign ownership of a new or existing life insurance policy to Brock University and name Brock University as irrevocable beneficiary.
- Option 2: Name the Donor's Estate as Beneficiary with Bequest of Proceeds to Brock University.
- Option 3: Name Brock University as Beneficiary of the Life Insurance Policy.
- Option 4: Designate the insurance proceeds arising from death, or withdraw the cash value now, to fund a gift or annuity in favour of Brock University.
- Option 5: Use the Wealth Replacement Option to enable an immediate lump sum gift to Brock University without diminishing the estate legacy for heirs.

# Option 1: Assign ownership of a new or existing life insurance policy to Brock University and name Brock University as irrevocable beneficiary.

The donor transfers ownership of the policy to Brock University and continues to pay premiums. Upon death, the life insurance company will pay the policy proceeds directly to Brock University.

This approach may be appropriate where life insurance coverage exceeds the donor's anticipated future needs.

Charitable donation receipts are generally based on cash surrender value of the policy at the date of ownership transfer plus any additional premiums paid by the donor.

The excess of the cash value over adjusted costs base of the policy is taxable to the donor. Generally on new policies there will be no tax implications.

### Example

A woman, aged 46, has discretionary income but cannot afford to make a capital contribution to Brock University. She purchases a life insurance policy with the face value of \$50,000, names the University as owner and pays annual premium of \$1,600 for approximately five years. Each year she receives a donation receipt from Brock University for the premiums paid. Her tax credit is approximately \$800 (50 per cent). Her out of pocket cost to make a future gift of \$50,000 is only \$800 per year.

## Option 2: Name the Donor's Estate as Beneficiary with Bequest of Proceeds to Brock University.

The donor names his or her estate as the beneficiary of the policy and then includes a bequest to Brock University in the Will for the same amount. At death, the estate will be issued a donation receipt for the amount of the gift made in the Will.

The donation may be claimed in the donor's tax return in the year of death or the preceding year. The maximum claim for donations in the year of death and the preceding year is 100 per cent of the donor's income in each of those years.

Life insurance proceeds are not taxable, so the full amount of the donation tax credit is available to offset taxes on other income (i.e. capital gains, RRSP, RRIF income triggered upon death, etc.).

## **Option 3: Name Brock University as Beneficiary of the Life Insurance Policy.**

Donors who wish to keep the insurance policy proceeds out of their estate and who may need to have access to the cash value of the policy or the flexibility of changing named beneficiaries may prefer this approach. Upon death the life insurance company will pay the policy proceeds directly to Brock University.

Naming Brock University as beneficiary of a new or existing policy will entitle the donor to a donation receipt for the proceeds paid to the charity upon the donor's death.

## Option 4: Designate the insurance proceeds, or withdraw the cash value, to fund a gift or annuity in favour of Brock University

Many donors are depending on the income from their capital investments while they are still living. Planned Giving understands this and provides a solution which helps both the donor and the charity. The solution is a charitable gift annuity. A portion of the money contributed to a gift annuity is used by Brock University to provide the donor with a guaranteed lifetime income, backed by a life insurance company. The balance or gift portion of the funds pass immediately to Brock University to be used as requested by the donor.

- Sets payments for life with constant tax treatment
- Income guaranteed for lifetime of donor and/or spouse
- A unique combination of gift and income

#### Example:

A female donor, whose birth date is May 20, 1924, donates \$50,000 to fund a charitable gift annuity at Brock University. She will receive a guaranteed income of \$3,750, paid annually for the balance of her lifetime.

Assume a 50 per cent combined marginal tax rate, and a 50 per cent combined tax savings resulting from tax credit (if any) received.

Computation of Donation Receipt

Amount contributed \$50,000 Annual income payments @ 7.5% \$ 3,750 Life Expectancy (1983 table) 14 years Total Expected Return (\$3,750 x 14) \$52,500

Donation Receipt (in year of gift) Nil

#### Computation of Taxable Income Portion

Amount contributed \$50,000
Annual income payments @ 7.5% \$ 3,750
Life expectancy (1971 table) 12.3 years
Total Expected Return (\$3,750 x 12.3) \$46,125\*

\*As \$46,125 is less than \$50,000, payments are treated as "return of capital" for tax purposes, and received by the donor "tax-free", even if the donor lives beyond life expectancy.

# Option 5: Use the Wealth Replacement Option to enable an immediate gift to Brock University without diminishing the estate legacy for heirs.

Donors who wish to make a major gift to Brock University but do not wish to diminish the legacy they leave through their estate to their heirs could choose this option.

- Enables the donor to make a sizeable charitable donation at a modest annual cost
- Enables the donor to provide an immediate lump sum to Brock University without reducing the donor's estate
- Insurance benefits are paid in cash
- Donor is eligible for tax credit on the full amount of the donation
- There are no probate or estate administration costs with most life insurance options
- Donor and family can be recognized immediately and can be remembered for generations
- Nullifies capital gains tax
- Donor gives gift to Brock University and Brock University issues a charitable receipt for the full amount of the gift
- Donor receives a tax credit from Canada Revenue Agency
- Donor uses tax credit to purchase insurance policy.
- Insurance Company provides tax-free wealth replacement to heirs upon the death of the donor.

Example

Mrs. Haist is a healthy 80-year-old. She wishes to replace \$1 million in her estate so that she may make a \$1-million contribution to Brock University. The cost of purchasing the life insurance policy is \$80,000 annually.

Mrs. Haist makes a \$1-million pledge to Brock University over five years. Her annual gift payment of \$200,000 results in an annual tax credit of \$100,000 (assuming 50 per cent tax). The cost of insurance in the first five years is less than the amount of the tax credit. Mrs. Haist is able to pay the life insurance premiums with her tax savings. When Mrs. Haist dies, the insurance company will pay her heirs \$1 million tax-free.

If the funds were not donated and remained in the estate, Mrs. Haist's estate asset may be significantly reduced due to tax payable upon death.

Donation \$200,000

Donation Receipt \$200,000

Tax Credit @ 50% \$100,000

Maximum Cost of Insurance \$80,000

Total gain \$20,000 /year (\$100,000 over five years\*)

DISCLAIMER: This information is intended to provide general examples and reference tools for understanding the ways in which charitable gifts may be made to Brock University. Every effort has been made to ensure the accuracy and currency of the information presented. Donors reviewing this information should consult with their professional advisors for independent advice on the best way to achieve their objectives. Any examples presented are for illustration purposes only.



<sup>\*</sup> Mrs. Haist can use the remaining tax savings for future insurance policy premiums