Making Your Gift of Life Insurance

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Making a gift of life insurance is a very powerful way to create a legacy. This article is not intended to provide a detailed technical summary of how the process works. Instead, Joe Pal, President of Pal Insurance and a member of the Queen's Gift Planning Advisory Committee provides a clear description of the gift planning opportunities available to you. Joe offers insight into the ways in which a gift of life insurance can help you achieve your philanthropic goals while offering tax advantages.

Time has a way of changing things and our lives evolve. Often, as a result, the original intention or motivation for purchasing an insurance policy may have come and gone.

The traditional insurance role of creating immediate liquidity for "family protection" may no longer be required. Mortgages and other liabilities may have been discharged, families have grown up, investments portfolios may have matured and pensions are now providing income. Any or all of these factors may reduce or eliminate the original need for older insurance programs.

While not included in the scope of this article, the same holds true from a corporate perspective. Corporate insurance programs, shareholder buy/sell agreements, and collateral term insurance plans may no longer be required. Designating Queen's as the owner of a corporate owned policy can also result in tax deductible charitable receipt(s). In this instance the donation receipt(s) will be issued to the corporation as the donor.

Planned giving with insurance can be used to benefit Queen's and create tax benefits to reduce your tax bill either during your life or on death.

Advantages of donating Life Insurance:

- Creates a significant gift with limited resources
- Eligible for a donation tax credit
- Not subject to probate, litigation, or creditors.

There are three parties to an insurance program: the insured, the owner, and the beneficiary. The insured designation in a policy is irrevocable. The ownership and/or beneficiary of a policy can be altered in order to accommodate changing tax and/or estate planning strategies. This feature provides individuals and corporations with a great deal of flexibility.

Owner or Beneficiary?

Queen's could become the owner and/or the beneficiary of your insurance policy. Let's examine the benefits of each alternative.

Transfer Ownership to Queen's

If you determine there is no estate planning requirement and no need for a large estate tax deduction, then you should consider transferring ownership to Queen's.

Not all policies are suitable for donation credits. The following characteristics can be used as guidelines to determine if your policy is suitable for a charitable gift to Queen's.

- The policy must have a guaranteed death benefit
- The policy design is permanent
- The donor must demonstrate donative intent
- The policy may be paid up within 20 years
- The policy has level premiums

Transferring ownership of a newly issued policy to Queen's (Example 1) results in annual charitable donation receipts equal to the premiums paid into the policy.

When the ownership of an existing policy is transferred to Queen's (Example 2), a tax deductible charitable receipt is issued equal to the fair market value (FMV) of the policy, plus annual receipts for any future premiums paid.

The receipted value (FMV) normally equates to the cash value of the policy. It should be noted that the FMV of a policy can, at times, be in excess of the cash value depending on plan design and the health of the insured. Valuation reports are often required by CRA and should be prepared by an independent actuarial firm.

Once Queen's owns and controls the policy it can ensure that it is also the beneficiary of the insurance proceeds.

Example 1: New issued policy ownership transferred to Queen's

Mr. Alumni, age 40
$500,000 Permanent Insurance Policy (new)

Annual Premium	$15,000
Number of Deposits	10
Total Deposits	$150,000
Donation = Deposits to cover annual premium payments after transfer of ownership	
Benefit to Queen's on death of donor	$500,000

Example 2: Transfer Existing Paid-Up Policy

Ms. Alumni, age 50
$1M Permanent Insurance Policy (existing)

Annual Premium	$30,000*
Number of Deposits	10
CSV (Cash Surrender Value)	$350,000
FMV (as per valuation)	$350,000
Donation = Fair Market Value of policy. Additional deposits can/may be made to cover annual premiums* after transfer of ownership to increase	values
Benefit to Queen's on death of donor	$1M

Appoint Queen's as Beneficiary

There are two methods for appointing Queen's as a beneficiary of an insurance policy: direct designation on policy or named beneficiary in will:

Direct designation beneficiary on policy:

- Does not form part of donor's estate
- Is not subject to tax, probate or creditors
- Payout is quick and efficient
- Confidential

Named Beneficiary designation (estate) in will:

- Estate is subject to executor fees, probate fees, and other administrative charges
- A will is a public document and not confidential
- Estate proceeds potentially subject to creditors
- Payout from estate can be prolonged

Conclusion

Donating a life insurance policy is a great way to support Queen's. Whether you retain ownership of the policy and receive a tax receipt later, or transfer the policy ownership to Queen's now in order to receive tax receipt(s) while living, the university will benefit.

The timing and amount of your charitable donation to Queen's will depend on your individual situation and estate planning requirements.

On any charitable gift arrangement, including transfer of a life insurance policy, Queen's strongly recommends that donors seek independent legal and financial advice. The Queen's gift planning team is always available to help you analyze the alternatives to determine the appropriate planning strategy for your situation and answer questions that may arise.

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