Planned Giving – Optimize Your Gifting Strategy With Insurance

Charitable giving is an important wealth planning consideration for many Canadians. While making a cash donation to charity is a common gifting strategy, Canadians often ask, "How can I do more?" By considering one of the life insurance strategies in the attached document, you can often magnify the benefits of your donation dollar compared to a traditional cash donation.

Portfolio Strategy

November proved to be strong month for equities in both Canada and the US as the continued appearance of progress on trade talks with China as well as solid economic results powered markets higher. Data showed that the US economy grew by 2.1% annualized in Q3, ahead of expectations for 1.9% growth. For the month of November, the S&P/TSX was up 3.6%, while the S&P 500 gained 4.6% in Canadian dollar terms.

During the month we made only a small change to our holdings, adding to our position in Boeing by slightly reducing our cash allocation. Boeing is a company we anticipate to benefit from increasing global travel demand and we took an opportunity to add to based on valuation levels.

In fixed income, bonds also had a solid month, while preferred shares overall climbed as the market stabilizes after a weak first half of the year. Our exposure to the rate reset preferred share market has outperformed the overall preferred share market this year and after accounting for their dividends, shows solid positive performance on the year.

On an overall basis, we continue to underweight the fixed income market, have a small exposure to short-term investments and are slightly overweight equities.

As we close out the year, we would like to wish all our clients a happy holiday season and best of luck for the new year!

As always, if you have any questions, please do not hesitate to contact us.

Planned Giving – Optimize Your Gifting Strategy With Insurance

Charitable giving is an important wealth planning consideration for many Canadians. While making a cash donation to charity[1] is a common gifting strategy, Canadians often ask, "How can I do more?" By considering one of the following life insurance strategies, you can often magnify the benefits of your donation dollar compared to a traditional cash donation.

Assigning a life insurance policy

With this strategy, a new life insurance policy is purchased and the ownership is assigned to a specific charity, with the donor continuing to make the required premium payments to the insurance company. These payments are considered donations and are deductible by the donor on their annual tax return.[2] If an existing life insurance policy is assigned to a charity, the fair market value of the policy (less any outstanding policy loans) at the time of assignment, and the future premium payments, are tax deductible as charitable donations to the donor.[3] With this approach, the charity does not receive any donations while the life insurance premiums are being paid; however, upon the death of the donor, the charity will receive the life insurance proceeds, which can be substantially higher than if the annual premium payments were directed to the charity as traditional cash donations.

Naming the charity as a beneficiary

Similar to the previous strategy, a life insurance policy can be purchased and the charity named as the beneficiary. Upon the death of the donor, the life insurance proceeds are paid directly to the charity, and are deductible on the donor's terminal tax return (or by their estate).[2, 4] This can be an attractive approach for estates with non-liquid assets, as it can reduce the estate's tax liability and; therefore, the need for liquidity or cash resources to settle the liability. Naming the estate as the beneficiary of an insurance policy, with a bequest to the charity in a Will can have the same result (although probate fees may apply). With this approach, not only is the benefit to the charity enhanced, but the tax deduction for the donor is greatly increased.

Let's look at how these two strategies benefit both the donor and the charity.

Our example assumes the donors are a married couple, both age 65 and non-smokers. Their annual charitable donations are $15,000, and they purchase a BMO Whole Life, Joint Last to Die, Standard Risk Policy.

The actual benefit varies by individual. Please consult your tax advisor for specific calculations.

	Strategy #1 – Assigning a life insurance policy		Strategy #2 – Naming the charity as a bene iciary	
	Cash Donation	Assignment of Policy	Cash Donation	Assignment of Policy
Annual				
Deposit	$15,000	$15,000	$15,000	$15,000
Tax Receipt	$15,000	$15,000	$15,000	--
Charity Receives	$15,000	--	$15,000	--
After 20 Years				
Total Deposits	$300,000	$300,000	$300,000	$300,000
Total Tax Receipts	$300,000	$300,000*	$300,000	**$600,000*** **
Charity Receives	$300,000	**$600,000****	$300,000	**$600,000****

* Tax receipts unchanged for donor.
** Policy death benefit proceeds. Benefit increased for charity.
*** Tax receipts increased for donor.

CONTINUED

Taking a combined approach

A combined approach involving life insurance could not only enhance the benefit that the charity receives, but can also help to restore value to an estate that might otherwise be reduced by donations made by the donor over their lifetime. For example, a donor could use the tax refund from a traditional, annual cash donation to fund the premium of a life insurance policy, with both the charity and the estate named as beneficiaries. The charity not only benefits from the ongoing cash donations, but will also receive a portion of the life insurance proceeds upon the donor's death. The estate will also receive a portion of the life insurance proceeds, and could potentially recoup more than the cumulative amount of the cash donations made.

! For more information about how insurance can help you meet your charitable giving goals, please contact your BMO financial professional.

1 "Charity" for simplicity, includes foundations and other non-profits, permitted by the CRA to issue donation tax receipts.

2 A charitable tax receipt can reduce an individual donor's taxes through the donation tax credit. The maximum amount of all donations an individual can claim on his/her tax return each year is 75% of net income (100% in the year of death and/or for Quebec provincial tax purposes). Donations that cannot be claimed in a given tax year can be carried forward for up to five years. The actual benefit varies by individual. Consult your tax advisor for specific calculations.

3 Note also that the donor may have an income inclusion on the gift of an existing policy if its fair market value exceeds its tax cost.

4 Assuming that the estate is considered a "graduated rate estate" for tax purposes.

BMO Wealth Management

ID3154 (10/19)