



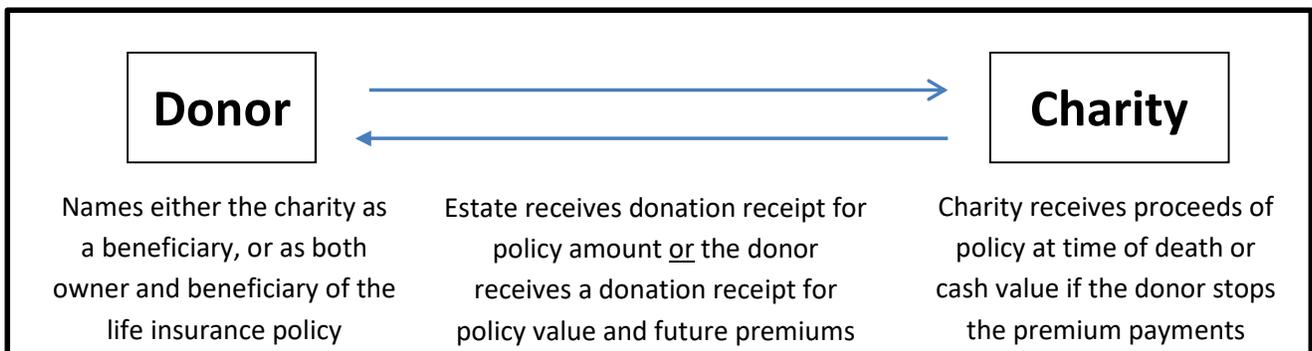
# Planned Giving Bulletin

## Gifts of Life Insurance

Life insurance is one of the most effective means to maximize giving and can be an excellent planned giving tool for a donor who wishes to make a substantial gift to ministry. Depending on the policy chosen, moderate premiums are spread over time with the resulting gift being quite significant at time of death. Both existing and new life insurance policies can be donated. While there are many different types of life insurance, the principle of giving remains the same; a relatively small present gift will ultimately provide a much larger gift in the future.

### Why a Gift of Life Insurance?

- Existing insurance policies can easily be changed to make a charity the beneficiary
- The donor can leverage the premium cost to provide a significant future charitable gift
- The purpose for initially purchasing the insurance may no longer exist
- Either the annual premiums or the insurance amount qualify for a charitable receipt
- The value of the gift will not be subject to probate fees on the estate



### Charitable Tax Receipt Now or Later

An insurance policy can provide a “charitable tax receipt now” or “charitable tax receipt later” option. Donors who name a charity as the beneficiary of their policy will have their estate receive a tax credit for the value of the policy at their death. Donors who name the charity as both the owner and beneficiary of the policy receive an immediate tax receipt for the Fair Market Value of the policy, plus tax receipts for future premiums paid.

# Gifts of Life Insurance ...continued

## Charitable Tax Receipt Now

When a donor transfers ownership of an insurance policy to a charity, and names the charity as the beneficiary (as required by law), the donor receives an immediate charitable tax receipt for the Fair Market Value (FMV) of the policy (based on an actuarial statement). Any future premiums paid by the donor will also qualify as a charitable gift and a charitable tax receipt will be issued each year. When the donor dies, the charity receives the proceeds of the policy. Since the charity is the owner of the policy, and the donor has already received charitable tax receipts for the FMV and the additional premiums paid, the estate does not get a tax receipt. This type of gift is irrevocable (it can't be changed) once the charity is named the owner. Usually, the donor then also completes and signs a "Gift Allocation Agreement" with Lutheran Foundation Canada, stipulating the beneficiaries to whom the Foundation will disburse the gift on behalf of the donor upon receiving the funds.

### Example

*Fred Kind has an existing policy for which the proceeds are no longer required by his family. He is passionate about training pastors and his own congregation. Fred transfers ownership of the policy to Lutheran Church Canada – Financial Ministries (LCCFM), and as required by law, the beneficiary of the policy is also changed to LCCFM. Fred also signs a "Gift Allocation Agreement" with LCCFM, designating his congregation and the seminary as the final recipients of the gift. The policy is worth \$100,000 and the Fair Market Value of the policy is \$28,000. Premiums are \$1,200 per year. Fred immediately receives a donation receipt of \$28,000 which will generate a tax credit of \$12,600 (45% x \$28,000). Plus, he will continue to receive annual donation receipts of \$1,200 due to the premiums paid. When Fred dies, the congregation will receive the \$100,000. As LCCFM is the owner of the policy, Fred's estate will not receive a donation receipt.*

## Charitable Tax Receipt Later

Sometimes a donor may only name the charity as the beneficiary (but not the owner) of the policy. This type of gift is revocable. It doesn't provide any immediate tax advantage to the donor. Instead, the estate receives the charitable tax receipt following the death of the donor, which often is used to offset the donor's taxable assets. This option may be preferable because the donor understands they face a high tax liability in their estate due to RRIF/RRSP savings, capital gains on publicly-traded securities, or secondary properties.

### Example

*Fred Kind has an existing policy that he names Lutheran Church – Canada Financial Ministries (LCCFM) as the sole beneficiary. Fred also signs a "Gift Allocation Agreement" with LCCFM, designating his congregation and the seminary as the final recipients of the gift. (He could also designate the proceeds be added to an existing endowment held by LCCFM.) The policy is worth \$100,000. Fred continues to pay the premiums although he doesn't receive any tax advantages while living. Upon his death, LCCFM receives a charitable gift of \$100,000 and allocates it per Fred's directive within the "Gift Allocation Agreement". Fred's estate receives a donation receipt of \$100,000. Assuming a 45% tax bracket, the estate will receive a tax credit of \$45,000 for this gift.*