



Gifts of Life Insurance

Life insurance is a useful alternative to a will as a way of making a charitable gift. There are several different ways it can be used, each one appealing to a different group of people. Amendments to the Income Tax Act have created several new gift possibilities.

MAXIMUM FLEXIBILITY

A person who wants to make a gift while keeping all their options open can simply name the **church as the beneficiary** on an individual or group life insurance policy. If the life insured dies while the policy is in force, the proceeds are paid to the beneficiary. Thanks to a change in the Income Tax Act, a charity is now allowed to issue a donation receipt to the policy-holder. The executor of the estate will be able to file the receipt with the final year's income tax return. The resulting tax credit will reduce the tax payable by the deceased person and increase the residue distributed to other beneficiaries.

A beneficiary change requires the completion of a simple form available from the life insurer. The policy-owner is allowed to change beneficiaries as often as necessary. This provides maximum flexibility for the person whose circumstances may change in the future.

LIFETIME TAX BENEFITS

Anyone who would prefer to realize tax benefits during their lifetime can transfer ownership of a policy. When the ownership of a life insurance policy is transferred (or "assigned") to the church, any premiums subsequently paid by the donor are counted as charitable donations.

The resulting tax credits cut the net cost of the policy by at least forty percent. However, once the policy is transferred there is no chance to change one's mind, the transfer is irrevocable. And there is no donation receipt issued at the time the life insured dies.

New Policy

A person can apply for a new life insurance policy with the intention of giving it to the church when it is issued. The best type of policy for planned giving is one of the permanent products. If the insured is still alive when a term insurance policy expires, there is no death benefit paid to the church and no monetary value received for all the premiums paid. No-frills policies known as "Term to 100" or "Perma-Term" often provide the best combination of low premiums and permanent coverage.

Because premiums rise with age, young people find that life insurance allows them to make a large planned gift at a relatively low cost. It is a way of creating a substantial legacy on the installment plan. But new policies are available from some companies to people age seventy or even older. Anyone who is discouraged by the size of the premiums, either because of their age or a medical condition, can "borrow" the life of someone younger or in better health, one of their children for example. The policy would be issued on the life of the child but the parent would pay the premiums. Premiums could be paid over a short period, or provision could be made in the will to make the policy paid up in the event of the parent's death.

Existing Policy

Many people own life insurance that they purchased many years ago. If they no longer need it for the original purpose, they may be able to transfer ownership to the church. The transfer form is available from a servicing agent.

When a policy is assigned, the cash surrender value of the policy forms the value of the gift, and qualifies for a charitable receipt. If the donor continues to pay premiums on a policy that has been assigned to the church, each premium constitutes a charitable donation and also qualifies for a receipt.

All forms of life insurance gifts have two other significant advantages over gifts made through a will:

The proceeds will be paid to the charitable beneficiary more quickly, usually within a few weeks of the insurer receiving all necessary forms;

Life insurance gifts happen outside of the donor's estate, which means that they are exempt from probate taxes. Having a will probated can cost up to 1.5% of the value of the assets in the estate. This tax is collected by provincial authorities when probate is granted.

*For more information about the different forms of life insurance gifts, contact Lutheran Planned Giving at 1-888-308-9461
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