

Donation of a New Life Insurance Policy

Making a Gift Really Count Through a life insurance policy owned by GiftPact

Thomas, age 55, is a business owner who has had a few very profitable years. He would like to do something meaningful for the charity where he serves as a board member. Thomas donates to this charity each year as well as to many other causes he cares about. He has established a GiftPact Donor Advised Fund through which he makes his donations. As a result of his recent good years in business, he has become interested in doing something significant that will make a larger impact.

Thomas has consulted with his investment advisors. He has more than sufficient investments for his retirement needs. The advisors have informed him of a new single premium life insurance policy offered by Canada Life (other insurers may offer similar policies in the future) as a way for him to make a meaningful gift.

How the new Canada Life Par Gift works

Thomas is healthy and this is important because a life insurance gift is applied for like most other insurance policies. The difference with a Canada Life Par Gift is that it does not have to abide by the same tax-rules that limit how much can be deposited into a policy in any year. The new Canada Life Par Gift is designed to be owned by a charity from inception. The charity doesn't pay tax so it doesn't matter if the policy it owns has tax-free status. The advantage is **charities can pay for the policy with only one premium.**

Thomas decides to purchase a \$100,000 policy. The single premium is \$68,000 which can be covered by Thomas making a one-time donation to GiftPact and receiving a charitable receipt for the full amount. Thomas applies for life insurance and is approved at standard rates. GiftPact is named the owner and beneficiary of the policy. On death, the proceeds from the insurance policy will be distributed according to the schedule of distributions on death which is part of the Donor Advised Agreement that GiftPact keeps on file.

Dividend Options

The remaining step is to determine the dividend option for this policy. Participating whole life policies like Canada Life's Par Gift receive annual dividends. The dividends are really distributions based on the performance of the insurance company.

Insurance companies provide several options for distributing dividends. GiftPact can elect to receive annual dividends in cash (eligible to go to any charity) or paid-up additions that essentially compound the growth of the death benefit while adding to cash value.

Annual Dividends

Dividends are paid in cash to a donor advised fund which can be distributed annually. The amount of the dividend increases every year to keep pace with inflation. By life expectancy, the annual gifts of dividends will be more than the original \$68,000 contributed to the policy.

Paid-Up Additions

Dividends are used to buy additional whole life insurance allowing the death benefit to compound. This can double or even triple the original death benefit given enough time.

Male, Age 55, Non-Smoker, Standard Risk, Current Dividend Projection

One time insurance premium = \$68,000 After tax cost (50% rate) = \$34,000.

Cash option = \$75,000 paid out over 30 years, plus a death benefit of \$100,000.

Through GiftPact, the annual gift can go to any charity he requests, and the death benefit will be distributed based on the letter of wishes on file.

Additional insurance option = Death Benefit begins at \$100,000 year 1, increasing to \$190,000 by age 75; and \$275,000 by age 85 (based on today's dividend scale).

The impact of the gift grows steadily until death and more than compensates for inflation.

Conclusion

The Canada Life PAR Gift policy may be a very good vehicle for you and your family when considering an impactful way of giving. Whether distributing annual policy dividends or compounding them for a larger gift at death, you will have a very significant impact for the organizations you support.

Be a savvy philanthropist

How you structure your charitable gift is often just as important as the amount you give, both for the charity and for you as the donor. In-kind securities donations are a smart and tax-effective alternative to a cash gift.

If you would like to learn more about donor-advised funds and how GiftPact Foundation can maximize the impact of your charitable giving, get in touch.

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