PhilanthroPlan

Marketing Resources from *Philanthro*Plan
1-888-613-6910 ▪ www.philanthroplan.com

Stock Number: F2
989 words

THE MANY LIVES OF LIFE INSURANCE

Life insurance is a simple idea that takes many shapes. Its basic purpose, of course, is to provide cash to meet the needs of survivors at the insured person's death, and all policies provide this benefit. However, life insurance policies may also build up cash value that can be utilized for a variety of purposes. A particular policy may be intended primarily for *protection* through its death benefit, or it may be designed more for *investment* purposes through increasing cash value. Here are some general types of policies:

Term life maximizes the death benefit payable if the insured dies within a specified time, but it accumulates no cash value. Because it offers the most affordable protection, it is often the choice of young parents primarily concerned about security for their family in case of an untimely death.

Whole life combines a death benefit with predictable cash value growth. Normally the premium and death benefit are fixed, and the cash value grows according to a predetermined schedule. It provides family protection but may also be used as a savings plan for such expenses as children's education.

Universal or variable life. These policies place greater emphasis on growth. The premium and/or the death benefit may change, and growth in the cash value will depend on investment performance. Premiums may continue throughout life or end when sufficient reserves are accumulated to sustain the policy. Large initial premium deposits may render future premium payments unnecessary.

Any of these policies can fill an important niche in one's financial plan. As time passes, however, its original purpose may become less important. As children grow up and we accumulate other resources, the need for family protection decreases. Policies purchased to provide cash for estate settlement are perhaps less needed since Succession Duties and Estate Tax were repealed. Policies with a face amount that seemed large in pre-inflation days may seem insignificant today.

As time goes by, our priorities change. We find ourselves wanting to share our good fortune with those around us, to show our support of the causes and institutions we believe in, to leave the world a little better than we found it. When goals such as these take shape, the life insurance policy that served us well in years gone by can serve us in an entirely new way when we make a charitable gift. In other cases, a new policy can be the key to achieving philanthropic goals. Here are some possibilities:

- **Give the death proceeds**. Marvin H. no longer needs the $25,000 death benefit from the policy he took out years ago when his family was young. So he decides to have *(Full Name of Charity)* receive the proceeds payable at his death. When he dies, his estate will receive a donation receipt for the amount of the death benefit, resulting in significant tax savings on his final return. If the donation receipt exceeds 100% of his income in that year, the excess can be carried back to the previous year, and the 100% limitation will apply to that year's income as well.

- **Give the policy itself.** Nancy R., age 75, had almost forgotten her paid up $50,000 policy until she began thinking about establishing an endowment with *(Charity)* in memory of her husband. She depends on the income from her other investments, but the insurance policy makes an ideal gift. Because she makes *(Charity)* the beneficiary and also the *owner* of the policy, her gift is irrevocable, and she receives a donation receipt for the cash value of the policy, creditable up to 75 percent of her income (excess credit may be carried forward up to five years). Nancy's policy is paid up, but if premiums were still owing and she continued to pay them, she would receive donation receipts for those payments as well.

- **Give a new policy.** Ralph S., in his mid-40's, would like to make a significant gift to *(Charity).* He has no existing policy or assets to contribute but he does have some discretionary income, so he purchases a new $40,000 policy naming *(Charity)* as both owner and beneficiary, and pays for it in five annual payments of $1,200 each. He receives a donation receipt for each payment and, assuming a combined federal/provincial tax credit of 48 percent, his annual tax saving is $576. Thus his "net cost" for each premium is $624, and he makes a $40,000 future gift for only $3,120.

There are other ways, too, in which life insurance can enable a donor to make a significant charitable gift.

- **Using life insurance for wealth-replacement**. Marva and George W., both age 60, want to make a $100,000 cash gift to *(Full Name of Charity)* without diminishing their legacy to their children. Assuming a tax credit of 48 percent, they realize tax savings of $48,000 over several years by making the gift, so they plan to use a portion of these savings to purchase a "second-to-die" policy that will add $100,000 to their estate when the surviving spouse dies.

- **Using annuity income to make a life insurance gift.** Maurice L., 68 years old and in the 48 percent combined tax bracket, has $100,000 in bonds and GIC's from which he receives after-tax income of $350 per month. He uses this asset to purchase a commercial annuity that provides him after-tax payments of $830 per month. He then allocates $300 of this increased cash flow each month to pay the premiums on a $100,000 life insurance policy that he purchases in the name of *(Charity).* He receives a donation receipt for every premium paid, and at his death, the insurance proceeds will be his gift to *(Charity)*.

These are but some of the ways in which life insurance can help you achieve your personal and philanthropic goals. If you would like to explore a life insurance gift to *(Full Name of Charity)* tailored to your circumstances and interests, please contact us.