

Three Planned Giving Strategies Using Life Insurance

Ideas for individuals, families and business owners considering charitable giving as part of their estate plan

Life insurance can play a useful role in charitable and estate planning. Depending on how a strategy is structured, it may allow a donor to make a meaningful charitable gift while preserving assets for family or improving the tax efficiency of an estate. The following are three examples of strategies that may be considered with professional advice.

1. Gift Replacement Strategy

A donor makes a charitable gift during their lifetime - often by donating qualifying publicly traded securities in kind - and uses life insurance as part of a strategy to replace some or all of the value that would otherwise have passed to family.

- The donor contributes qualifying publicly traded securities directly to a registered charity.
- The donor may receive a charitable donation receipt, and the taxable capital gain on qualifying donated securities may be eliminated.
- Some of the resulting tax savings or other available cash flow may be used toward premiums for a life insurance policy.
- The insurance benefit can be structured to help replace some or all of the value given to charity for the donor's beneficiaries.

Potential outcome: *The charity receives a meaningful gift during the donor's lifetime while life insurance may help preserve the donor's intended legacy for family.*

2. Insurance Gift Strategy

A donor may purchase a new life insurance policy for charitable purposes or transfer an existing policy to a charity. The charity becomes the owner and beneficiary of the policy.

- The donor purchases a new policy or transfers ownership of an existing policy to the charity.
- The charity is named owner and beneficiary.
- Premium payments made by the donor after the charity owns the policy may qualify as charitable gifts and may generate donation receipts.
- When the insured dies, the charity receives the policy's death benefit.

Potential outcome: *A series of manageable charitable contributions may create a substantially larger future gift. The tax treatment of an existing policy transfer depends on the circumstances and should be reviewed before implementation.*

3. Corporate Giving Strategy

For incorporated business owners, corporate-owned life insurance can sometimes be incorporated into a charitable and estate plan. The appropriate structure depends on who owns the policy, who receives the death benefit, and whether the corporation or estate ultimately makes the charitable gift.

- A corporation may own and fund a life insurance policy on a shareholder or other eligible insured person.
- At death, insurance proceeds received by the corporation may create a credit to its capital dividend account (CDA), subject to the policy's adjusted cost basis and applicable tax rules.
- The corporation or the shareholder's estate may then make a charitable gift, depending on the planning structure selected.
- The charitable donation receipt, available tax credits or deductions, and CDA consequences depend on how the arrangement is structured.

Potential outcome: *With coordinated tax, legal and insurance advice, life insurance may provide liquidity that supports both charitable objectives and estate or succession planning.*

Important: *These examples are provided for general information only and are not intended as tax, legal or insurance advice. The tax treatment and suitability of any strategy will depend on individual circumstances and how the arrangement is structured. Donors should obtain advice from their legal, tax and financial professionals before implementing a planned giving strategy.*