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Winter 2017

Assante Financial Management Ltd.

Upcoming Events:

**Business Owners Luncheon –
Are you covered – Business Insurance
January 19th, 2016**

Client Education Event – Details coming soon

Welcome to 2017!
It is our hope that you had a nice holiday season with your family and friends.
A new year is a great time to set new goals. Schedule a meeting to update your plan to ensure that you are on track to accomplishing those goals.

CHARITABLE GIFT PLANNING WITH LIFE INSURANCE

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Life insurance can be integral to a variety of charitable gift planning strategies. Some individuals purchase life insurance because it allows them to make a charitable bequest without depleting an estate's assets. Others utilize life insurance to magnify the size of their charitable gift.

Gift of a Life Insurance Policy

A common charitable strategy is to gift a new or existing life insurance policy to a charity, whereby the charity becomes the owner and beneficiary of the policy. The charity can generally issue a charitable receipt for the fair market value of the policy at the time of transfer and for any premiums paid by the donor on behalf of the charity. For a newly-issued policy, one approach would be to consider the fair market value to be equal to the portion of the premiums paid by the owner that represents the carrying cost of the coverage following the completion of the transfer.

Determining the fair market value of an existing policy can be complex and typically should be established by a qualified professional who will consider information specific to the policy. This would include the life insured's current underwriting status and the replacement cost of new coverage. As well, there is a reasonably new anti-avoidance province in the Income Tax Act that could deem the fair market value to be the taxpayer's cost in certain circumstances.

Consider the example of Katie who plans to purchase a life insurance policy in anticipation of donating it to her favourite charity. Katie could apply for insurance by completing the application and name herself as the applicant. She could then accept delivery of the policy as the new owner and pay the first monthly premium to settle the policy. Within the first month after receipt of the policy, Katie could assign ownership of the policy to the charity. The charity can issue charitable receipts for the value of all premiums paid by Katie subsequent to the transfer. If the policy goes on premium offset, Katie is not entitled to a charitable receipt because she has not made any premium payments during the offset period as the offset is covered by the policy's internal cash value.

There are alternatives to establishing Katie as the original owner and subsequently assigning the policy. One strategy would be for Katie to request that the carrier issue the policy in the name of the charity once all underwriting decisions have been made. Or, Katie could opt to name the charity, with their permission, as the original applicant. Assuming Katie pays the premiums, these two approaches would allow Katie to receive a charitable receipt for the initial premium paid on delivery of the policy as well as future premium payments.

The charitable receipt is tied to the payment of premiums subsequent to the charity's assumption of ownership. There is no charitable receipt issued upon the death of the life insured under the strategies discussed above. Individuals generally use these types of strategies when they prefer the income tax relief today or the strategy fits with their overall charitable objectives.

Gift of the Life Insurance Benefit

Another charitable strategy using life insurance involves an individual retaining ownership of the insurance policy while naming a charity as the beneficiary for all or a portion of the proceeds of the policy. The charity can issue a charitable receipt for the value of the proceeds received upon the death of the life insured under the policy.

Consider the example of Matthew who currently owns a life insurance policy on his own life that he would like to use for the benefit of his favourite charity. Matthew could name the charity as beneficiary of the policy, while retaining ownership. Given that he retains ownership, Matthew is not entitled to any charitable receipts during his life-time. However, on his passing, the charity will receive the death benefit and Matthew's estate will receive a charitable receipt equal to the death benefit.

Provided the life claim is settled during the existence of Matthew's general rate estate (GRE), the estate's representative will have the option to claim the charitable gift on:

- Matthew's terminal (final) tax return;
- Matthew's income tax return in respect of the year prior to death;
- the GRE's current and prior tax returns, with the opportunity to carry forward excess charitable amounts for utilization in the subsequent five years; or,
- any combination of the above three options.

The decision as to which return and when to claim the donation credit will reflect income limitations (75% & 100%) that are integral to the tax credit.

Under this approach, the policy owner is not entitled to a charitable receipt during the life insured's lifetime; instead, the receipt arises only after the insurance proceeds are paid to the charity subsequent to the individual's passing. In addition to addressing an individual's charitable objectives, this strategy can be useful when individuals anticipate a large tax liability upon death and choose to make a charitable gift to offset some or all of their income tax liability.

Replacement of a Significant Gift

Life insurance can be used to replace value within an estate allowing a donor to fulfill a charitable contribution without impairing the estate value earmarked for other personal bequests. In this scenario, the charitable receipt does not arise in respect of the life insurance but rather from the donation made with the individuals' personal assets while the person is alive. Life insurance is used to replace the assets that were gifted to the charity.

Consider the example of Pat and Chris who plan to complete a sizable gift to their favourite charity before the end of this year. While the gift will not affect their current lifestyle, they are concerned that the gift will significantly reduce the amount of wealth available to pass on to their next generation. To address the gap that would otherwise arise in the family's estate, Pat and Chris could acquire insurance on their lives with a face amount equal to the value of the gift or possibly more to account for the time value of money. The new insurance could be funded with the tax savings realized on their charitable gift. Upon their passing, the insurance policy will replace the value of the charitable gift allowing the couple to achieve their personal bequests involving the transfer of family wealth.

The three strategies discussed above highlight common uses of life insurance to support charitable gifts. The goal in any plan is to find the most appropriate strategy that allows individuals to best meet their personal objectives.

This article was written by Deborah Kraft and Jim Kraft and was published in the 292-2015 issue of COMMENT. Posted with permission from the Financial Advisors Association of Canada (Advocis) and The Institute for Advanced Financial Education.

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As I prepare these comments I am engaged in a planning process for the upcoming year.

This is something that I have done annually for the past forty years, and without question it has had a major impact on my life. I am reminded of a quote that I read recently … "a goal without a plan is just a wish."

So as we head into 2017, what are your goals? For financial matters such as debt reduction or savings goals; for personal achievement such as fitness or weight loss goals; or experiential goals such as a specific vacation with family or friends?

Goals do not happen by accident. Please contact us to schedule your next review meeting and we can discuss how we can help you to track your progress.

Both David and Juana are always happy to meet with new people and provide a second opinion on their current financial strategies. Do you know someone we can help? Have them give us a call!

Type the words "retirement income calculator" into your Internet search engine and you will be served up millions of results. Which one is right for you?

The answer believe it or not, is none of them. While these calculators can be helpful, they all have one fundamental flaw: they only look at your numbers. When it comes to planning for the retirement lifestyle you want, there is a lot more than numbers to consider.

Well the internet is a wonderful source of information, there is also a lot of misinformation. Please remember we are always here to guide you on your journey to obtain your financial and retirement goals.

If you have any questions, or would like to update your retirement plan, please do not hesitate to get in touch.

HOLIDAYS & BUSINESS TRAVEL

Office Closed:

- Family Day – February 20th, 2017
