

Offerings



A Lutheran Planned Giving Newsletter

Spring 2000

The Gift of Life Insurance

Proposed amendments to the Income Tax Act have made life insurance even more attractive as a way to make a gift to the church or other charities. This may be a good time for you to take a fresh look at life insurance gifts.

Advantages _____

- **Leverage** Relatively small annual or monthly payments can grow into a large charitable gift.
- **Universality** Regardless of your age, you can find a form of life insurance giving that suits you.
- **Flexible Tax Benefits** Like most charitable gifts, gifts of life insurance qualify for income tax benefits. You can choose either to enjoy the benefits during your lifetime or defer them to your estate.
- **Speed** Compared to the settlement of an estate, life insurance proceeds are paid to the beneficiary much faster.
- **No Fees** Unlike a will, a gift of life insurance can be arranged without the help (or

expense) of a lawyer. And insurance proceeds are paid to the church outside your estate, so there are no probate fees assessed on the gift. Probate fees vary among provinces, up to a maximum of 1.5% of the value of estate assets over \$50,000 in Ontario.

Options _____

1. **Donate the Policy** If you are the owner of an individual (not group) life insurance policy, you can donate it by transferring ownership of the policy to the church. The policy can be one that you have held for some time, or a new one that you buy specifically for this purpose.

Tax Treatment Because this donation is irrevocable (i.e. you can't change your mind), the church can give you a donation receipt for the cash value of the policy at the time of the transfer. Plus, every premium you pay after this date is treated as another donation, and the church will give you an annual receipt for all premiums paid during

the year. This will reduce the amount of income tax you pay during your lifetime.

Method Call your agent and ask to complete an ownership transfer or "absolute assignment". The insurance company will provide a form for you to sign.

2. **Name the Beneficiary** By naming the church as beneficiary, you are donating the policy proceeds or death benefits. You continue to own the policy and can exercise all the rights that go along with that, including the right to name a different beneficiary if you later change your mind.

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The Gift of Life Insurance continued from page 1

If the policy — either individual or group — is in force and the church is the beneficiary at the time of your death, the insurance company pays the death benefit to the church.

Tax Treatment The church will give a receipt to the executor of your estate for the amount of the proceeds received. This will reduce the amount of income tax that your estate will have to pay, and thereby increases the amount received by the beneficiaries named in your will.

Method Call your agent and ask to complete a beneficiary designation. The insurance company will provide a form for you to sign.

Something for Everyone

Younger donors... may be attracted to the idea of purchasing a new policy specifically to make a planned gift. It may be the easiest way for them to create a large legacy at a time when their assets are not substantial. Plus, the younger you are, the lower the premiums.

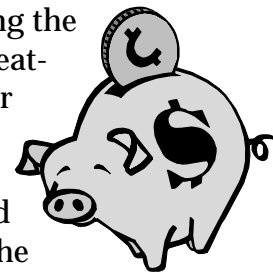
Older donors... may have existing coverage that is no longer needed for the original purpose and may not be missed by the heirs. You may even have forgotten that you have the policy, so why not donate it to the church and put it to use in carrying out Christ's mission?

Employees... and other people who have group insurance coverage (e.g. through a union, professional group or alumni association) can name the church as beneficiary.

Budget Announcements

The budget speech on February 28, 2000 announced a number of changes to the Income Tax Act, several of which affect planned giving. These include:

- Allowing charities to provide a donation receipt to the estate of a deceased person where the charity has received insurance proceeds from a policy which it did not own.
- Allowing the same treatment for proceeds received under the beneficiary designation of a Registered Retirement Savings Plan (RRSP) or Registered Retirement Income Fund (RRIF).
- Reducing the capital gains inclusion rate from 37.5% to 33.33% on gifts of appreciated securities donated to a charity



These amendments have not yet been passed into law. However, the provisions concerning beneficiary designations of insurance policies and retirement plans will apply retroactively to persons whose death occurred after 1998.

The Lighter Side

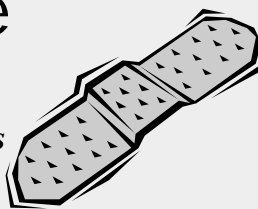
The pastor cut himself shaving one Sunday morning, so he put a band-aid on the cut before heading to church.

After a sermon that was somewhat longer than normal, a parishioner greeted him at the door-way.

"What did you do to your face?", she asked.

"While shaving this morning I was concentrating on my sermon and cut my chin", the pastor replied.

The woman retorted, "Maybe you should have concentrated on your chin and cut your sermon instead."



Tom and Eileen's Story



Tom and Eileen Nelson are so excited about their recent insurance gift that they've suggested that we share their story with you, but we've changed the names to protect their privacy.

Tom (age 63) and Eileen (62), both retired, were each planning to leave \$5,000 to the church in their wills. Then they saw a Lutheran Planned Giving brochure on gifts of life insurance and began to wonder if insurance would be a good alternative to a bequest. They called their insurance agent, who presented a program that contained the following features:

- Tom and Eileen will buy a policy with a death benefit of \$50,000 on a last-to-die basis. That means that the proceeds are not paid until the death of the second spouse, whoever that turns out to be. The beneficiaries will be their congregation and their synod.
- Because it is a Universal Life type policy, they can pay more than the required premium and have the excess invested in one of several different accounts.
- The Nelsons plan to de-

posit \$2,000 per year for a period of six years

- Based on current assumptions (not guaranteed), the investment income will keep the policy in force indefinitely, even if they never make another premium deposit after the sixth year.
- The money in the investment account accumulates tax-free. Projections show that this could amount to over \$9,000 by the tenth year, adding to the death benefit. If the Nelsons need to access the money in the investment account, the earnings are taxed as income in that year.
- After both Tom and Eileen have died,

the church will get the proceeds of the insurance plus the investment account, a total projected to be over \$59,000;

their estate will get a donation receipt for the full gift (\$59,000+);

their heirs will get the tax credit produced by the donation which, if current tax rates are maintained, will be in

the vicinity of 48% of the gift or \$28,000+.

The Nelsons are enthusiastic about this plan because it offers them a way of making a larger gift than they had anticipated, and at a reasonable cost. The way they look at it, they invest \$12,000 over six years. If they do nothing else, they produce \$59,000 in value for the church and another \$28,000 for their children.

Perhaps most important, and not to be overlooked in the discussion of insurance and income taxes, is the fact that the Nelsons have become benefactors of the church. Their gift will be the engine that powers mission and ministry — at the local and synodical level — for years to come. Tom and Eileen have been faithful supporters of their church for decades, and they are passionate about seeing their church continue to proclaim God's word and bring healing to a hurting world.

Offerings is a publication of Lutheran Planned Giving, a ministry of the Evangelical Lutheran Church in Canada. Lutheran Planned Giving does not provide or purport to provide legal or tax counsel. We urge our readers to consult with and rely upon the opinion of qualified legal, tax and financial advisors before implementing any of the ideas described in this publication.

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Insurance Tips

- Make sure that your other insurance needs are not compromised by your gift. Good stewardship includes providing for your family.
 - There is great variation in premium rates from company to company, so shop around. Information is available on the internet from sites such as www.term4sale.com. But remember, cheapest is not always best.
 - Term-to-100 is a type of permanent, no-frills, low-cost insurance that is worth considering. It is available from many companies.
 - Many companies sell policies to couples on a “last to die” basis. This can significantly reduce the cost of insurance, even for older couples.
 - Before transferring ownership of a policy that is more than 20 years old, be sure to ask your agent if this would trigger any taxable gains.
 - Charitable donations, including gifts of life insurance, create tax credits which reduce the amount of income tax you’ll pay. The value of these credits range from 41-53%, depending on your income and province of residence. In other words, for every \$100 you donate (after the first \$200 in the year), you’ll receive back at least \$41 through reduced income taxes.
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Let Us Know

If you:

- have a comment, question or quibble;
- need more information;
- want to share a story or tell us about your gift

You can reach us at:

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If you received more than one copy of this newsletter, please pass a copy on to someone who might appreciate the opportunity to learn more about planned giving.