INCREASING YOUR SUPPORT OF YOUR FAVORITE CHARITY

As a Certified Financial Planner I have noticed many things in my years of practice. Many Canadians look at life insurance and see the sadness of having to collect on the death benefits yet few truly understand the great joyful living benefits. The ones that do, as co-incidence would have it, are in the top 20% of income earners in Canada. The biggest purchasers of life insurance are the wealthy.

Why would the wealthy buy a product when some already have millions of dollars in their net worth? First, let's briefly distinguish between the two types of life insurance.

Term insurance works best for finite debt management e.g. bank loans for a 5 year term, mortgage, or credit line. It usually renews every 5, 10, or 20 years at a higher rate, and most policies expire at age 85. There is no cash value or equity; only a death benefit, and no living benefits.

Permanent insurance, (e.g. Whole life or Universal life), have rates which are, in most cases, guaranteed for life. Here is where the joys of life insurance really start to take shape.

- Cash values accumulate tax sheltered in permanent plans if structured properly, similar to an RRSP, except there is no annual tax deduction for premiums paid. Dividends are paid annually, increasing the value of cash/equity on a tax sheltered basis.
- Works as an excellent tool for additional savings for retirement as the tax sheltered cash can be annuitized to set up a stream of income.
- Can be used as collateral to secure business or personal loans. For investment/ business loans, the interest is tax deductible. The classic example is Jimmy Pattison, who used his policies to borrow money to establish his first business.
- Can be used to help transfer assets from corporations thus saving on taxes.

Planned giving using life insurance is for those who have achieved a degree of financial success, a desire to support a charitable organization, or an interest in off-setting current or future tax obligations.

Charitable giving allows you to assist your favourite charitable organization in a significant way. You can conserve the value of your estate and still allow you to benefit your favourite charity. It is a tax-advantaged insurance program that allows you to accumulate growth inside a permanent life insurance policy, within certain legislative limits, without paying income tax on the growth. Cash withdrawals are subject to taxation based on the rates and rules in effect at the time you withdraw funds. The death benefit is paid to your beneficiaries of choice tax-free upon death.

Planned giving using life insurance allows you to decide how your estate will be distributed. You have the option to distribute your assets to two of the following:

- your children/ grandchildren,
- your favourite charity,
- the Taxman.

Consider this: some of your net worth may not be used in your lifetime. Does it make sense to pay on the growth each year? While living, a taxpayer can contribute 75% of their net income to charity. In the year of death, and in the preceding year, a taxpayer can contribute 100% of their net income to charity.

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To have a deeper conversation about how this subject will affect your business, please contact:

Mandie La Montagne MA, CHRP
Certified Human Resources Professional & Business Consultant

mandie@theintuerigroup.com
C: 604 644 0177

Sean Farrell BA, CFP, CHS
Certified Financial Planner & Business Consultant

sean@theintuerigroup.com
C: 604 760 7205