



DONATING A LIFE INSURANCE POLICY



A life insurance policy can be used to increase the impact of a donation to the Montréal Sacré-Cœur Hospital Foundation in several different ways. In addition to income tax benefits, donating a life insurance policy may also mean you are making a significantly higher donation to the Foundation, without costing you more than the original amount of money you wanted to give.

Here are the main ways this can enhance a donation:

- **Assignment** (or transfer of ownership and designation of the Foundation as beneficiary) of an existing life insurance policy;
- **Purchase of a new policy;**
- **Designation of the Foundation as beneficiary;**
- **The “assignment-purchase” double operation.**

Some useful tips

- a) When you purchase a new life insurance policy, the period during which you must pay premiums can vary, as chosen by you. You can make just one payment, five or ten annual payments, or regular payments for the rest of your life. Of course the premium amount will vary as a result;
- b) If you like, a portion of the premium can be used to provide a cash surrender value for your policy.
- c) The fair market value of the life insurance policy (if you donate an existing policy) will differ, depending on whether or not your premiums include a surrender value. This value will also vary depending on your age, health condition, your lifestyle habits, etc.
- d) One way of donating a life insurance policy isn't better than another. It all depends on your personal situation: your financial situation (including your assets, income, and your medium- and long-term needs). Your family situation, your health and your age are all elements that must be taken into account to determine the form of donation that would best correspond to your concerns and intentions.

Assigning a life insurance policy

Assigning a life insurance policy consists of the transfer, to the Foundation, of ownership of a life insurance policy you already own, and the designation of the Foundation as the irrevocable beneficiary of the policy. You can do this, whether or not you have completely paid the premiums related to the policy.

This type of donation is of particular interest if:

- You want to make a major donation to the Foundation;
- You already hold a life insurance policy;
- You calculate that your assets, not including the proceeds of this policy, will be sufficient to cover the legacy you want to give your heirs.

By transferring a life insurance policy to the Foundation in this way, you will **immediately** have the right to an income tax receipt equal to the **fair market value of this life insurance policy**, not just the surrender value.

Calculation of the value must be done by an expert. It will be established based on various criteria, including your age, health condition, your lifestyle habits, etc.

If premiums still need to be paid on this policy, you may also receive an **annual income tax receipt** equivalent to the annual premium. In this case:

- You can continue to pay the premiums, and, upon receiving proof of payment, the Foundation will issue a receipt equivalent to the amount of this premium;
- You can also draw up an agreement with the Foundation, under which you will provide an amount equivalent to the cost of the premiums. The Foundation, as owner of the policy will pay the premiums to the insurance company. You will be issued your income tax receipt for the value of the annual premiums once they have been paid.

Example 1

Your sister holds a life insurance policy with a \$200,000 value. This policy is completely paid for. Your sister has no children and thinks that her other property will be more than sufficient to cover what she plans to bequeath to other members of her family.

She would like to make a major donation to the Foundation because, on several occasions, she and her husband were cared for at Sacré-Cœur Hospital and she has a very special attachment to it and its caregivers. Your sister consulted her adviser who suggested she use the policy instead of donating in another way.

Here is the income tax impact of this donation:

	Impact for your sister the year of the donation	Impact for the estate
Donation of the policy to the Foundation, and its designation as beneficiary.	Evaluation of the fair market value of the policy by an expert: \$85,000 . The Foundation issues an income tax receipt for \$85,000 for the current year.	The Foundation receives the amount of \$200,000. No income tax receipt is issued by the Foundation following the death since the receipt was already issued.
If payments of \$2,000 remain to be made for 5 years.	Additional income tax receipts in the amount of \$2,000 annually during the next five years.	None.

Purchase of a new policy

Purchasing a new life insurance policy is a way to donate a significant amount to the Foundation at a relatively modest cost. Here is an example of the income tax impact and the leverage effect of the purchase of a new permanent life insurance policy in an amount of **\$50,000**, assuming that you will pay all premiums over a **10-year** period.

Example 2

Annual premium cost	\$1,500
Tax credit (48.2%)	- \$723
Real annual cost	\$777
Real cost of all life insurance premiums	\$7,770
Amount of life insurance funds distributed to the Foundation at the time of death	\$50,000

In this example, the donation to the Foundation is more than six times greater than the amount initially planned.

This method is of particular interest:

- For **younger donors**, who will benefit from a lower premium cost;
- When someone wants to obtain a **significant income tax receipt** during a very specific year (e.g., at the time of a **major capital gain**, such as with the sale of a second home, **or a business**). It is possible to pay all the premiums during one year and obtain an income tax receipt for that amount.

Note: Due to their health condition, some people may not be able to qualify for the purchase of a new life insurance policy.

Designation

A third option would be to designate the Foundation as beneficiary for the life insurance policy. In this case, you remain the owner of the policy. This form of planned giving can be highly interesting if you want to leave a significant amount to the Foundation and your assets are comprised primarily of property (such as real estate, artwork, etc.) or if you want your estate to benefit from a major income tax receipt.

Example 3

Let's use your sister example again. After thinking it over and discussing it with her financial planner, she decides to designate the Foundation as beneficiary of the \$200,000 life insurance policy so that her heirs can benefit from an income tax receipt that will be issued when the Foundation receives the \$200,000 amount.

	Impact for your the year of the designation	Impact for the estate
Designation of the Foundation as beneficiary of the life insurance policy.	No impact.	The Foundation receives the \$200,000 amount and issues an income tax receipt that can be used to reduce the amount of income tax payable.
If \$2,000 payments need to be made for 5 years.	No impact.	No additional impact for the estate.

The “assignment-purchase” double operation

If you already have a life insurance policy and you would like to make a major donation to the Foundation without reducing the capital you will be leaving to your family, here is an additional option you can use.

The **first step** of this strategy is to transfer to the Foundation an insurance policy you hold for which you have paid all premiums. The Foundation must also be designated beneficiary of this life insurance policy. This will allow you to receive an income tax receipt equivalent to the fair market value of your policy.

The **second step** of this strategy is the following: with the tax savings you will gain for the year of this transfer, you can use the resulting funds to buy a new insurance policy, this time for the benefit of your family. By doing it this way, you will maximize the tax benefits related to your life insurance, and will make a significant donation to the Foundation while leaving your estate assets intact.



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If you would like additional information or explanations about planned giving, please contact the Foundation Major and Giving Donation Director

Me. Marie-Claude Tellier
514-338-2303, ext. 3

or via email at:
marie-claude.tellier.hsc@ssss.gouv.qc.ca

Or simply come see us at the Foundation.

You can also look at the Foundation website:
<http://www.fondationhscm.org/>
and click on the “dons planifiés” tab.

“This text, as well as the examples presented should not be considered as tax or legal advice. The context and fiscal impact of each donation may vary significantly, depending on someone’s situation. That is why it is highly recommended to consult with specialists about the rules and tax rates applicable to your situation.”