The TaxLetter®

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## *ESTATE*PLANNING

*Eat your cake and…*

# Donate it too!

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There are many ways to mix and match insurance products to meet your financial planning needs. Today, I will introduce you to one that lets you enjoy relatively high levels of guaranteed income for life and leave a meaningful bequest to your favourite charity.

Here's how it works. You use non-registered funds (outside RRSPs, RRIFs and TFSAs) to purchase an Annuity that pays regular income for life. At the same time, you buy permanent Life Insurance to match the purchase amount of the Annuity and transfer ownership of the policy to a registered charity of your choice, including your own Private Foundation or a Donor Advised Fund (DAF). That way, every premium payment made on the Life Insurance is tax-deductible because it's a donation to the charity – which has the effect of reducing your annual tax bill. This is called an Insured Charitable Annuity.

For as long as you live, you receive guaranteed income (a mix of mostly principal and interest) from the Annuity. The Annuity used is a prescribed Annuity that has very favourable tax treatment that is levelized for the life of the Annuity. Think of it like your very own pension plan. You don't have to worry about market volatility or changing interest rates. You don't have to decide where to allocate that portion of your portfolio when investments mature. You can just have confidence that a predictable stream of income will continue for life.

You've also locked in a charitable legacy. Assuming you keep making the scheduled payments on the Life Insurance (which you fund from the Annuity income), the charity will receive the tax-free, lump-sum proceeds of the policy after your death. They can use that money to further their mission in a meaningful way. Or, if it's owned by your own private foundation or DAF, your children and grandchildren can continue to give in perpetuity to the causes you care about. All of this is made possible by your generosity and the smart use of tax and donations that is fully endorsed by the tax department.

### A strategy with a long history

We have been marrying the benefits of Annuities and Life Insurance in a similar fashion for decades. Twenty years ago, the usual strategy was to use the Annuity to provide guaranteed income for life and the Life Insurance to provide an inheritance for the family. It was called an "Insured Annuity" or a "Back-to-Back." It's a way of getting around the primary downside of an Annuity, which is that nothing is left of it after death. In 2022, it is an excellent strategy for Canadians aged 65 or older who are paying taxes in highest tax bracket.

But now, if you have other assets to leave to family, this Insured Charitable Annuity is an excellent way to maximize your charitable legacy, while benefiting from charitable tax deductions on your insurance premium payments throughout your life. It

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really is about "having your cake and donating it too!"

For us, this strategy became apparent for the first time about 15 years ago, for a client interested in generating income from his non-registered savings. He didn't have family but wanted to leave a bequest to a charitable organization.

When we looked at the strategy for that client, the after-tax income generated was the equivalent of about double what market GIC rates were at the time, so it gave him a good return. He also knew that when he passed away, the original principal amount would go to the charity. When I look at that today, with regards to the charitable giving tax credits available and where our tax rates are and where GIC rates are for fixed-income investments, it's apparent that this thing really shines for the right people.

Without the charitable giving element (and accompanying tax credits), Annuity rates are right around GIC rates these days. The reason this strategy stands out is that the tax credit on charitable donations (made via premium payments) is worth between 46.41 per cent and 50.41 per cent, depending on your tax bracket. We use a rule of thumb that for every $2 you give to charity you can save $1 of tax.

Suddenly, the income this is producing, when you factor in the tax savings, the income is like it used to be in the old days. When we calculate the equivalent rate of return that we would need on a GIC or other fixed-income, when we 'gross-up' the net return to achieve a pre-tax equivalent return, we're getting numbers like 7 per cent to 10 per cent!

We ran several different scenarios for illustration purposes and measured the income generated. A 70-year-old non-smoker male could generate the pre-tax equivalent interest rate of 9.38 per cent annually from a $1 million Annuity. That return is guaranteed for life. Using the same strategy, a married couple, both age 80 and non-smokers, could generate return of 10.32 per cent. That's a great rate – well above market rates – with iron-clad security.

To sum up, , this a good strategy to consider if you're looking to get a good return on your money, and at the same time make a lasting difference to a cause or organization that you want to support.

### Is it right for you?

This strategy works best for people in their 60's, 70's and 80's. Whether it's the right approach for you depends on several important factors.

☛ Your age and health status

☛ Your eligibility for Life Insurance

☛ Your taxable income and marginal tax rate

☛ Your non-registered savings, and whether there is an amount you don't need to access during your lifetime, except to generate income

☛ Your wishes when it comes to the size of the legacy you want to leave to charity.

Keep in mind that you can leverage existing insurance to implement this strategy. For example, if you already have a permanent Life Insurance policy in place, you can assign it to a charity and continue to make premium payments that will become tax-deductible. Also, if you're in your 50s and thinking of implementing this strategy in the future, it may make sense to ensure that you have sufficient term insurance while you're younger and healthier. Just make sure that you choose a policy that can be converted to permanent insurance later on.

Especially when using an existing insurance policy to implement this strategy -- but really in all cases -- we'll obtain tax advice to make sure we have considered

## Guaranteed For Life

**Pre-Tax Equivalent Interest Rate**

| Age | Male Single % | Female Single % | Married Couple % |
|---|---|---|---|
| 50 | 6.56 | 6.37 | 6.02 |
| 55 | 7.17 | 6.93 | 6.44 |
| 60 | 7.72 | 7.39 | 7.07 |
| 65 | 8.2 | 7.96 | 7.70 |
| 70 | 9.38 | 8.76 | 8.36 |
| 75 | 9.92 | 9.67 | 9.39 |
| 80 | 7.79 | 9.41 | 10.32 |

**Healthy, non-smokers, paying tax at the highest rates in Ontario, and can utilise the full value of the donation tax receipts.**

***Rates subject to change daily.***
***Prepared using rates available in March and April 2022.***
***E & OE***

every potential tax impact on your personal situation.

And remember that your term Life Insurance, which will increase in cost and eventually expire, can be converted fully or partially into a permanent Life Insurance policy with no medical underwriting required. So don't cancel your term policy before you speak with us.

Make the time to explore how you can best realize your charitable objectives, while ensuring you also meet every other financial planning goal.

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*The "eat your cake and donate it too" strategy in four steps*

*Step 1: Apply for permanent Life Insurance and assess the premium cost.*

*Step 2: Get quotes for annuities and assess the income offered.*

*Step 3: If everything is satisfactory, accept the insurance policy, assign it to the charity of your choice after confirming it will accept this type of donation, and then pay the first insurance premium, which will result in a charitable donation tax credit.*

*Step 4: Purchase the Annuity and (if you wish) set up automatic premium payments from the bank account into which your Annuity income is deposited.*

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Don't do this alone. We look forward to helping you maximize your philanthropic footprint. There are many great ways to help reduce taxes now and, in the future, but putting them together requires comprehensive estate planning and knowledgeable people. Proper planning will ensure that you are not only on the right side of CRA, but also that your plans to work effectively.

Our advisors across Canada are available to help you preserve your hard-earned money with a meeting on the phone, Skype or through Zoom.

Please be in touch to arrange a personal, no-obligation consultation. ❏

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Mark Halpern is one of Canada's top life insurance advisors, a Certified Financial Planner (CFP), Trust and Estate Practitioner (TEP), Master Financial Advisor-Philanthropy (MFA-P) and CEO of WEALTHinsurance.com

He guides successful business owners, professionals, and affluent families through the complex process of ensuring the people and organizations they care about are taken care of. If you are like his other clients, you are looking to reduce your tax obligations, preserve your wealth and leave a legacy.

Mark collaborates with your professional advisory team to achieve your desired outcomes. His simple approach makes sure what is important to you gets done. He will suggest appropriate strategies to get your financial affairs meticulously organized, help you take action, and simplify the complicated so you and your family can rest easy.

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Get your FREE Estate Planning Toolkit at WEALTHinsurance.com/toolkits.html

The 2022 Toolkit now includes:

-Estate Directory

-Estate Planning Checklist

-Executor Duties Checklist

-Business Owners Planning Guide

Visit WEALTHinsurance.com and sign up for free updates.

Please visit our new website WEALTHinsurance.com

Watch "The New Philanthropy", my recent "Ted Talk" at Moses Znaimer's ideacity conference http://bit.ly/MarkHalpern

Mark's corporate goal is the creation of $100 million in new charity each year working with clients, generous donors of non-profits and collaborating with allied professionals.