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Your Guide to Tax-Saving Strategies

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ESTATEPLANNING

GPS - Gift Pension Strategy™

Pension for you, legacy gift for charity

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A long-time client passed away a few weeks ago. Sandra had just turned 100, and was a beautiful, amazing, inspiring person – a genuine Renaissance woman who remained relatively healthy and independent until the end. May we all be so fortunate, and may we all leave as many people as possible with wonderful memories of the moments we touched their lives.

She was introduced to me 25 years ago by another advisor. A wealthy widow whose husband left her a large sum of money, she

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wasn't sure how to structure a guaranteed, steady, dependable income from her assets. We introduced her to the concept of a Back-to-Back Insured Annuity.

This approach combines the advantages of a prescribed annuity and Life Insurance to generate guaranteed income for life – however long you live – with zero interest rate risk or market risk.

At that time, she received a reliable annual pre-tax income of 12 per cent she could count on, no matter what. Meanwhile, the Life Insurance component kept the money she used to purchase the annuity intact, allowing her to pass the entire sum back to her beneficiaries, completely tax-free.

Interest rates today, lower than they were then, have risen from record lows. It's now possible to generate income of about 6-8 per cent before tax from a Back-to-Back Insured Annuity, depend-

ing on one's age. We developed the GPS - Gift Pension Strategy™, which combines the best elements of a prescribed annuity, Life Insurance, philanthropy, and tax to benefit you during your life, and your beneficiaries, and favourite charity. Using this strategy, you can get rates well above nine per cent, a difference that matters a lot when you're investing a large sum.

Let's use the example of a married couple, Barb and Ian, both age 70. Here are four ways to achieve their income, estate planning and philanthropic objectives. They are paying tax at the highest rates and have a life expectancy of 85. Their primary goal is philanthropy, and the first option below generates a guaranteed lifetime income that's quite similar to the income our earlier client, Sandra, enjoyed for so many years.

1. Legacy gift and lifetime pension

This one's the simplest. Barb & Ian can use \$1 million of non-registered money (money that isn't invested in RRSP or RRFs) to purchase a prescribed annuity. They use the cash flow to acquire a \$1 million Life Insurance policy that will be owned by a charity, their Private Foundation, or a Donor-Advised Fund (DAF). The net result is a pre-tax income of 9.4 per cent for life which is akin to creating a very healthy and secure pension of about \$47,000 each year after taxes. At

the same time, the Life Insurance policy will ensure charitable causes receive the full \$1 million after the second spouse dies.

2. Legacy gift and annual gifting

But what if our couple doesn't need the extra income? They can donate that \$47,000 to the charity every year for as long as they live, reducing their annual taxes further and providing a reliable source of funding for a cause they believe in. If they both die by age 85, they will have given the charity a total of \$705,000 plus the \$1 million Life Insurance policy, which amounts to more than \$1.7 million. Accounting for their tax savings, the net cost will amount to \$640,000.

3. Legacy gift and second larger legacy gift

This option leverages the annual gifting to provide an additional, larger legacy gift to charity. Instead of immediately providing the charity with that \$47,000 a year, that money can fund a second Life Insurance policy for \$1.7 million. They'll save substantially more on their annual tax bill because they're paying for a further Life Insurance policy that belongs to the charity. In this case, however, upon their death the charity will receive \$1 million plus \$1.7 million = \$2.7 million. Accounting for their tax savings, the net cost for this will be \$640,000.

4. Legacy gift and family inheritance

We always say that charity begins at home, so I love this variation we call the "Charitable donation replacement strategy". This time, the couple still uses \$1 million of non-reg-

istered funds to acquire a prescribed annuity and a \$1 million Life Insurance policy. The \$47,000 a year is used to purchase a \$1.7 million Life Insurance policy with their FAMILY as the beneficiary. Ultimately, the charity receives \$1 million as a planned legacy gift through the Life Insurance, and the family receives \$1.7 million tax-free.

Because the second policy for \$1.7 million doesn't belong to the charity, there are no annual tax savings based on the premiums. The result is a very generous donation plus a very meaningful bequest to family members. To see it by the numbers, the donor would have had to receive a pre-tax compounded rate of 10 per cent on their \$1 million to create the \$1.7 million for their family after 15 years and the bonus is that there is still a \$1 million legacy gift payable to their favourite charity, private foundation or DAF.

Our \$1 billion a year planned legacy-giving initiative

We're making great progress on our goal as a professional practice to create \$100 million a year in new legacy gifts to charity by implementing strategies like the GPS in partnership with clients, charities, and allied professionals. We are also expanding our reach by developing a network of 100 like-minded professionals and charities across Canada who would like to set their own \$10 million a year goals. That will get us to \$1 billion a year, and we know we can get there with support from people just like you. If you're inter-

ested in joining this ambitious effort to maximize the charitable impact of each and every generous donor, please get in touch. We'd love to hear from you.

This is not a DIY Project

Our advisors across Canada are available to help you preserve your estate for your family and the causes you care about, often by converting taxes to charity. We look forward to helping you. ❑

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. Mark can be reached at 416-364-2929, toll-free at 1-866-566-2001 or Mark@WEALTHinsurance.com

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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.