

CHARITABLE DONATIONS OF LIFE INSURANCE

*Guidelines for
Canadian Donors*

MARCH 2021



ACKNOWLEDGEMENTS

These best practices materials have been developed to provide guidance and support for donors, charities, advisors and insurers wishing to make charitable gifts of life insurance.

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OVERVIEW

This set of documents has been designed to assist donors, charities, insurance advisors and life insurers with the donation of life insurance policies to Canadian charities. It has been developed by the Canadian Association of Gift Planners in conjunction with the life insurance industry to help all parties mitigate risks, better protect consumers, and ensure that high-quality gifts of insurance are made to charities.

This Charitable Donations of Life Insurance Package consists of four Guides :

- *A Guide for Canadian Donors*
- *A Guide for Canadian Advisors*
- *A Guide for Canadian Charities*
- *A Guide for Canadian Insurers*

As best practices guides, all materials are optional, however **CAGP encourages each party to ask the other parties to follow their respective guides throughout the process.**

The first three guides listed above contain optional signature forms that will allow each party to document for their compliance records that best practices have been followed, should they wish.

These guidelines are applicable to both transfers of policies and the setup of new charitably-owned policies.

Additionally, other guideline resources available include:

- Understanding Tax Receipting for Charitable Gifts of Life Insurance
- How to use Life Insurance as a Charitable Gift
- What is Insurance Trafficking?



GUIDELINES FOR CANADIAN DONORS

This information package is designed to assist you in making an informed decision when donating a life insurance policy to a Canadian charity. This resource has been jointly developed by the Canadian Association of Gift Planners (www.cagp-acpdp.org), and the insurance industry.

In addition to this document, there are information resources available for charities and insurance advisors at www.cagp-acpdp.org. It may be helpful to ensure the charity and your insurance advisor are aware of these documents to assist in making your donation work as smoothly as possible.

Your advisor and/or charity may wish to keep a record that they provided you with a copy of this document prior to your donation. If so, please complete the following information and send a copy to them.

Insurance Company: _____
Policy #: _____
Date: _____
Donor Signature: _____

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Thank you for considering a gift of insurance to charity!

Life insurance can make a wonderful gift to a charity, if done for the right reasons, and structured properly. The gift you are contemplating may make a significant and transformational impact for the charity of your choice.

This document is specifically for situations where you intend to have the charity become the owner of your life insurance policy.

Life insurance gifts are more complicated than just giving money directly to a charity. They often involve making a long-term commitment to the charity you are donating to in the form of ongoing premium payments.



GUIDELINES FOR CANADIAN DONORS

Additionally, from the charity's perspective, there are some extra regulatory and due diligence steps that are required before the charity can accept your generous gift. This document has been designed to help you be fully informed about your gift, and help make the communication between you, your insurance advisor and your charity of choice work more effectively and efficiently.

Most importantly, this document is designed to empower you through education, and help you know what questions to ask your advisor and the charity during this process.

Questions to ask your insurance advisor:

You should ask yourself these questions, and approach your advisors (and in particular your insurance, financial and/or financial planning advisors) for answers to the following questions:

- 1. What impact will there be on my own financial and estate plans if I gift this policy to the charity?*
- 2. Can I afford to pay future premiums, if required?*
- 3. Are there any conflicts of interest or relationships between my insurance advisor and the charity to which I am donating?*
- 4. What are the tax implications if I transfer the policy?*
- 5. If my policy is more than 3 years old, should we request a Fair Market Valuation (FMV) assessment of the policy to see if it might be eligible for an increased amount on my tax receipt? (See the document "Understanding Tax Receipting of Charitable Donations of Life Insurance" included in this package for more details.)*

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Questions to ask the charity:

1. *Will the charity provide me, in writing, with an agreement on how my policy will be used, agree to keep the policy in force, and to not sell the policy to another party?*

2. *I understand that I will be entitled to a tax receipt for any future premiums that I will pay after I donate the policy. If I do not wish to pay future premiums, will the charity be okay with my decision?*

3. *Is the charity willing to accept my gift of insurance?*
 - a) *For existing policies that you may have had for some time, it is important to know that a policy that was designed for an individual, may or may not be designed in such a way that it would make sense for a charity to accept the gift and become the owner.*

 - b) *If I am setting up a new policy, does the charity have a type or structure of policy that would be preferred? This is important information for you and your insurance advisor to know before applying for the insurance.*

An important note about talking to the charity:

It is vital to have a conversation with the charity when making a gift of this type. The charity may have policies around accepting a gift of insurance that need to be followed.

As a donor, you should always speak directly with the charity about your gift and its purpose, and not just rely on your insurance advisor or other third party to act on your behalf.

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Questions to ask yourself:

1. *Do I have a relationship with the charity to which I am giving? (Be aware that many charities may be reluctant to accept a gift of this type if you have no clear history or connection with them, especially if it involves a long-term commitment to paying ongoing insurance premiums. Every charity will have a different comfort level, so it is very important for you – and not just your insurance advisor – to talk to the charity directly about your intent to give.)*
2. *Has the charity suggested I get an independent opinion from my financial planner, lawyer, and/or accountant before making the gift?*
3. *Have I left a note to my executor or estate trustees to let them know that they should inform the charity when I pass away?*
4. *Have I let my family know about this gift, if appropriate, so they know to notify the charity when I pass away?*
5. *Are the ongoing premiums I may be paying affordable, and make sense in the light of my own financial plan?*
6. *What will be the impact on my current beneficiaries if I donate this policy?*

An important consideration if you have an existing irrevocable beneficiary:

If your policy has an irrevocable beneficiary, you may require their consent prior to donating the policy to charity, or making any changes to the policy. Donors who live in Quebec should take special note of this, as if your spouse is named as beneficiary, they are most likely an irrevocable beneficiary under Quebec law, even if not explicitly stated as such.

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Protecting yourself as a Consumer and Donor

While rare, there are situations where you may feel pressured or induced to make a gift of your life insurance policy by a person or third-party organization. This should be an immediate red flag to you as a donor. To help you be better informed, please read through these examples.

You should never feel pressured by any party to make a donation of life insurance or any other property to a charity.

Examples of legitimate charitable gifts of life insurance

Javier has decided to donate his life insurance policy to his local community foundation. He has a signed Gift Agreement with the charity, with clear instructions on how his gift will be used to support charities he has donated to in the past. Javier will continue to pay premiums on the policy and receive a donation receipt for each payment.

Susan would like to donate her policy to a hospital that cared for her husband for many years. She has worked with her insurance advisor and the charity representative to ensure that the gift makes sense for both her and the charity.

Ashanti is thinking of cancelling her permanent insurance policy as she no longer needs it. Her advisor has suggested that it might be worthwhile for her to think about donating it to a charity with which she has a personal connection, and suggests she first talk to someone at that organization before cancelling the policy.

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Donations of insurance that are likely problematic

Jon’s advisor has suggested that he purchase a new insurance policy which is to be owned by a charity that Jon has never heard of, and with which he has no relationship. Jon’s advisor would like Jon to “lend” his life to that charity, and talks about the tax benefits if Jon donates. The advisor has also offered to subsidize the premiums on the policy themselves.

A charity has been aggressively approaching Bridget, telling her that she can donate a life insurance policy to them and get tax and other benefits. She has received numerous calls and emails from the charity representative. The charity has never advised her to get independent advice.

Paul is a board member for a local charity, and a fellow board member sells life insurance. The insurance advisor would like to market and sell insurance to the other board members, as well as donors, and would like access to the contacts of the charity.





CANADIAN ASSOCIATION OF GIFT PLANNERS

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