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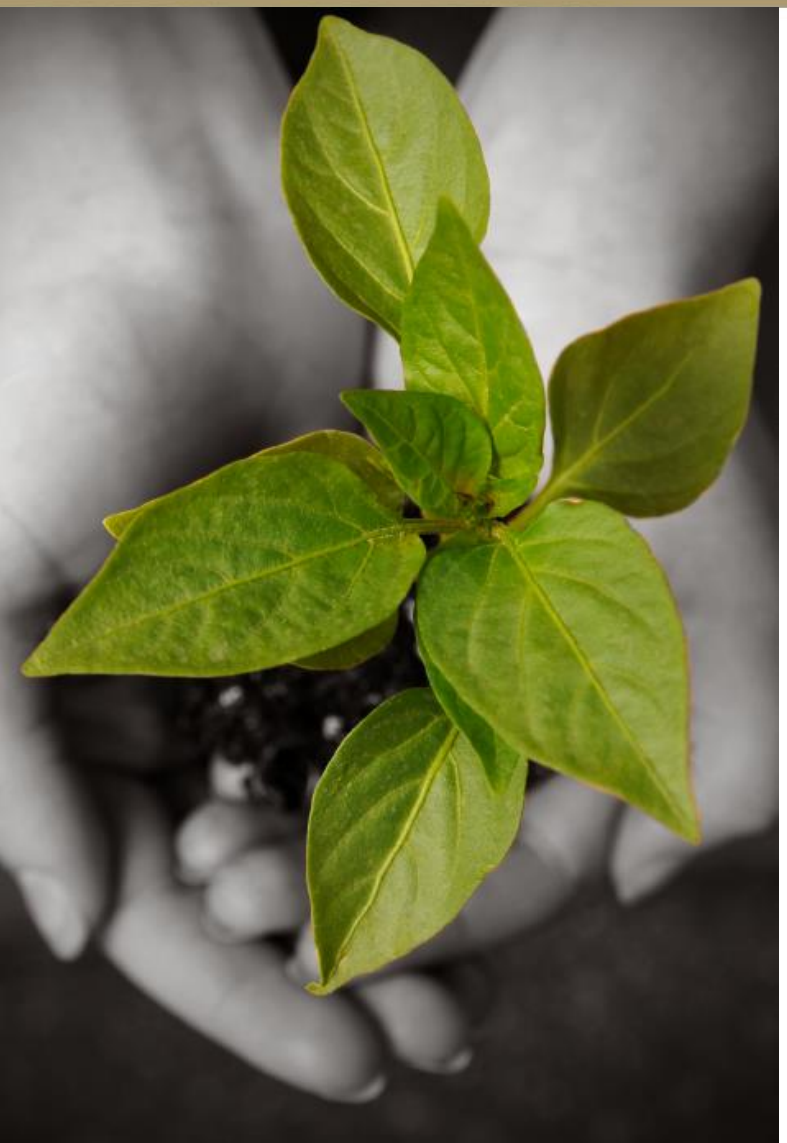
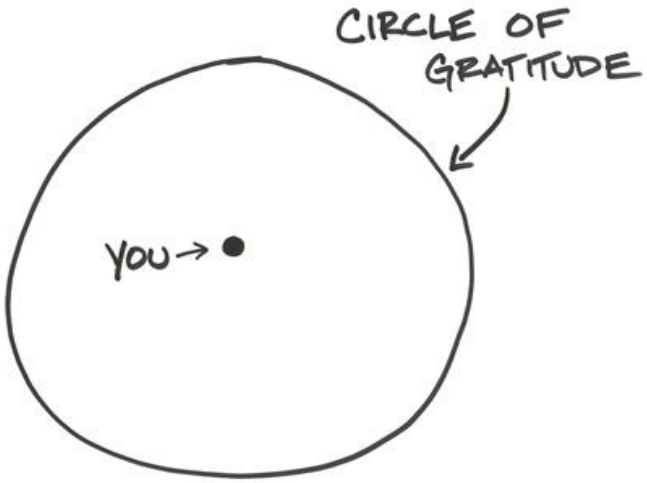


Planned Giving Strategies

Don Proteau, BCom, CFP, CIM
Senior Financial Planner
Assante Capital Management

www.proteaufinancial.ca



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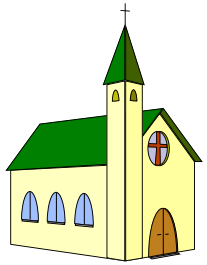
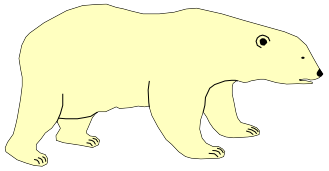
Planned Giving

From a *Wealth Planning* perspective, planned giving describes the design of charitable gifts made to registered charitable organizations to:

- **maximize tax advantages**
- **maximize estate planning opportunities**
- **maximize size and value of charitable donations**





Creating a legacy

- Canadians do have a choice about how their estate will be handled, and the taxes that will ultimately be payable

- Proper estate and tax planning can redirect money to loved ones and/or charities that would otherwise go to taxes.

Concept overview

Options to consider:

Ways to Leave Your Legacy:

- Bequest
- Securities
- Life Insurance
- RRSP's/RIF's
- Annuities
- Charitable remainder of trusts
- Residual Interest
- Segregated Funds

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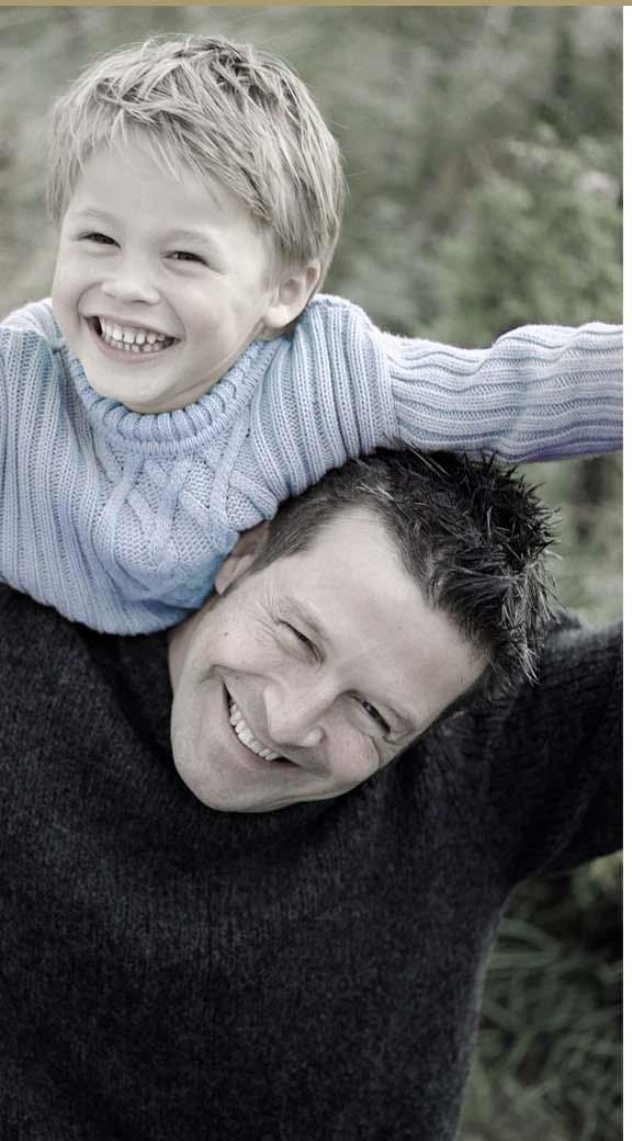

Bequests

General Bequests

are legacies left to certain people or causes that come from the general value of the estate, and are made by designating a specific dollar amount, a particular asset or a fixed percentage of your estate to the cause of your choice.

Specific Bequests

are made when a particular item or property is bequeathed for a designated purpose. (i.e., instruments bequeathed to the local school district for use in music education; dollar funds to be used in the operation of a school or church.)

Residuary Bequests

are made when you intend to leave the residue portion (any left over property) of your assets after other terms of the will have been satisfied.

Contingency Bequests

allow you to leave a portion of your estate to a particular charity if your named beneficiary does not survive you.

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SECURITIES

What are “Public Securities”?

- Shares in publicly traded companies
- Debt obligations or rights listed on a prescribed stock exchange
- Shares of a mutual fund corporation or
  units of a mutual fund trust
- Interests in a segregated fund trust

If donated “in kind” to charity no capital gains tax charged to donor!

Donor gets 100% of market value as charitable tax deduction!

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Life Insurance

Maximizing the size of the legacy you leave

- Life insurance products can significantly increase the size of the legacy you leave
- Tax changes have made life insurance an increasingly valuable planning tool
- The ownership of the life insurance policy determines tax treatment

Life insurance tax treatment

There are 2 main plan designs in charitable life insurance strategies…

Policies owned by the charity have premiums which are ***tax deductible*** each calendar year

Policies owned by the donor have a death benefit which is fully ***tax deductible*** to the client's estate

Let's quickly review each……..

Multiplying the value of the legacy

- A 55 year old couple gives $5000 per year to their favorite charity, and expect to do so for the next 20 years
- The total value of the gift will be $100,000
- An equal amount of "premium" will purchase ***$550,000 of life insurance*** (Owned by the charity)
- Donor tax deduction will remain $5000 per year

Offsetting Estate Tax

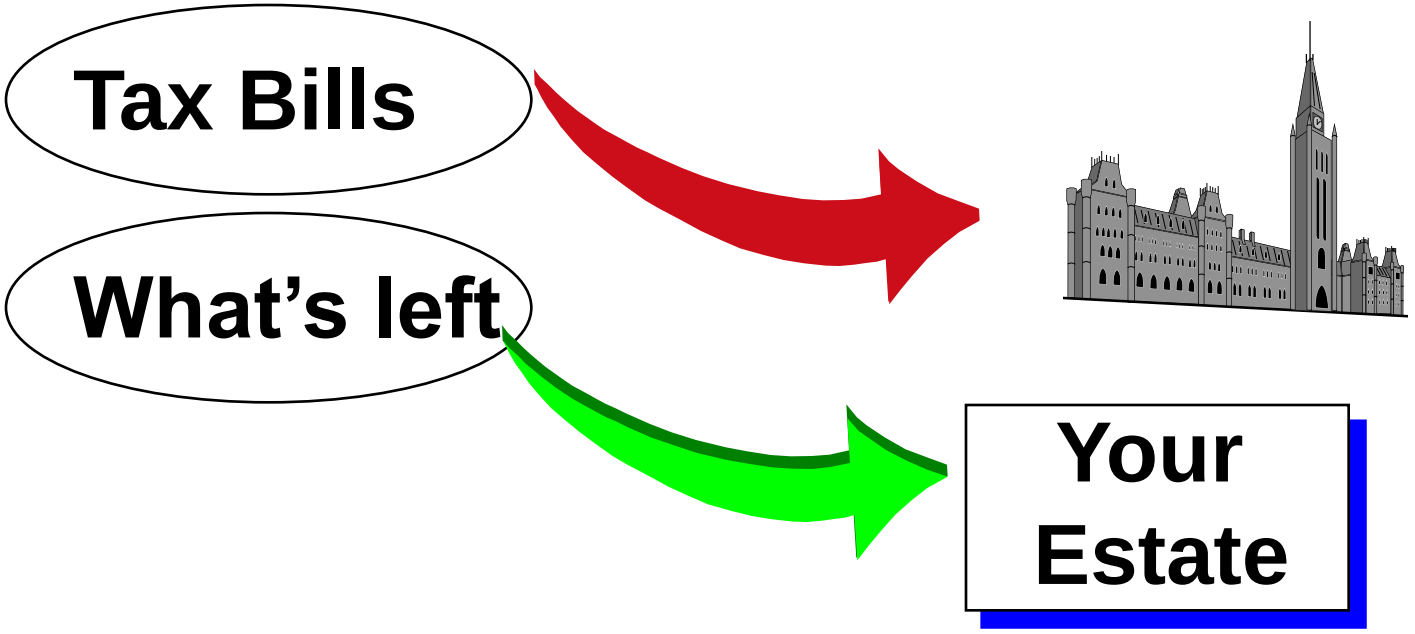
- John and Jane are 65 years old
- They would like to leave their assets to the children and grandchildren, but also are interested in giving to their favorite charity
- They would be interested in reducing estate tax at death (they are Canadian)

John and Jane Doe

Asset	Cost base	Value	Taxable Gain
Home	$150k	$350k	0
Cottage	$ 50**k**	$250k	$100,000
RRSP/RRIF		$400k	$400,000
Jt. Assets	$150 k	$250k	$ 50,000
		$1,150k	
Total Gains			**$550,000**

Do Nothing

- Revenue Canada can receive as much as 50% of your assets at death depending on the type of assets and your beneficiary.



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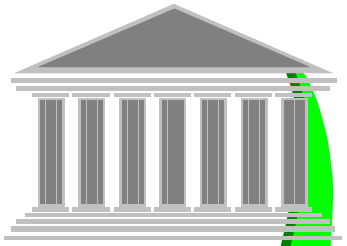
Typical Insured Estate:
Create Capital to Replace What is Lost

Assets for heirs at Death

Tax

Insurance



Equal to Tax

ESTATE

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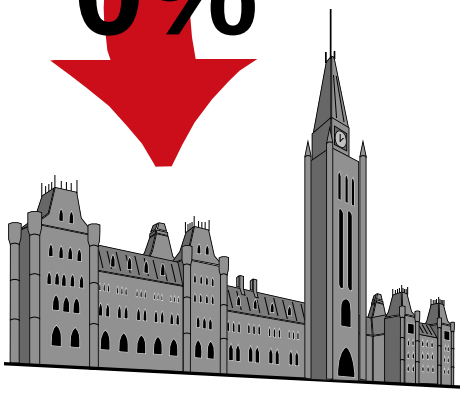
Charitable Insured Program: Create Capital to Disinherit CRA

Assets for Heirs at Death

0%

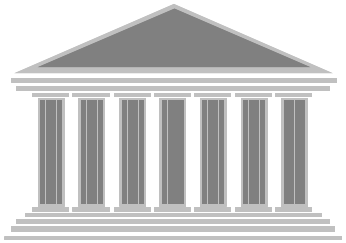


100%

ESTATE

Charitable Credits

Insurance



$550,000

Their favorite Charity

Charitable giving to offset estate taxes

- Most assets pass between spouses with no taxation
- All assets are deemed to be disposed of on the death of the second spouse and taxes are due
- Life insurance can be used to ***eliminate the taxes*** due at the estate level

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What Have You Accomplished?

- **To Revenue Canada $ 0**
- **To Your Favorite Charity $ 550,000**
- **To Your Heirs $1,150,000**

To significantly increase the size of their estate (due to tax savings) and disinherit Revenue Canada the cost is approximately $135,000.

(Using a Guaranteed policy paid up for life with 3 annual deposits of $44,720 each)

Be Aware:

- Must be insurable for new insurance policies.
- Can modify exiting policies and or look at joint and last policies between spouses.

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RRSP's and RRIF's

RRSPS or RRIFs

Gifts of retirement plans are made when you name a charitable organization of your choice as a beneficiary. This means that upon your death the organization would receive the proceeds and your estate will receive a charitable receipt. This receipt will counterbalance the RSP/RIF tax receipt on your estate tax return, transforming any final tax liabilities you have when you die into a charitable gift.

Annuities

Charitable Gift Annuity

- A gift annuity enables a client to make an immediate gift rather than waiting
- Immediate tax relief is used to reduce the tax payable on other income
- Donor has the ability to receive tax reduced income

Charitable Gift Annuity

- Bill is 70 yrs old, and has several investments and pension income
- He is currently his retirement, and plans to give to his favorite charity when he passes away
- Bill has a GIC which is about to renew, the new rate will be 3% per annum
- Bill is currently in a 40% tax bracket

Why do gift annuities work?

- Bill can use his assets to give a gift to his favorite charity now, and use the balance to purchase a guaranteed life annuity
- The payments are made directly to Bill's account each month, guaranteed for life
- The monthly payment is tax efficient because it is "prescribed taxation"

Let's take a look at the numbers….

Gift Annuity Numbers

	3% GIC	Annuity Strategy
Investment	$100,000	$100,000
Income	3,000	4,210
Tax payable	1,200	303
Net Income	1,800	3,907
Donation Receipt	0	50,000
Net to Charity	0	50,000

Note: Bill's investment provided a **$50,000 immediate gift and $50,000** was used to fund the life annuity. The payments are guaranteed for a **10 yr** minimum.

Another gift annuity strategy

- Some donors will choose to take the extra income that comes from the annuity and purchase life insurance
- In Bill's case, he could choose an annuity that provides an income similar to the 3% GIC, and use the balance to purchase life insurance

Let's look at an example…….....

Insured Gift Annuity

	3% GIC	Annuity	Insured Annuity
Investment	$100,000	$100,000	$100,000
Income	3,000	4,210	6,180
Tax payable	1,200	303	445
Insurance Premium ($120k)			4,044
Net Income	1,800	3,907	1,891
Donation Receipt	0	50,000	30,000
Net to Charity now	0	50,000	30,000
Net to Charity later*		120,000	

Note: Bill purchased an annuity with **$70,000** of the capital, in order to increase his monthly tax free income. With the extra monthly proceeds, he pays for a "term to 100 insurance premium" for a policy on his life of **$120,000**

* Bill's estate will receive a tax deductible receipt for the full gift

Charitable Remainder Trusts

Charitable remainder of trusts

A gift of trust is made when you decide to make a charitable organization of your choice the secondary beneficiary to an irrevocable trust. The primary beneficiary (or the income beneficiary) includes you, and if applicable, your spouse. Throughout your lifetime or for a stated period of time you will receive a predetermined amount of the trust; upon death the charitable organization of your choice will receive the remainder of the trust.

Residual Interest

Residual interest

A gift of residual interest is made when you decide to give the property in which you reside or any other property (art, valuables etc.) to a charitable organization of your choice. You can continue to use and enjoy the property throughout your lifetime. You will receive a charitable tax receipt for the present value of the property when the gift is made. Upon death, the charitable organization receives the deed of the property.

Segregated Funds

- Similar to Mutual Funds but are sponsored by a life insurance company.
- Becomes a life insurance policy at moment of death. Totally flexible until death.
- Not part of estate so no probate tax and not subject to wills variation challenges.
- More expensive so should be used as part of comprehensive plan.

In Closing:

Start your Philanthropy Plan

- Be Proactive
- Ongoing Giving Plan
- Legacy Plan
- Magnify your giving impact
- Pay attention to permanence of decisions
- Dot I’s and cross T’s (get competent advice!)

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Thank You!

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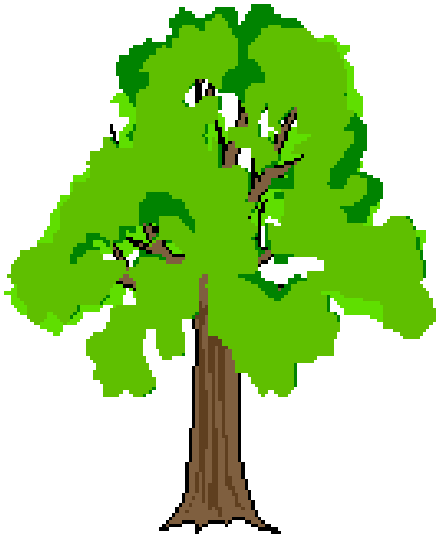
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