



Chapter 1

USING INSURANCE PRODUCTS TO MULTIPLY YOUR CLIENTS' GENEROSITY (AND CUSTOMER LOYALTY!)

“Everyone must leave something behind
when he dies...something your hand touched
some way so your soul has
somewhere to go when you die.
It doesn't matter what you do, so long as you
change something from the way it was
before you touched it into something that's like
you after you take your hands away.”

— Author Ray Bradbury in Farenheit 451

A Bequest Insurance client, Frank, approached us in 2014 about making a legacy gift to a small charity he has led and volunteered with for decades.

At age 71, Frank was examining his finances, knowing that he'd have to convert his \$42,000 registered retirement savings plan (RRSP) into a registered retirement income fund (RRIF), from which he must withdraw a percentage every year as taxable income. He and his wife knew they didn't need this income to cover present nor future expenses, or provide for their children. They decided to use the annual RRIF income as charitable gifts and if there were any remaining funds, they would gift any residue to the charity in his Will.

Bequest Insurance's financial advisors talked to Frank about his options. If he followed through with his plan, his mandatory RRIF withdrawals (an average of \$3,360 a year) would whittle all this money away in twelve and a half years, leaving nothing left to give as a bequest.

Frank asked what would happen if he cashed out his entire RRIF to make a one-time charitable gift. His advisor warned him that this money would all become taxable income and push him into a higher tax bracket, and increase his OAS pension clawback to \$6,553 that year. Also, after Frank paid the tax on his RRIF income, he'd only have \$29,400 left to donate. Frank quickly dismissed this idea.

Bequest Insurance's financial advisors offered Frank a creative solution that would allow him to leverage his registered savings into a much larger legacy gift for his charity – and cost him nothing to do so. Here's what we did.

We helped Frank make use of an insurance strategy called a "back-to-back" (or insured annuity). First, we helped Frank to purchase an insurance policy that requires premiums to be paid until Frank dies, because it would offer the greatest gift to

his charity. To ensure his pre-authorized premium payments are always covered, we moved his \$42,000 RRIF into a registered annuity. It generates \$3,360 in annual income for life, which is automatically deposited into the same account from which Frank's pre-authorized premium payments are taken.

Frank's annuity income pays for a life insurance policy that is immediately worth \$53,000 – an amount that will start to grow after a few years. Frank assigned his charity as the policy's owner and beneficiary, earning him a charitable tax receipt for the \$3,360 he pays each year in premium payments. His tax credits eliminate the income tax Frank must pay on his RRIF's annuity income, and also reduces a small amount of income tax on his other income, leaving him with an improved net income each year!

In summary, here's the real beauty of using insurance to give a charitable donation:

Frank turns \$42,000 in registered savings into a legacy gift of at least \$53,000. After a few years, the value of his policy is likely to grow by a few thousand dollars every year. If Frank lives to 100, his charity could receive at least double the amount of his original investment, and possibly much more. Because this type of donation is outside Frank's estate, it won't be diminished by probate-related fees or taxes.

Frank's policy is guaranteed never to lapse because his annuity income is directly deposited into the chequing account from which his premium payments are automatically withdrawn.

The death benefit from Frank's insurance policy will go to his charity within two to three weeks of the insurance company receiving the insurance claim.

In the end, Frank will be able to offer his charity so much more because he made his gift using insurance, instead of turning his mandatory RRIF deductions into annual donations and

assigning any residue to his charity in his Will.

Here is another way to look at what Frank's outcome could be:

Comparing possible outcomes	Frank donates annual RRIF income to charity	Frank buys an annuity and donates a life insurance policy
Frank's annual income	\$98,912	\$98,912
Annual taxes	(\$23,021)	(\$23,021)
OAS clawback	(\$4,098)	(\$4,098)
Charitable tax receipt	\$3,360/yr for 12.5 yrs	\$3,360/yr for life
Net income	\$71,793	\$71,793
Charity receives	\$29,400	\$53,000 to \$100,000+

Note: These simple changes were incorporated using Frank's existing assets and it costs him nothing. It's new business that helps solidify client relationships and helps fulfill the wishes of leaving a legacy with a greater impact!

So, if helping clients fulfill their goals — including creation of a meaningful charitable legacy — makes clients feel great and thankful to their financial advisors, why aren't more advisors asking their clients about their philanthropic goals?