The Christmas Gift That Lasts A Lifetime

Rino Racanelli

As an independent insurance advisor, I'm always looking for new ideas to share with my friends and clients. New ideas related to insurance plans aren't easy to find, but I did come across an interesting concept during one of my recent seminar outings to the United States. The seminar focused on estate planning for business owners and several guest speakers shared their expertise on estate succession planning. One of the speakers shared an estate planning idea that grabbed my attention almost instantly. He talked about how a grandmother purchased a life insurance policy, and then converted that policy into a lifetime of Christmas gifts for her grandchildren. She gave them a gift that lasts a lifetime and truly comes from the heart.

In an interesting survey conducted by a U.S. college, elderly people in their 90s were asked to report three things they would have done differently if they were given the opportunity to relive their lives. Their top two responses were to take more risks and try to smell the roses along the way. Their third desire explains the growing interest in this wonderful concept: they reported their wish to do something that would live beyond them. They would do something to ensure their immortality.

Let's consider an example to see how you can satisfy this desire while strengthening your estate planning strategy.

Meet Ruth, a grandmother, who is close to her family and loves being a grandmother. She has stable income from her Old Age Security and Canada Pension Plan and she has a safe level of accumulated assets. She is not rich by any means, but she is comfortable. Ruth loves her grandchildren, but unfortunately they moved away.

The first Christmas after her grandchildren moved to another city, Ruth sent clothing because she still knew the children's sizes. The clothing is accompanied by a love letter. It tells the grandchildren that she wishes she were with them and ends with the three magic words: I love you.

After the first few years, Ruth stopped sending clothes, toys, and so forth, because she didn't know the kid's sizes or interests. Those gifts are replaced with a cheque, and, of course, the love letters that are truly her most important gift – the gift that comes from her heart.

Let's look down the road. What happens when Ruth passes away? The cheques stop coming and there are no more wonderful love letters. Her grandchildren are accustomed to hearing from her and receiving her hug through the mail. Alas, this year, when the letter carrier arrives, the grandchildren find no envelope from Ruth in their mailbox.

How can we make this a happier scenario?

The solution is for Ruth to begin writing two cheques annually. One goes to the family each Christmas, accompanied by grandma's love letter. Nothing changes here. The second cheque goes to a life insurance company which produces a policy on grandma's life. Ruth pays the policy for only ten years and the policy is put in a trust.

When Ruth passes away, something wonderful happens in the trust. There is an explosion of value as the policy turns into a large amount of cash. The cash is invested by the trustee according to the rules established by Ruth. Each year, the trustee distributes the earnings to Ruth's heirs. That means that every Christmas for the rest of their lives, Ruth's grandchildren will receive a cheque. The amount of the cheque is not important. The fact that it arrives is what counts. The cheque may even be sent to individuals who were not yet born when Ruth set up the plan.

Impressively, a love letter still accompanies the cheques (Ruth signed dozens of letters, which are sent by the trustee). Even though Ruth has passed away, her grandchildren will continue to receive a cheque and her love letter every Christmas for the rest of their lives!

We can also imagine a similar scenario without a trust. Ruth can instruct the insurance company not to pay her beneficiaries (grandchildren) a lump sum of cash, but instead purchase a life annuity for them. This life annuity guarantees her grandchildren will receive a cheque from her every Christmas, birthday or other special annual event of Ruth's choosing. And, as in the previous scenario, she can instruct the executor of her will to send her pre-signed love letters with the annual cheques.

With a Trust

Ruth could set up a testamentary trust in her will. A testamentary trust becomes "active" only when Ruth passes away. The testamentary trust will then create a legal relationship between the testator (Ruth), the trustee (the executor of Ruth's will) and the beneficiaries of the trust (in this case her grandchildren). The terms of the trust could provide payment of income to her grandchildren. The testator would instruct the trustee to purchase a life annuity for her grandchildren that would give them an annual income (Christmas gift every year) for the rest of their lives. For example, let's say Ruth wants to send her grandson a Christmas gift every December 25th for as long as her grandson lives. She sets up a testamentary trust and Ruth purchases a life insurance policy on her life for the $25,000 coverage. She instructs her trustee to purchase a life annuity on her grandson's life upon her death. When Ruth dies the trust receives $25,000 and is instructed to purchase a life annuity on her grandson's life. At the time of Ruth's death her grandson is 10 years old. The life annuity is purchased and the grandson receives a cheque every December 25th for the rest of his life in the amount of approximately $1,000. The testator could also sign dozen's of love letters telling her grandson how much she misses him and how much she loves him. The trustee is instructed in the trust to send these love letters grandma signed every December 25th accompanying the cheque.

Without a Trust

The exact scenario can be played out without the trust. The only difference is the life insured (Ruth) instructs the life insurance company that the death benefit will be paid to her grandson not in a lump sum but with a yearly annuity payout option.

A life income option - The beneficiary is guaranteed an annual income as long as he lives. The insurance company determines the payment amounts based on the age and gender of the beneficiary. If the beneficiary dies, the insurance company retains the balance amount. The difference here is that Ruth needs to find an executor to distribute her love letters to her grandson every year. She has no trust established that has specific instructions.

Whichever option Ruth chooses, she receives an opportunity to grasp immortality. What will Ruth's grandchildren and great-grandchildren think of the arrangement? Well, imagine how you would react. Wouldn't you be impressed and pleased to receive cheques and letters from a relative who lived fifty years ago? This concept truly allows immortality to become a cornerstone of any estate planning strategy.

Rino Racanelli, B.Sc., Independent Insurance Advisor,
MRH Financial Services, Oakville, ON (416) 880-8552,
racanelli@sympatico.ca, www.backtobackannuities.com