It is my pleasure to present to you the first Faculty of Engineering Legacy Newsletter.

As the Faculty’s gift planning specialist I work with other estate planning professionals such as lawyers, accountants, and financial planners. The intent of the newsletter is to provide you with valuable information from a variety of individuals in the legal, accounting and financial planning professions. The focus is to provide a service to our alumni, to offer ideas from a variety of sources on legacy giving, charitable estate planning and estate planning in general. In the future we also intend to feature stories about how legacy gifts have benefited our students, researchers, and enhanced our service to the community.

I hope you enjoy the newsletter and invite you to provide comments, recommendations or share a story about what legacy giving means to you. You can also send legacy giving stories that have made an impact on you, your family and your community.

I would like to thank the following contributors to the first issue of the U of A Faculty of Engineering Legacy Newsletter:

Doris Bonora, LLB, Reynolds Mirth Richards & Farmer LLP, Edmonton, AB
John Kok, CFP, CLU, CHFC
President, Navigator Financial, Edmonton, AB
Trevor Temke, CA
Myers Norris Penny, Edmonton, AB
Tom McLean, P.Eng., CFP, B.Sc. Mechanical ’70
Wellington West Capital, Victoria, BC
Anton Rotzinger, B.Sc. Electrical ’63, Thornhill, ON

Introducing the U of A Faculty of Engineering Legacy Newsletter

A Moment to Share

Nena Jocic-Andrejevic
Gift Planning Counsel, U of A Faculty of Engineering

At the November, 2009, Gift Planning seminar in Toronto, one of our alumni, who came to Canada as an immigrant in the early ’60s, attended the session and noted the following:

“Over the past century, we, the engineering alumni had much to do in creating and building assets upon which this country’s wealth is based. Donating to the Faculty of Engineering at the University of Alberta is not about charitable giving. It is about investing in the next generation. It is about ensuring Canada continues to be a wealthy nation! We, who have benefited from an engineering education at the University of Alberta and built our careers, owe it to the future of this country to invest in those who will grow and expand this wealth – the future engineers.”

Anton Rotzinger, Electrical ’63

We make a living by what we get, but we make a life by what we give.”

Winston Churchill
**LEAVING A LEGACY**

John Kok, CFP, CLU, CH FC  
**President Navigator Financial**

One of my favourite speakers, Dr. Tony Campolo, commented on a survey where 50 people over the age of 95 were asked "If you had it to do over again, what would you do differently?"

There were numerous answers but one set of answers came up repeatedly. These people said that if they had it all to do over again, they would reflect more, risk more, and do more things that would live on after they were gone.

Unfortunately one of the great tragedies of life is that we are old before we know it and we find that our regrets start to take the place of our dreams. Is it too late? Can we be like Ebenezer Scrooge and get a second chance? Sure—why not?

In my work as an estate planner, I find that I'm in a great position to show others how to make the most of their opportunity to make a difference and leave a legacy. I think it starts with satisfying them that we can do this without taking away from their quality of life. We can do this through the employment of the Income Tax Act and insurance products like annuities and life insurance.

As part of this article I want to focus on how Life Annuities can be very effective as a means of leaving a legacy, both to the benefit of the donor and to the benefit of the charity.

**Life Annuities: The Comeback of the Year**

Everyone likes a good comeback story and this is a pretty impressive one. A few years ago it didn’t seem like anyone was interested in one of the oldest products of all time, the little-known life annuity. Who would be interested in a guaranteed lifetime income when the stock market had so much more to give? Fast forward to the aftermath of a disastrous stock market and we find the life annuity story with its guarantees much more compelling.

Investment portfolios have significantly shrunk and it is one thing to stay the course when you’re younger but what about people who need income from those investments now? It would be very wise to defer taking income from your equity funds presently if you have other sources of income. When the stock market recovers, it may be time to reconsider one’s investment portfolio and include a healthy portion of guaranteed investments.

Let's take a look at how the life annuity works. It is an investment contract purchased through the exchange of a lump sum of capital for an income that is guaranteed for life. Pension plans in Canada are based on the annuity model. Annuities can be purchased with registered funds (i.e. RRSPs, RRIFs) but for our purposes, we want to look at annuities purchased with non-registered money (GICs, inheritance, windfall). Here are three types of annuities.

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### GIC vs. Insured Annuity

<table>
<thead>
<tr>
<th>GIC</th>
<th>Insured Annuity</th>
</tr>
</thead>
<tbody>
<tr>
<td>$500,000 Initial Capital</td>
<td>$500,000</td>
</tr>
<tr>
<td>4% Annual Investment Rate</td>
<td>N/A</td>
</tr>
<tr>
<td>$20,000 Gross Annual Income</td>
<td>$36,678</td>
</tr>
<tr>
<td>$20,000 Taxable Portion</td>
<td>$11,978</td>
</tr>
<tr>
<td>($8000) Tax Payable (at a 40% marginal tax rate)</td>
<td>($5558)</td>
</tr>
<tr>
<td>$12,000 After-Tax Income</td>
<td>$31,168</td>
</tr>
<tr>
<td>N/A Annual Insurance Premium</td>
<td>$12,600</td>
</tr>
<tr>
<td>$12,000 Net Annual Income</td>
<td>$18,568</td>
</tr>
<tr>
<td>N/A Difference in Annual Income</td>
<td>$6568</td>
</tr>
<tr>
<td>Increase Over GIC Yield</td>
<td>54.73%</td>
</tr>
</tbody>
</table>

This chart has been prepared to help you understand how insured annuities work compared to a GIC or term deposit. The values shown in the annuity are guaranteed while GICs can fluctuate in value. E.&O.E.

As I thought about it, I realized how great these answers are. We don’t spend enough time reflecting on matters but instead rush around doing all the things that we think people are expecting of us. We don’t generally like to take risks because what if we failed? How is that going to look? As to doing more things that live on after we are gone, well maybe we can get around to that later.

As part of this article I want to focus on how Life Annuities can be very effective as a means of leaving a legacy, both to the benefit of the donor and to the benefit of the charity.
Prescribed Annuities
Payments are a blend of principal and interest payments with the owner paying tax only on the interest portion. The older one is, the greater the annuity pay-out and the smaller the tax payment. You could end up with a guaranteed 8 per cent for the rest of your life, maybe even more.

Insured Annuities
The big criticism leveled against annuities has been the loss of capital to the estate should the annuitant die early. Sometimes it comes down to a parent’s need for income versus a child’s desire to receive a larger inheritance. The insured annuity concept can create a win–win scenario as it provides the return of the capital that was used to purchase the annuity. It does this by having the annuitant qualify for life insurance and paying for it out of annuity proceeds. The net result is more income, less tax payable and a total restoration of the capital at the death of the annuitant. This can be done even more effectively in the case of married couples, even if one of the spouses is difficult to insure. Who wouldn’t want more income, pay less tax and still provide all of the capital to their children when they die? (See example on previous page.)

Charitable Annuities
This is an interesting idea for those who want to help out their favourite charity and still get a better result from their capital than leaving it on deposit at the bank. Through this method, we can provide a gift to the charity of 25 to 50 per cent of the capital and still leave the donor with more income guaranteed for life. As per table on previous page shows, if the charity were the ultimate recipient of the capital, the results would be far more impressive.

Giving Back to Faculty of Engineering at the University of Alberta

Tom McLean, P. Eng., CFP, B.Sc. Mechanical ’70
Investment Advisor and Financial Planner, Wellington West Capital

For many of us, the Faculty of Engineering at the University of Alberta helped to shape us into the people we became. And for many of us, there is a need to give back, so that others may also benefit.

Three Critical Factors
Once you have an approximation of this, it is prudent to consider the following factors, since they will help to guide you in evaluating your charitable giving options. I recommend that all aspects of these be reviewed in consultation with your financial advisor / planner, and in collaboration with your tax and estate professionals, to find which strategy is the best fit for you. These factors include the following.

1. Inflation
The first critical factor is the increasing cost of living expected for the balance of your life / lives. Note that at the average retirement age in Canada of 62, a person or a couple has a good chance of living another three decades, with the accompanying historical increase in lifestyle costs—food, clothing, shelter, medical and fun—from a $1 base today to perhaps $2.50. And of course, inflation also reduces the future value of your gift.

2. Taxation
The next factor is taxation, since a well-structured charitable giving plan can provide significant tax benefits to you, or to your estate. However, it is critical
to ensure that tax sheltering strategies are deemed acceptable to the Canada Revenue Agency (CRA).

It is important to start with CRA’s definition of a “gift”. To provide tax benefits, charitable giving must qualify as a “voluntary transfer of property without valuable consideration” — that is, it must be given without the expectation of the donor receiving something in return.

3. Control
The third factor, control, is sometimes overlooked. It is a general rule that there is a trade-off between control of gift assets during your lifetime versus the tax benefits; that is, the less control during your life, the greater the tax benefits and vice-versa.

YOUR TOOLBOX FOR CHARITABLE GIVING
With this as background information, here is a list of the main strategies in your “toolbox for charitable giving”.
1. Cash
2. Gifts in kind
3. RRSPs or RRIFs
4. Bequests
5. Charitable gift annuity
6. Charitable remainder trusts
7. Life insurance proceeds
8. Charitable foundation

This article will describe three of these strategies in depth, and future articles will describe the balance.

PLANNED GIVING 201:
GIFTS IN KIND – SECURITIES
Donation of publicly traded securities such as stocks, bonds, mutual funds, and segregated funds provides special tax benefits.

In the past, when transferring ownership of these assets to charity, the donor would have paid tax on 50 per cent of the realized capital gains. But under a special government incentive to encourage charitable giving, this tax has now been eliminated—a significant incentive for donors with large accrued capital gains, or for those who wish to purchase a security now, with the intention of donating it in the future.

Although this special incentive program was planned to be temporary, the federal government has since made it permanent, due to its success.

PLANNED GIVING 301:
LIFE INSURANCE PROCEEDS
There are several basic ways to utilize life insurance as a gifting strategy. All of these strategies have the advantage that the proceeds pass directly and expeditiously to the beneficiary — which may be a combination of family and charity — upon the donor’s death, without probate, and without contestability by creditors or heirs. The basic structures are as follows:

• Charity as beneficiary
  This is the simplest of these alternatives. A donor may simply remain the owner of an existing insurance policy, and name the charity as

Giving Back to the U of A — Tom McLean

I am interested in giving back to the University of Alberta, since I recognize that the U of A definitely played a role in helping to define me, and made my life all the richer for it.

Although I appreciate that some kids grew up in small-town Alberta (I grew up in Islay — the namesake of several fine Scotch distillers) and later found a rich life in their home-towns, I had the wanderlust that took me across Canada in the energy industry, Shell Canada in Sarnia and Vancouver, Suncor in Fort McMurray, and to the Kingdom of Saudi Arabia, with the General Organization of Petroleum and Minerals (those would be King Solomon’s Mines).

Recognizing a penchant for all things mechanical at an early age (an advanced degree in Meccano, plus reconstructing several old motorcycles — 40 years ago I had a 40-year-old bike, a 1927 Indian Scout!), it seemed a natural to enroll in Mechanical Engineering at the UofA.

At the time that I enrolled, I didn’t realize that my Engineering career would take my future family and me to work and travel all over the world. And that it would allow me to segue into a second, equally interesting career — financial engineering. It has been a fun ride!

Now, having reached an age where I can look back and reflect, it seemed natural to include the U of A in my will, as part of my giving back. It is my wish that the lives of my U of A legacy beneficiaries will also be enriched, as mine has been.

Tom McLean, P.Eng., CFP,
B.Sc. Mechanical ’70
beneficiary. This option, while allowing the donor to retain control during his/her life, does not produce any tax relief during the donor’s lifetime. However, at death, a charitable tax receipt of 100 per cent of the policy’s value will be issued, which the executor can use on the deceased’s final tax filing.

- **Ownership transfer to charity**
  A donor may transfer ownership of an existing policy to a charity, with the charity named as beneficiary. In return, the donor will receive a tax credit based on the net cash surrender value. Note that once ownership is transferred to the charity, it is irrevocable.

- **New policy, charity-owned**
  A donor may arrange for a charity to purchase a new life insurance contract, based on the donor’s life, with the charity named also as the beneficiary. The donor is then responsible for making routine payments, or alternately, following an accelerated payment schedule; for example over a five, or 10, or 20 year schedule, or in one lump sum.
  Advantages include:
  — A substantial contribution may be made, in a very affordable way
  — Donation receipts for the premiums flow to the donor, for tax benefits

**Planned Giving 401: How to Maximize a Donation with Life Insurance**

This is a “have your cake, and eat it too” strategy, based on a creative use of universal life insurance as a tax, estate and income planning tool. It provides benefits on two levels:

- A tax-free income to the donor, during his/her lifetime
- A tax-free legacy to charity, upon death

The heart of this strategy is the creation of a tax-sheltered portfolio, in which the donor and advisor can direct the investment strategy. This tax-sheltered portfolio is tax-free on a yearly and lifetime basis.

**In Conclusion**

If any of these strategies are of interest to you, I would suggest that you review them with your team of professional advisors.

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**Joint Accounts — Why does everyone say they are so convenient?**

Doris Bonora, LLB
Reynolds Mirth Richard Farmer LLP

Supreme Court of Canada (SCC) recently decided two interesting cases involving joint accounts.

These cases reveal a continuing problem with joint accounts. The issue is what happens to the money in the account on the death of one of the owners of the account. If the account is jointly held between spouses or common-law partners, it is likely the funds will transfer to the surviving spouse of the account. Confusion reigns when the joint account is held between a parent and child. Usually the parent has contributed all of the funds into the joint account. On the death of the parent the question arises whether the surviving child will keep the funds, or must she or he hand all the funds to the parent’s estate.

People will transfer significant wealth into joint accounts with children or others. Generally it is done for convenience to assist the parent or to avoid probate in the hope of making the administration of their estate simpler. Unfortunately, too often these transfers lead to litigation. The SCC in Pecore v. Pecore, and Madsen Estate v. Saylor took a look at this issue.

The facts of the cases were similar. In each case, a father transferred funds into a joint account with a daughter. After the father died, the daughter ended up in a lawsuit with the other beneficiaries under the father’s will. Each daughter potentially had the right to keep the balance in the account based on the account being a joint account with a right of survivorship. Those who benefited under the will wanted the funds transferred to the estate so they could benefit. In Pecore the joint account was worth approximately $1,000,000.00 and in Madsen Estate it was worth $185,000.00.

The SCC dealt with the issue of the “presumption of advancement” in transfers from parents to adult children. In the past where a parent made a transfer...
Giving Flow-through shares can result in significant tax savings

Trevor Temke, CA
Meyers Norris Penny

Over the past few years, there have been some significant changes in both federal and provincial legislation that allow for considerable tax savings on the donation of listed securities to registered charities. [The tax savings vary, depending which province you live in.]

In 2006, the Canadian government changed the capital gains inclusion rate to 0 per cent on listed securities that are donated to a registered charity. This allows taxpayers to avoid capital gains tax on any donated investments that would otherwise result in a taxable capital gain if sold.

In addition, in 2007, the Alberta government increased the donation tax credit available to individuals to 21 per cent on donations in excess of $200 per year. When combined with the federal donation tax credit, the result is a total tax credit of 50 per cent on donations in excess of $200. In other provinces this scale varies from 45 to 49 per cent.

These changes in tax rules stand to provide significant benefits to individuals who donate listed securities, particularly to individuals who hold investments commonly known as “flow-through investments”. Flow-through investments generally consist of shares in oil and gas or mining corporations, or investment in partnerships or mutual funds that invest in these types of shares.

to a child there was a presumption of a gift. The SCC decided that in the case of a joint account the adult child must now persuade the court that the parent who made the transfer intended a gift. This means that for any joint account opened between a parent and an adult child, the courts will assume the surviving adult child is holding the money under a “trust” for the deceased parent's estate. This is referred to as the “presumption of resulting trust”. The assumption can be rebutted with evidence showing the money was intended to be a gift. The onus is on the child to prove a gift was intended.

A court will attempt to discover what the deceased’s intentions were at the time he or she transferred funds into the joint account. This is difficult since the parent has died and cannot give evidence. The court will consider whether the child contributed to the account. The court will consider comments made by the parent or any other evidence of intention such as a letter or note made by the deceased.

How can litigation be avoided? If a parent wants a child to have access to funds to assist the parent, the best option is to have the parent keep the account in their name only and sign a Power of Attorney in favour of the child. A Power of Attorney gives the child the power to deal with defined financial issues and sets out the role of the appointed person.

If a parent decides to use a joint account in their estate planning, the parent should draft a letter of declaration or insert directions in their will stating explicitly the intention in respect of where the funds are to be transferred on the death of a parent. Either the funds are to be transferred to the estate or they are to be transferred to the child who is named on the account. Without specific direction, there is likely to be litigation if the child decides to keep the money in the account.

In Pecore, the daughter was allowed to keep the funds. In Madsen Estate it was found the daughter had to transfer the funds to the estate. The evidence in Pecore showed the father wanted to give his daughter a gift but in Madsen Estate there was insufficient evidence of a gift. The difference between these cases revolved around subtle facts that ultimately lead to drastically different decisions by the SCC.

What is sad is that these two families ended up in court over the intentions of a deceased parent. It is never beneficial for a family to have to litigate an estate. Some careful planning around the use or better yet, the avoidance of joint accounts is preferable for estate planning purposes.
For tax purposes, flow-through investments renounce expenses to investors which are able to be deducted by the investors for tax purposes. The effect of deducting these expenses is a reduction in the investor’s cost base of the investment for tax purposes. As a result, the disposition of a flow-through investment would normally result in a significant capital gain.

With these new tax rules in place, if an individual were to donate a publicly traded flow-through investment to a registered charity, they would not only benefit from the available flow-through deductions but also avoid tax that would otherwise be payable on the capital gain, and have a donation tax credit of 45 to 50 per cent of the fair market value of the investment at the time of the donation.

The side table illustrates how the donation of a flow-through investment can reduce the out-of-pocket cost of making a donation when compared with making a regular cash donation. The example assumes that the value of the investment has not changed since the date it was originally purchased.

If you are an individual who donates regularly or is considering making a donation, it may be beneficial to consider the donation of listed securities, and in particular, flow-through investments. Note that there are some situations where the 0 per cent capital gains inclusion rate is not available, namely where a partnership interest has been exchanged for shares which are then donated. Therefore, before proceeding with this type of donation strategy, it is important to consult with your tax and investment advisors to ensure this strategy will be beneficial in your individual situation.

### How to Make a Gift of Securities to the Faculty of Engineering at the University of Alberta

Making a gift of securities is a simple, easy transaction. The steps listed below will help guide you when making a gift of securities to the Faculty of Engineering at the University of Alberta:

1. **Contact the Faculty of Engineering, University of Alberta, Gift Planning Counsel at 780-492-8969.**
   - We will require your name, the name of the shares, and the number of shares to be transferred. We will send you a Stock Transfer Form which you or your broker need to fill out. Please indicate on the Stock Transfer Form you wish to donate the stock to the Faculty of Engineering at the University of Alberta.

2. **Contact Your Broker**
   - Direct your broker to transfer the securities you wish to donate to the Faculty of Engineering, University of Alberta.

3. **The Electronic Transfer of Shares**
   - To facilitate the transfer of shares, your broker needs to follow instruction as outlined on the Stock Transfer Form.
   - The Custodian for University of Alberta is CIBC Mellon Global Securities Services Company. The University of Alberta will request an endorsed security certificate which will be sent electronically or via registered mail to office of the Custodian. The fair market value will be based upon the average of high and low stock price on the date that the transfer is confirmed by the University of Alberta Custodian.

#### Physical Transfer of Shares with a Stock Certificate

- Sign the back of the shares certificate to the Faculty of Engineering, University of Alberta, noting the designation or the purpose of the donation. This signature needs to be notarized. The signed shares certificate must be sent along with the Stock Transfer Form to:
  - the University of Alberta Treasury, and
  - a copy to the Gift Planning Counsel at Faculty of Engineering, University of Alberta.

### Comparison of Donations Made by an Individual Resident in Alberta

<table>
<thead>
<tr>
<th>Value of Donation</th>
<th>Cash Donation $1,000</th>
<th>Flow-Through Donation $1,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up-front tax savings from flow-through deductions</td>
<td>$0</td>
<td>$(390) *</td>
</tr>
<tr>
<td>Donation Tax Credit at 50% (based on Alberta tax credits)</td>
<td>$(500)</td>
<td>$(500)</td>
</tr>
<tr>
<td>Out of pocket cost of donation</td>
<td>$500</td>
<td>$100</td>
</tr>
</tbody>
</table>

* Assumes deduction claimed at maximum personal tax rate for an Alberta resident.

### How to Make a Gift of Securities

**to the Faculty of Engineering at the University of Alberta**

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  - the University of Alberta Treasury, and
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Estate Planning Seminars

The Faculty of Engineering at the University of Alberta hosts Estate Planning Seminars on variety of topics across Canada such as:

- The Importance of Having an Estate Plan and a Will – Sharing Real Stories and Outcomes
- How to use Life Insurance Policies as an Effective Donation Tool
- Charitable Estate Planning – Various Creative Ways to Leaving More to your Beneficiaries while Leaving a Legacy to the Community
- Charitable Estate Planning for Business Owners and Preferred Share Holders

These seminars are free of charge and are presented by a variety of estate planning professionals and our Gift Planning Counsel. A separate invitation will be sent to you informing you of the event.

Please watch for information on these or similar seminars this fall in Edmonton, Calgary, Victoria, Vancouver, Kelowna, Ottawa, Toronto, and Montreal.

If you do not live in one of these cities and are interested in one of these topics please call Nena Jocic-Andrejevic, at 780-492-8969.

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Calendar of Events

How to use Life Insurance Policies as an Effective Donation Tool

October 5th, 2010 11:30 am to 1:30 pm

Presenters:
Ben Harris, LLB
Ross Young, CA, CFP, BCom ’92
Brian Heald, P.Eng., MEng ’82

Calgary, University of Alberta Calgary Centre,
120, 333 Fifth Avenue SW Calgary

Life insurance is a great vehicle to increase the wealth of your estate. It gives opportunity to leave more to your beneficiaries and it allows you to give a significant gift to your favorite charity and your alma matter.

Seating is limited. To register for a spot today please go to:

- Call 780 492-8969
- E-mail to nena.jocic-andrejevic@ualberta.ca

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Legacy News

The advice rendered in this Newsletter is general in nature. Illustrations and recommendations may not include all factors relevant to your situation. Each person should consult with qualified professionals to see what solutions might fit your specific circumstances.

For more information, contact:

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