How Life Insurance Can Significantly Enhance Your Charitable Gifts … And Even Reduce Your Taxes

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Have you ever wished to make a "sizable" donation to your college alma mater, a favorite charity, or other non-profit organization, but feel you might lack the financial resources?

Please allow me to suggest a few interesting strategies that might offer you the chance to make that donation, combined with possible tax benefits, too.

How the Strategies Work

By itself, charitable giving is commendable. But by adding a life insurance component, you can significantly amplify your gift in these ways:

- Leverage: the death benefits exceed the premiums paid; often four to five times at normal life expectancy, or seven to eight times at life expectancy when you factor in the charitable tax-deduction.
- Prompt settlement: if kept in force, policy proceeds are paid at the insured's death.
- Flexibility: in most cases, the policy owner can change the timing and amount of premium payments; the death benefit amount; and beneficiaries. In addition, the policy owner can adjust the policy to meet changing objectives and tax laws, subject to terms of the policy.

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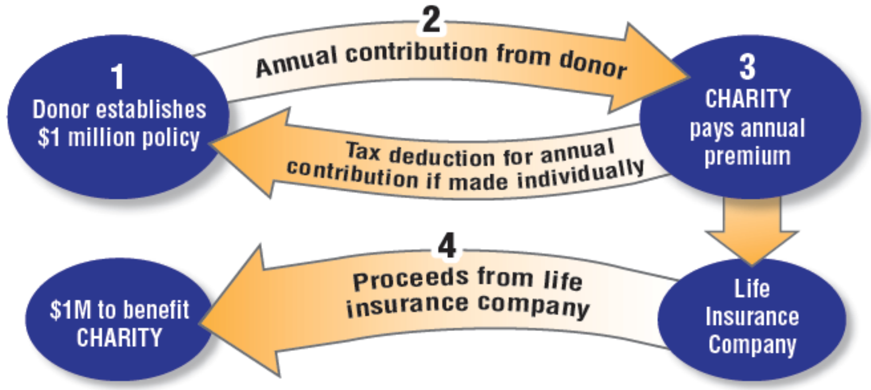
One Example Of Several Ways To Fund A $1 Million Charitable Contribution AND Receive Annual Tax Deductions

1. Donor establishes a life insurance policy, pays a minimum premium to put the policy in place, and then changes the owner and beneficiary to his/her favorite charity, post-issue.
2. Donor contributes an amount equal to the annual premium to the charity AND claims the contribution as a tax deduction.
3. The charity then pays the annual premium for the policy.
4. Upon the death of the insured, the charity receives the policy's death benefit.



	Net after-tax premium	Net after-tax rate of return
Male age 60	$8,450	9.91%*
Male age 70	$14,950	15.44%*
Male age 80	$31,850	39.43%**

Final premium rates based on medical underwriting results.

**Assumes life expectancy to age 85*
***Assumes life expectancy to age 88*

“Direct” Gifts

There are three primary ways to implement a charitable-gifting strategy:

- Gifting: First, you purchase a life policy in your name (or the joint lives of you and your spouse), and then donate the policy to the institution or charity of your choice. Every year, you donate an amount equal to the annual premium to that organization which, in turn, pays the premium. The premium amount, along with the cost of the original gift, becomes your charitable income tax deduction. Death benefits are paid directly to the institution.
- Charity as beneficiary: This method names the charity as the beneficiary of a life policy, but the policy itself is not gifted to the charity. At death, proceeds are included in your estate. The estate receives a charitable estate tax deduction for the full value of the death proceeds transferred to the charity. The donor retains control of the insurance during his/her lifetime, but does not receive any income tax deductions.
- Existing policy: Perhaps you have a policy that is no longer needed. The previous two strategies can be accomplished with existing life insurance, as well. However, it’s important to have an existing policy reviewed by a professional prior to gifting the policy or changing the beneficiary to a charity. If the policy has non-guaranteed features, policy loans, or if payments have been inconsistent, there is a good chance this policy will lapse prematurely, leaving the charity with a reduced benefit or nothing at all.

“Indirect” gifting strategy

You can also make “indirect” charitable gifts through a Charitable Remainder Trust or Charitable Lead Annuity Trust; however, both are more complicated. Your attorney or accountant should discuss the suitability of these vehicles in your case.

If one of your life’s financial goals includes charitable giving, doesn’t it make sense to implement one of these strategies today, especially if you might be able to reduce your income taxes at the same time?

I would be pleased to consult with you and/or your attorney to describe a how a life insurance gifting strategy can help meet your charitable giving goals.

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