How to Use Life Insurance in Charitable Giving

There are many benefits that both you and the charity of your choice can enjoy when **life insurance** is used in charitable giving. Some of these benefits are related to income and estate tax, while others relate to the fact that even small gifts can be *leveraged* into a relatively large endowment for your charity. But, whatever the motivation, there are some simple rules that must be followed in order to take advantage of these benefits.

To begin with, there are three easy-to-follow ways in which you can benefit your charity through life insurance, and the first method may not even require you to purchase a new policy! Under the so-called **"gift plan,"** all you have to do is make your charity the **owner** and **beneficiary** of an existing life insurance policy on your life—it's that simple. If you no longer require a policy that is rich in cash value, you need only ask your agent to change the ownership and beneficiary designation to your charity.

Since you have made a donation of the policy to charity, the Internal Revenue Service (IRS) allows you to take an immediate income tax deduction for the value of the policy up to the lesser of the premiums you paid or the policy's cash value. The advantages of the gift plan are twofold: not only can you put a policy to work for your charity, but you can also take advantage of an immediate income tax deduction, lower your income tax bill, and therefore have more after-tax dollars to spend as you need or see fit.

The second method is called the **"charity ownership plan."** Under this plan, even the smallest gift can be used to purchase a large future endowment. If you currently make cash contributions to a charity, this plan may be for you. Here's how it works. Assume that you and your spouse, together, give $4,000 to a specific charity each year, so that over the next 15 years, together you will have contributed $60,000 after-tax to your charity.

If you and your spouse were in the 28% bracket, the government would pick up 28% of the cost of your total gifts. Over the 15 years, the **after-tax** cost of your gifts would total $43,200. Assume further that your charity is willing to purchase a $90,000 life insurance policy on your life that has a $1,750 annual premium. Since you are in the 28% bracket, your after-tax cost of paying the annual premium would work out to $1,260 or $18,900 over 15 years.

Therefore, if you and your spouse went ahead with the charity ownership plan, you would still have $2,740 of the original $4,000 left over each year with which to make a cash gift to your charity or use for another purpose. Over the course of the 15 years, your cash gifts to your charity would total $41,100. If you were to die at any point during the 15-year period, your charity would receive the policy's $90,000 death benefit. This allows you to protect your charity against your premature death, since your gift-giving ability is insured.

It is also a way of maximizing your current gifting program. One caution: It is necessary to determine under your state's law that the charity is permitted to purchase a policy on your life. In some states, a charity is not deemed to have an insurable interest in a potential contributor's life and, as a result, cannot purchase a policy.

Finally, one method commonly used in the charitable giving area is called the **"charitable bequest plan."** This plan ideally suits those who would like to benefit their charity, but who cannot give up full control of their life insurance cash values during their lives.

Not only does this plan work well with existing or newly purchased insurance, it is also easy to establish. All you have to do is make your charity the beneficiary of your life insurance policy. Because you remain the owner of the policy for the rest of your life, there is no income tax deduction as there is in the case of the two previous plans. You do get to enjoy all of the benefits of owning the policy during your life. However, while the policy proceeds are included in your gross estate when you die, they are fully deductible from your gross estate to an unlimited degree.

All three plans may clearly offer something for everyone. As is the case with every financial strategy, consult your tax professional before proceeding to determine which plan best suits *your* needs.

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If you have questions on making a legacy gift to Stepping Stones through life insurance, contact: Director of Development Kelly Crow at (513) 965-5148.