ARBORLAWN FOUNDATION

On this rock, we will build.

Life Insurance and Charitable Giving

Why Life Insurance?

The greatest advantage of a gift of life insurance is that a donor can make a substantially larger gift to charity by using life insurance than by giving any other asset. Relatively modest annual premiums mature into a substantial death benefit at the donor's death. This is further enhanced when a charity owns the policy because of the income tax charitable deduction the donor receives. The donor's gift (cash to pay premiums each year) essentially costs less. For example, for a donor in a 25% tax bracket, a gift of $2,500 really costs $1,875 after considering the income tax charitable deduction.

Benefit to the Foundation

A charity-owned life insurance policy requires less administration by the charity than many other assets, like real estate or business interests. In addition, the charity can easily take advantage of cash values in the policy before the donor's death. Both the cash value buildup and the death benefit are generally income tax-free to the Foundation.

Ways to Give Life Insurance

Name the Foundation as beneficiary. The simplest way to use life insurance to give to charity is to name the charity to receive the benefits of the policy. You, as the owner simply designate the Foundation as beneficiary. If the policy is a form of cash value life insurance, you still have access to the cash value of the policy during your lifetime; however, this type of gift does not provide many income tax benefits because you retain control of the policy.

Ownership of an Existing Policy. The gift of an existing policy involves a simple transfer to change ownership form. Absent a loan on the policy, the donor does not recognize income no matter how large the gain. In addition, if the donor has no plans to use the policy as a source of cash, a gift of the policy is often not perceived as a "loss" of an asset. You give up all control of the policy. You may be able to take an income tax deduction equal to the lesser of your adjusted cost basis or fair market value. The policy is not included in your gross estate when you die, unless you die within three years of the transfer.

Transfer Cash to Foundation to Purchase a New Policy. A creative way to use life insurance to donate to the Foundation is simply for the Foundation to insure you with a new policy. To use this strategy, you would allow the Foundation to purchase a policy on your life. You would make annual tax-deductible gifts to the Foundation in an amount equal to the premium, and the charity would pay the premium to the insurance company.

