By utilizing life insurance, it is possible to offer a meaningful charitable gift while still transferring most of your wealth to your loved ones.

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Charitable Planning

Many people donate time and money each year to their favorite charities. According to the National Center for Charitable Statistics, charitable contributions by individuals, foundations, corporations, and bequests reached $429.85B in 2014. Individuals alone made contributions of $358.38B last year. You might be asking yourself why people have given away so much of their own money. Well, some people are just charitably inclined and like the idea of supporting a cause near and dear to their heart. Others may have lost a loved one to illness and like supporting the research efforts of that organization. Either way, charitable giving not only makes the donor feel good but it also provides them with an annual tax savings.

One such way to leave a lasting legacy to your favorite charity is through the gift of life insurance. Life insurance provides the charity with a tax-free death benefit, and because the cost of life insurance is not a dollar for dollar ratio, the premium dollars spent to purchase the life insurance usually provide a far greater return in the end. You could make a donation from your estate at death; however, making a significant financial gift could reduce the amount of wealth that is transferred to your heirs. By utilizing life insurance it is possible to offer a meaningful charitable gift while still transferring most of your wealth on to your loved ones.

A cash gift to a charity may be leveraged by a life insurance policy that is owned by the charity and for which the charity is the beneficiary. For relatively small annualized premiums, a large death benefit may be provided to the charity[1]. You can either gift the cash directly to the charity so that the charity can pay the premium or you can pay the premium directly to the insurance company. In either case, you have made a tax-deductible gift to the charity.

If you are currently making annual contributions to your favorite charity, you might consider employing the "Give Now, Give Later" strategy. By using your current annual contribution as a guideline you can continue to give some portion of your current annual donation to help fund current charitable activities and donate the balance of the current contribution to the charity for the specific purpose of paying premiums on a life insurance policy on your life. The charity as owner[2] and beneficiary of the life insurance will receive the total death benefit and not lose any portion to estate taxes, probate, or administrative costs, which can occur with the gifting of other assets.

[1]Brovey, Alexandra P. "My Client, a Donor?" *Trust & Estates* 01 Oct. 2013: 19-23.

[2]Your tax deduction will be limited to 50% of your adjusted gross income (AGI) for gifts made directly the charity either in the form of cash or monies to pay life insurance premiums. If the gift is for "use of the charity", meaning you pay the premium on behalf of the charity then the deduction will be limited to 30% of your AGI.

Let's take a look at how you can leverage your current annual contribution into a substantial gift...

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Charitable Planning *(continued)*

If we look at a healthy 65 year old male, who makes an annual contribution of $50,000 to his favorite charity and we take half of his contribution, $25,000 and ask the charity to specifically use that money to make an annual premium payment on a life insurance policy on his life, he can purchase just over $1.1 million in death benefit coverage for the benefit of the charity. If he were to just continue to give the annual contribution of $50,000, the charity would still receive close to $1.1 million but only for his lifetime, which is roughly 22 more years. By utilizing 50% of his annual contribution for life insurance he will have contributed just over $550,000 in addition to the life insurance death benefit for a total of $1.65 million!

Advantages for the Donor

> You receive an income tax deduction for gifts of cash to a charity.

> Because of the leverage of life insurance, you may be able to provide a meaningful gift to a favorite charity at what can be a relatively low cost.

> Charitable gifts can be very rewarding since critical charitable needs are being addressed and you are giving something back to society.

Disadvantages for the Donor

> Even if your financial situation deteriorates or you become dissatisfied with the activities or policies of the charity, you can't change the insurance policy's beneficiary or access the policy's cash value since the charity is the owner of the policy.

Advantages for the Charity

> The life insurance death benefit can provide a meaningful gift to the charity that may be much larger than the cash gifts it might otherwise have received from you

> As the owner of the life insurance policy, the charity can access the policy's cash value during your lifetime[3].

Disadvantages for the Charity

> It is possible that the charity might receive more money over time from cash donations, if those donations are properly invested elsewhere.

> The charity may be more interested in the immediate access to cash as opposed to a larger death benefit received years in the future.

[3]Potentially adverse tax consequences to the charity may result from taking distributions from the policy such as unrelated business income tax if policy loans are taken.