A Stress-Free Donation Option

[How You Benefit by Giving Life Insurance]

When you first bought a life insurance policy, you had a purpose in mind--probably to help ensure the financial stability of your family should something happen to you or your spouse. Have your circumstances changed since then?

Life insurance can be a tool with many purposes. For example, it can provide liquidity for paying taxes and other expenses at death. But, believe it or not, some of the most satisfying uses for life insurance policies are connected with charitable giving.

If you have an old life insurance policy you no longer need, you might contribute it to a charitable cause in which you believe. Purchasing a new policy and naming us beneficiary is another possibility. This often makes a significant future gift feasible and affordable, especially for younger donors.

The versatility of life insurance makes revisiting its uses a good idea, and that's what this brochure will help you do.

Gift of an Existing Policy

You may own an insurance policy that has a substantial cash surrender value, yet the original purpose for the protection no longer applies. The policy might have been purchased initially to provide financial security for a spouse now deceased, to educate children now grown or for liquidity to pay death taxes when liquid assets were in short supply. This policy can be a sort of hidden asset, available to be used for your philanthropic purposes.

If you choose to name The Wild Animal Sanctuary as the beneficiary of a policy that is not paid up and also assign all incidents of ownership of the policy to us, several good things happen. You receive an immediate income tax charitable deduction for the "interpolated terminal reserve" value of the policy. This is usually close to the cash surrender value, a figure available from the insurer.

For a paid-up policy, the deduction is the cost of replacing the coverage with a comparable policy. In either situation, the tax deduction cannot be greater than your net investment in the policy. The charitable deduction may be disallowed or at least reduced by any outstanding balance of a policy loan, which may also be considered additional taxable income.

When a policy is removed from your estate, there may be future estate tax savings at your death if your estate would have otherwise been subject to tax.

If premiums on the policy are still payable, there are two options to consider. You may stipulate that the assignment of ownership of the policy at its current value is the total charitable gift, immediately available for our use. In that case, we might surrender the policy for cash. Or we might decide to accept a smaller amount of paid-up insurance. In either case, you are relieved of the obligation to make further premium payments.

An alternative, however, may be even more attractive. The policy can remain in force so that the larger, original face amount will become your gift. You pledge to make unrestricted gifts at least annually, which we will use to pay the premiums. The gifts are deductible, and the policy is thereby kept in force with pretax instead of after-tax dollars for a lower actual cost.

Payments of the premiums directly to the company, instead of comparable gifts to us, may be considered gifts "for the use of" instead of "to" us. If so, cash gifts are deductible only up to 30 percent of adjusted gross income for the year, rather than up to a 50 percent annual limitation. Therefore, the best method to pay insurance premiums is to pay them directly to the charitable organization and not to the insurer.

Use of Beneficiary Clause as a Revocable Gift Arrangement

Other options are available if you would rather retain ownership of a policy as an asset for your own financial security or that of others. They include:

1. Naming us as the only or a partial primary beneficiary of the policy, with the right to change the beneficiary clause as owner of the policy;
2. Naming us as the contingent successor beneficiary, receiving the death benefits only if a named individual beneficiary predeceases you;
3. Creating a separate trust named to receive death benefits, with terms providing first for financial support of one or more named individuals for specific terms of years or for life, after which the trust terminates and its assets pass to us.

These plans do not produce a current income tax charitable deduction, but they can provide the satisfaction of knowing we will receive some benefits if certain events occur and the arrangement is left unchanged. Any amounts payable to us at your death will not be subject to federal estate tax.

New Policy for Future Charitable Gifts

Many of our friends and regular donors who would like to make a significant future gift to us at a relatively low cost can do so through a new life insurance policy. With increasing longevity, older persons can now purchase insurance at more affordable premium costs. Retired individuals enjoying a surprisingly high standard of living can use some annual discretionary income to perpetuate their support of our work without depleting their financial reserves or reducing the projected inheritances of family members.

In most states, you can enter into a new insurance contract with a qualified charitable organization like ours as the beneficiary and owner of the policy.

Greater leverage is possible when two donors, usually wife and husband, purchase a two-life, second-to-die policy. With two lifetimes before payment of benefits, a desired future gift to us may be obtained for substantially fewer premium dollars. These policies are typically available even if one spouse is not insurable and are generally more economical than a policy only on the insurable spouse.

Life insurance is commonly sold as a policy for which a specific number of years of premium payments is projected--but not guaranteed--after which the premium obligation may cease. It should be kept in mind that the premium requirement may continue for a longer period, or even cease temporarily and then reappear, if the policy cannot generate enough cash value to keep the policy in force.

Covering premium costs with annual gifts to us for more than the provided time frame increases values and lessens the possibility of renewed premium payments or a reduced yet paid-up death benefit. Policies that are not so interest-sensitive should be considered as an alternative.

Find Out More

At this level of family and philanthropic distributions, it is especially critical to have a skilled planning team with expertise in finance, law, taxes and life insurance. The benefit of the best advice possible is well worth the cost.

We would be happy to answer any questions regarding charitable giving that you or your advisor may have. Feel free to call us at no obligation.

The Wild Animal Sanctuary

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