The GOD'S CHILD Project Gift of Life Insurance

Use of Beneficiary Clause as a Revocable Gift Arrangement

The easiest way to use life insurance for charitable giving is to simply name The GOD'S CHILD Project Foundation as the beneficiary of your life insurance policy. Such 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:

- Naming The GOD'S CHILD Project Foundation as the only beneficiary or as a partial primary beneficiary of the policy, while retaining the right to change the beneficiary clause as owner of the policy;
- Naming us as the contingent successor beneficiary, receiving the death benefits only if a named individual beneficiary predeceases you;
- Creating a separate trust named to receive death benefits, with trust terms providing first for financial support of one or more named individuals for a number of years or for life, after which the trust terminates and its assets pass to us;
- Naming The GOD'S CHILD Project Foundation as the residual beneficiary of an annuity settlement option available under some policies.

There are no current tax benefits to this arrangement because you are not giving away the policy ownership; however, it provides a very generous gift with attractive tax benefits upon your death.

Indirect Use of Insurance for Wealth Replacement

In recent years, probably the greatest increase in using life insurance in philanthropic plans has been to replace for heirs of an estate a value being given, by one means or another, to a charitable organization like The GOD'S CHILD Project Foundation.

A significant outright charitable gift might reduce the projected value of inheritances for family members. However, depending on the age, health and marginal income tax rate of the donor(s), income tax savings from use of the charitable deduction can be enough to purchase life insurance, whose death benefits equal the value of the gift.

Example: Joan makes a charitable gift of a building that has appreciated in value since she acquired it long ago. She knows that, among other benefits, this allows her estate to realize greater tax savings than if she had bequeathed the building to her children. (She might also have sold the building, but then she would have been forced to pay capital gains tax.) She then purchases life insurance for the benefit of her children, an expense that she would have paid anyway in taxes, had it not been for the charitable deduction she received for her gift to us. Instead of receiving a building, her children will receive cash from the insurance policy, and all of this happens outside the probate process.

If your projected estate is taxable, ownership of life insurance by another person (which also keeps death benefits out of the probated, taxable estate) might also be considered. It's even possible to make annual gifts of the premium amounts to the beneficiary/policy owner and utilize your gift tax annual exclusions.

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 estate 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 GOD'S CHILD Project Foundation 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 lesser of the premiums you have paid or the "interpolated terminal reserve" value of the policy. This is similar to the cash surrender value, a figure available from the insurer.

If you itemize deductions on your tax return, your actual income tax savings depends on your marginal tax rate. A person who does not normally itemize may find the additional charitable deduction boosts his or her total itemized deductions above the standard deduction.

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 (total premiums paid less any dividends received).

When death benefits under the policy are removed from a taxable estate, there may be a future estate tax savings if your estate would have otherwise been subject to tax.

If premiums on the policy are still payable, there are two options to be considered. 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 an amount of paid-up insurance. In either case, you are relieved of the obligation to make further premium payments.

However, an alternative 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.

A further potential advantage is to make annual gifts in the form of marketable capital gains property otherwise to be sold, such as appreciated stock. Avoidance of the capital gains tax is a second tax savings, not possible when paying premiums directly 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:

- naming The GOD'S CHILD Project Foundation as the full or partial beneficiary of the policy, with the right to change the beneficiary retained by you as owner of the policy;
- naming us as the contingent beneficiary, receiving the death benefits only if a named individual beneficiary predeceases you;
- creating a separate trust named to receive death benefits, with trust 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 take place 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 The GOD'S CHILD Project Foundation 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 than were possible in the past. 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 such as ours as both the beneficiary and owner of the policy. Gifts to The GOD'S CHILD Project Foundation to cover premiums are deductible for those who itemize and can be in the form of capital gain property for a second tax savings.

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 available even if one spouse is not insurable and are generally more economical than a policy only on the insurable spouse.

A type of insurance sometimes used by charitable donors is a policy for which a specific number of years of premium payments is projected—but not guaranteed—after which the premium payments can be taken from the policy's cash value. It should be kept in mind that the out-of-pocket premium requirement may continue for a longer period than previously projected, or even reappear, if the policy cannot generate the assumed internal return required to keep the policy in force.

Covering premium costs with annual gifts to us for an extra year or two will increase values and lessen the possibility of renewed premium payments or a reduced paid-up amount of benefits. Policies that are not so interest-sensitive should be considered as an alternative.

What about Term Insurance?

Term insurance, such as coverage by a group policy through your employer, has no cash value, so assigning ownership would have no tax advantage.

When term coverage is provided by your employer, the cost attributable to any coverage in excess of $50,000 may be included in your taxable income. However, if we are the sole beneficiary under the policy, such cost is not included in your taxable income, nor will benefits be part of your estate.

Term insurance can be used to guarantee the payment of a substantial pledge of gifts to us payable over a period of years without potentially obligating your estate. If allowed by the policy, the term life insurance policy death benefit on you, the donor, can be reduced annually as installments are paid on the pledge, with the policy dropped when the gift is complete.

Creating an Irrevocable Life Insurance Trust

At the beginning of this article, we discussed the purchase of life insurance as a means of replacing for your heirs the value of a gift to us. We covered situations in which you name the beneficiary as the new owner of the policy. For larger amounts and multiple heirs, an irrevocable life insurance trust (also called a wealth replacement trust) may be preferable as owner of the policy, typically with a bank trust department or trust institution as trustee.

An insurance wealth replacement trust can work well in conjunction with a charitable remainder trust. When you establish a charitable remainder trust, you fund it with assets that will provide you (or another beneficiary) income for life, and then we receive the remainder. Besides the initial income tax deduction for funding the trust and the resulting tax savings, your income from reinvested trust assets is typically improved, and often it's a way to avoid capital gains tax liability. These savings free money for contributions to the trust to pay the insurance premiums.

When the trust ends, its assets pass to The GOD'S CHILD Project Foundation, or to more than one charitable organization in accordance with your wishes, without being subject to tax. The life insurance death benefits pass to heirs from the wealth replacement trust untaxed, having previously been transferred as annual gifts to heirs covered by gift tax exclusions, use of credits or reduced gift tax payments.

To avoid a federal gift tax on contributions to the trust to cover premium costs, the insurance beneficiaries can be given a temporary right to withdraw each contribution for their own direct use. These "Crummey powers" (named after a court case) qualify the transfers as present interests that can utilize annual federal gift tax exclusions. While it would thwart the estate plan if the heirs exercised those powers, their right to withdraw may not be restricted verbally or in writing.

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 insurance. The benefit of the best advice possible is well worth the cost.

Look at Your Life Insurance in a Whole New Way
Most people have some form of life insurance, either term or cash value insurance. But also, many people who purchased insurance when they were young find in their later years that the purposes for which they originally purchased the insurance no longer apply.

If you're one of these people, let our organization suggest another use of your insurance policy: as a way to eventually make a significant charitable gift that might not be possible during your life.

Giving an Existing Policy
When you make a gift of an insurance policy that you own, we must become the new owner and beneficiary. This will allow you to receive an income tax deduction for either the total of the premiums paid or the fair market value of the policy, whichever is less.

Actually, the phrase used by insurance companies for policies for which premiums are still due is "interpolated terminal reserve," which is slightly different than the cash value of the policy. The deduction is limited to 50 percent of your adjusted gross income, with the ability to use any excess deduction over the next five years.

Most term insurance policies do not have any cash value, and so donors receive no deduction for making a gift of a term life insurance policy.

Giving a New Policy
If you buy a new policy and then donate it to us, the premiums you would continue to pay are generally deductible on your income tax return. For example, you could give us enough money to pay the premium, and then we could pay the insurance company. (Remember, our organization must be the owner of the policy; the insurance company will send the premium notices to us, not the donor.) This is also true for term insurance policies.

Leverage Your Gift
Life insurance is an asset that allows a donor who does not have large assets to make a significant gift. By making small payments each year for a limited number of years, a donor can leave a bequest of sizable proportions.

If you'd like more information about gifts of life insurance, we will be glad to discuss the options for your particular situation.

Three Ways to Donate Life Insurance

Your need for life insurance most likely declines with age, increasing its popularity as a charitable gift.

- Let it go. An outright gift of a paid-up life insurance policy makes an excellent charitable gift. Either National Trust for Historic Preservation in the United States will take a policy's cash value or we will retain the policy for its ultimate death benefit. You receive a current deduction amounting to the cost of replacing the policy with a single premium life insurance policy at your current age (but not more than you've invested in the policy).
- Start anew. You can take out a new policy with us as owner and beneficiary. Your continuing premium payments, usually gifted directly to The GOD'S CHILD Project Foundation, are income tax deductible.
- Pay the premiums. You can also donate an existing policy and keep up the premiums. If you should lapse on the payments, The GOD'S CHILD Project Foundation can either receive the current surrender value of the

policy, buy a smaller, yet paid-up policy with the policy's cash value or possibly even continue the premium payments for the life of the insured. Group term life insurance or employer group coverage above $50,000 also make suitable gifts to charity.

Gifts of life insurance are usually deductible up to 50 percent of your adjusted gross income. If necessary, you may carry over the deduction for an additional five years. For more information, please contact us.

How You Can Benefit by Giving Life Insurance
Most of us think of life insurance as an asset for our heirs, which it can be on a very efficient basis. However, it is increasingly being used as a tool in the planning of charitable gifts.

This trend is based, in part, on improved forms of life insurance that work well in conjunction with philanthropic options. The use of life insurance, with charitable organizations the recipients of death benefits, has been practiced for many years.

Practical advantages include prompt, confidential transfers outside of the probate process, and the relatively simple, cost-free procedures for naming us as a beneficiary or assigning ownership of a policy to The GOD'S CHILD Project Foundation.

Gift of an Existing Insurance Policy
The owner of a life insurance policy with cash surrender value may find that the original purpose for the protection no longer applies. It may have been purchased to provide financial security for a spouse now deceased, to educate children now grown and self-sufficient or to furnish liquidity for estate taxes since reduced or otherwise avoided.

In such instances, one option simply is to name The GOD'S CHILD Project Foundation as the primary beneficiary under the contract. This is a revocable arrangement for a future gift, not deductible for income tax purposes.

As an alternative, the cash value can be a hidden asset, readily available to make a current charitable gift. When you name us as the beneficiary of a policy under which you are insured, and also assign all incidents of ownership of the policy to us, the following good things happen:

- an income tax charitable deduction, available under most circumstances;
- tax savings from use of the deduction, which can be invested for future income;
- removal of death benefits from a taxable estate, reducing the future estate tax liability.

When The GOD'S CHILD Project Foundation keeps the policy, you make annual tax-deductible gifts to us that will cover the continuing premium cost. Although this delays us realizing your gift, the future benefits can far exceed the current surrender value. Since the subsequent gifts are deductible, you are using pretax instead of after-tax dollars. Also, it is possible to use appreciated stock that otherwise is to be sold to fund your premiums, adding avoidance of the capital gains tax.

Using a New Insurance Policy
Obtaining a new life insurance contract, rather than using an existing policy, is another way of making a future gift for us work. Gifts to us to cover the initial and subsequent premiums are tax deductible, which, for those who itemize, reduces the net cost by the amount of income tax savings. This method can be especially attractive to younger donors.

A Satisfying Gift
If you are unable to let go of other assets, contributing life insurance is a perfect and easy solution. Your greatest reward is the personal satisfaction of helping The GOD'S CHILD Project Foundation with a larger gift than you thought possible. But you also may increase your cash flow and secure important tax savings. For more information, please contact us.