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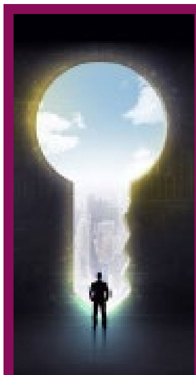
Using life insurance for charitable gifting

Life insurance can be a powerful ally in your efforts to magnify your charitable gifts to causes you care about. Wealthy families often use insurance to help fund their private foundations—but you can use life insurance in your philanthropy even if you're not worth millions of dollars!

This report was selected especially for you by Falkenberg-Poetz & Pidhirniak Wealth

Using life insurance for charitable gifting



Key takeaways

- Very wealthy families often contribute life insurance to their private foundations to enhance their charitable impact.
- Donating life insurance can come with benefits such as tax deductions and reduced taxable estates.
- Anyone with a charitable intent can potentially use life insurance—it's a tool that's not reserved for only the wealthiest.

We all know that life insurance can help us take care of our families. But it also can come in handy in a way that might surprise you: making the world a better place.

Life insurance can help you magnify your charitable giving, enabling you to have a bigger impact in supporting the causes you care about and the organizations funding those causes.

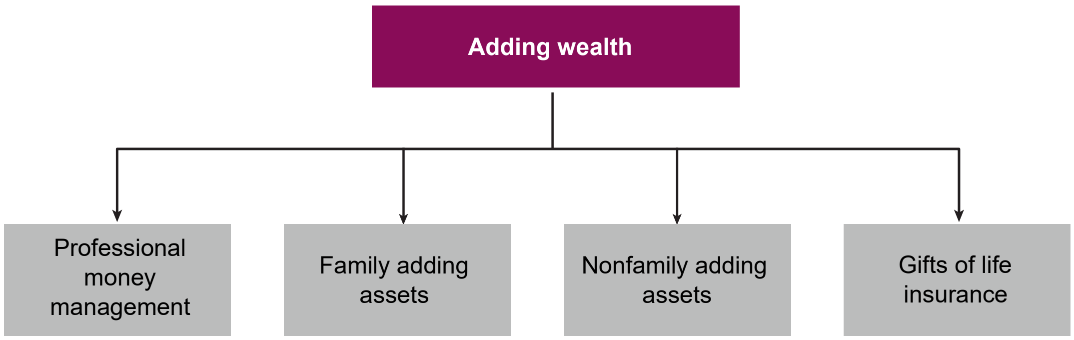
Life insurance and private foundations

Wealthy people often set up private foundations to support charitable organizations and causes. Private foundations can exist in perpetuity or for a set period of time. That makes them highly appealing to many wealthy families, as the fact that foundations can last for multiple generations creates an opportunity for truly long-term family giving.

That said, there have to be sufficient funds in the private foundation to do so. At a minimum, a private foundation needs to distribute at least 5 percent of its assets annually based on the previous year's calculation of those assets.

The issue: Many private foundations don’t start out with all the money they will ever need in order to last indefinitely and adequately address the causes they want to focus on. When a family wants to grow the funds in their private foundation, they have a few options (see Exhibit 3).

Exhibit 3
Adding Wealth to a Private Foundation



- **Professional money management.** Very often the assets in a private foundation can grow through the efforts of talented investment professionals. The increase in assets greater than the distribution increases the money in the private foundation.

- **The family adding assets to the private foundation.** Aside from the assets used to establish the private foundation, the family can contribute more later on. As when they first established the private foundation, various types of assets can be contributed— including shares of companies. Different charitable structures, such as trusts, can be part of this approach.

- **Accepting donations from nonfamily members.** A private foundation can also accept assets from others—such as friends, companies and business associates. Although there are considerations that people need to be aware of.

- **Using life insurance.** Life insurance can be used to increase the assets in a private foundation. This can help ensure funding for charitable causes while not depleting assets that may be designated to heirs (such as business interests).

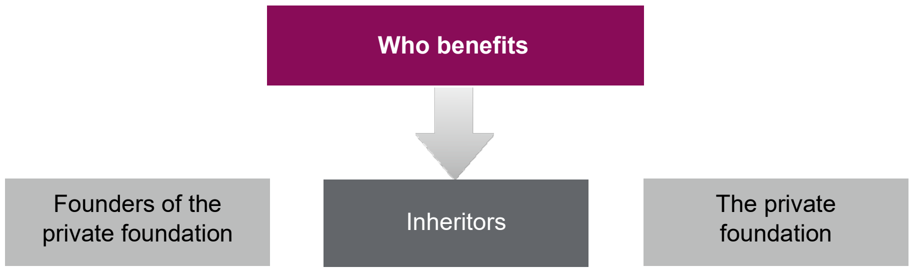
These approaches are not mutually exclusive, of course. For example, you can use life insurance *and* seek to grow assets through high-quality investment management strategies.

The benefits of using life insurance

Three parties can benefit when life insurance is part of a private foundation's assets (see Exhibit 4):

Exhibit 4

Who Benefits by Using Life Insurance in Private Foundation



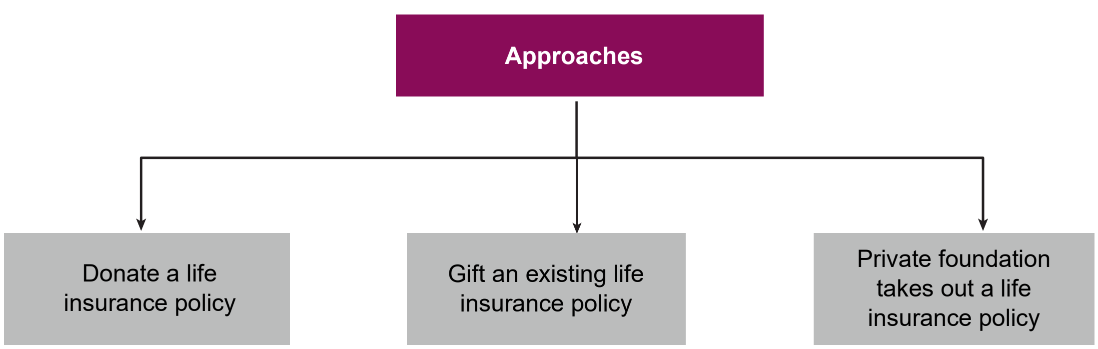
- **Founders of the private foundation.** Because of certain characteristics of life insurance, such as the certainty of the payout, founders of a private foundation know how its assets will increase if they use life insurance to fund the foundation. This can help ensure they can pursue their philanthropic vision.
- **Inheritors.** By using life insurance to boost the foundation's asset size, families can avoid other family assets (or minimize their usage). These other assets in the estate can then be passed down to heirs.
- **The private foundation.** The certainty of the amount of the insurance policy's death benefit can be helpful when planning for future grant making. It can reduce or even eliminate issues around investment performance and the need for family members or other parties to contribute to the private foundation.

Using life insurance with private foundations

Donors can take different approaches when using life insurance to help fund private foundations (see Exhibit 5):

Exhibit 5

Using Life Insurance with Private Foundations



- **Donate a life insurance policy to the private foundation.** The donor takes out a new life insurance policy and donates it to the private foundation, making the private foundation the beneficiary of the policy. The donor gets to take a charitable tax deduction, while the private foundation owns the policy and controls it. That means, for example, that the donor can't take loans against the cash account or cancel the policy.

- **Make a gift of an existing life insurance policy.** The donor makes the private foundation the beneficiary of a life insurance policy that's already in place. When the donor dies, the death benefit of the life insurance policy is transferred to the private foundation and the donor's estate receives a tax deduction at that time. During the donor's lifetime, he or she maintains control of the policy and can change the beneficiaries.

- **The private foundation takes out life insurance policies on donors.** The private foundation, with permission, can take out life insurance policies on donors (such as the founder or officers of the private foundation). The private foundation then owns, and is the beneficiary of, these policies.

Implications for you

Chances are that you don't have a private foundation of your own. But you can still take advantage of life insurance in many of the same ways as you seek to make a charitable impact of your own.

For example, instead of cashing out an old policy you decide you no longer need, consider giving it to a charity or a donor-advised fund. The charity or charitable vehicle will receive the entire face amount of the policy upon your death—which could represent a substantial windfall, and a larger amount of money than you might be able to donate otherwise. You can also take a tax deduction for this gift.

There are other ways that life insurance could potentially play a role in your philanthropy, and your best bet is to discuss the topic with a trusted advisor to determine the right path for your situation

Please feel free to contact us

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