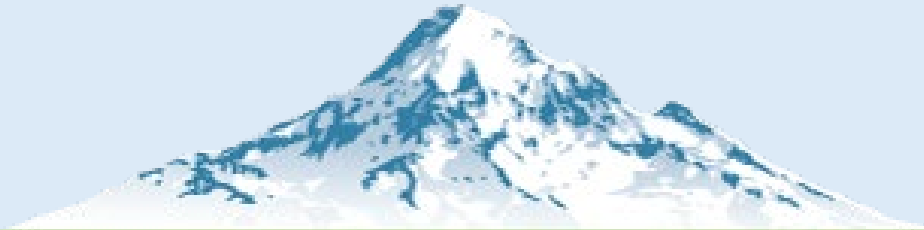


# A Discussion about Life Insurance and Charitable Applications



NORTHWEST PLANNED GIVING ROUNDTABLE

# Disclaimer

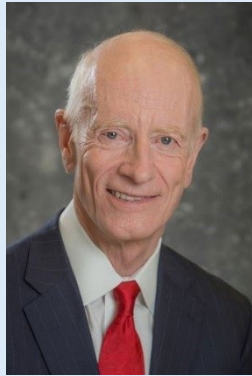
This presentation is provided for **educational and informational purposes only**. It is not intended to provide, and should not be relied upon as, legal, tax, or accounting advice.

- Charitable organizations should consult with their own qualified legal, tax and financial advisors regarding the application of life insurance strategies to their specific situations.
- The examples and illustrations provided are **hypothetical** and are not guarantees of future results.
- Neither the presenters nor their firms provides tax or legal advice.
- Charitable organizations should evaluate any proposed gift arrangements in light of their own policies, governing documents, and fiduciary responsibilities.

# Presenters

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Founder, Requisite Resources LLC

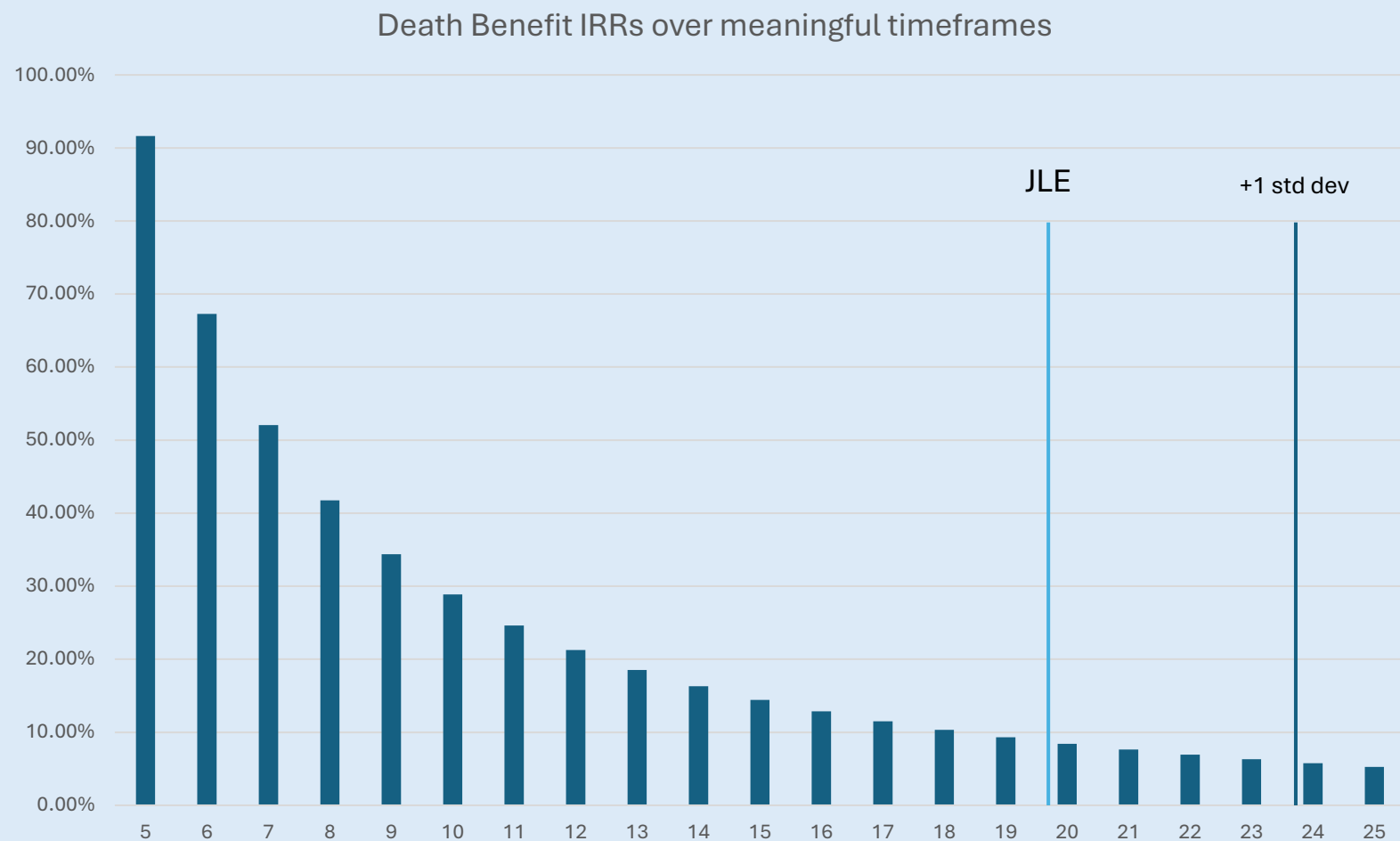


# The Strategic Value of Life insurance in Charitable Planning

Life Insurance can provide:

- A leveraging effect of donor's gift
- Certainty of gift completion
- Relative simplicity of administration

**HOWEVER, these results are  
CONDITIONAL**



Life insurance death benefits can offer exceptional returns relative to premiums paid, especially in early years

At joint life expectancy (JLE) of 89.5, the IRR on the death benefit of the policy is 9.24%

At one standard deviation past JLE, death benefit IRR is 6.93%

Total mortality is at 96.3% at +1 standard deviation

Case Data: Male and Female, both Age 70, both standard rate class  
Survivorship policy \$1MM face amount, annual premium \$19,244

# Life Insurance 101

## A Primer

### Types of coverage:

**Term – “temporary” designed to provide coverage for a set, but limited timeframe. No accumulation of cash value.**

**“Permanent” – designed to remain in force for the entirety of insured’s lifetime. Accumulation of cash value. 2 main variations distinguished by premium requirements:**

**“Whole Life” - predetermined premiums on set schedule**

**“Universal Life” – flexible premiums with no set schedule**

# Term – Definitely temporary...



End of Year	Beg/End of Yr Age	Annualized Premium	Face Amount
1	66/67	4,400.00	500,000
2	67/68	4,400.00	500,000
3	68/69	4,400.00	500,000
4	69/70	4,400.00	500,000
5	70/71	4,400.00	500,000
6	71/72	4,400.00	500,000
7	72/73	4,400.00	500,000
8	73/74	4,400.00	500,000
9	74/75	4,400.00	500,000
10	75/76	4,400.00	500,000
		<b>44,000.00*</b>	
11	76/77	4,400.00	500,000
12	77/78	4,400.00	500,000
13	78/79	4,400.00	500,000
14	79/80	4,400.00	500,000
15	80/81	4,400.00	500,000
16	81/82	98,985.00	500,000
17	82/83	111,925.00	500,000
18	83/84	126,985.00	500,000
19	84/85	144,445.00	500,000
20	85/86	164,745.00	500,000
		<b>713,085.00*</b>	
21	86/87	188,245.00	500,000

# Permanent Coverage

-almost always a charity's best option

- **Actuarially designed to stay in force for the insured's lifetime**
- **Cash value provides flexibility; both now and in the future**



# 3 ways to initiate the relationship with the charity and a donor's life insurance policy

- 1. Donor names charity as the beneficiary of existing coverage on donor's life**
- 2. Donor gifts existing coverage to charity**
- 3. Donor and charity establish new coverage on donor's life**

# 1) Donor names charity as beneficiary

- Donor retains ownership of policy
- Donor manages funding of policy
- Policy remains part of donor's estate, but estate gets offsetting charitable deduction for death benefit paid to charity
- Charity has little to no control of policy

## 2) Donor gifts existing policy to charity

**Step 1:**

**STOP!**



**Gifts of existing policies should be closely scrutinized prior to acceptance!**

**A number of elements of a policy should be reviewed, confirmed, and/or stress tested prior to acceptance.**

## 2) Donor gifts existing policy to charity

### A high level list of considerations:

#### Some things to verify:

- Current status of policy with insurer
- Specific type of policy
- Ability of owner/donor to authorize changes
- Determine ongoing premium obligations (donor or charity)
- Market value of policy (consistent with Form 8283 requirements)

## 2) Donor gifts existing policy to charity

### **A high level list of considerations (cont.):**

#### **Some things to consider:**

- **Age and relative health of donor**
- **Financial assessment of policy viability (updated policy values, loan balances, in-force projections (aka, in-force illustrations))**
- **Keep or “cash out” ( or sell, in secondary market)**
- **Potential viability of new coverage to replace existing coverage**
- **Ongoing carrier viability**
- **Ongoing premium requirements**

## 2) Donor gifts existing policy to charity

### **Recommended Best Practices:**

- **Review existing Gift Acceptance Policy regarding gifts of existing insurance. Amend as necessary**
- **Establish a set of Standard Operating Procedures regarding the acceptance of gifts of existing insurance**
- **Consider utilizing a fee-based, licensed life insurance consultant to assist with due diligence**

### 3) Donor and charity establish new coverage on donor's life

**New coverage can avoid many of the due diligence steps of accepting existing coverage**

**Cost of new coverage is sometimes less than existing coverage, even at an older age**

**New coverage can be designed to exactly conform to needs of donor and charity**

# New coverage is often less expensive than old

Maximum Mortality Rate (Per 1,000) - 1958, 1980, 2001 and 2017 CSO Tables								
Attained Age	Male				Female			
	1958	1980	2001	2017	1958	1980	2001	2017
45	5.35	4.55	2.65	1.83	4.17	3.56	1.87	1.05
55	13.00	10.47	6.17	3.40	9.96	7.09	5.10	2.36
65	31.75	25.42	16.85	7.96	24.31	14.59	11.85	5.63
75	73.37	64.19	41.91	24.24	58.65	38.24	27.90	16.00
85	161.14	152.95	116.57	82.34	129.17	116.10	74.45	61.31



# Can Life Insurance Enhance a Donor's willingness to give?

1

*Replace CRT asset*

2

*Fill the "gap" of  
testamentary lead  
trust*

3

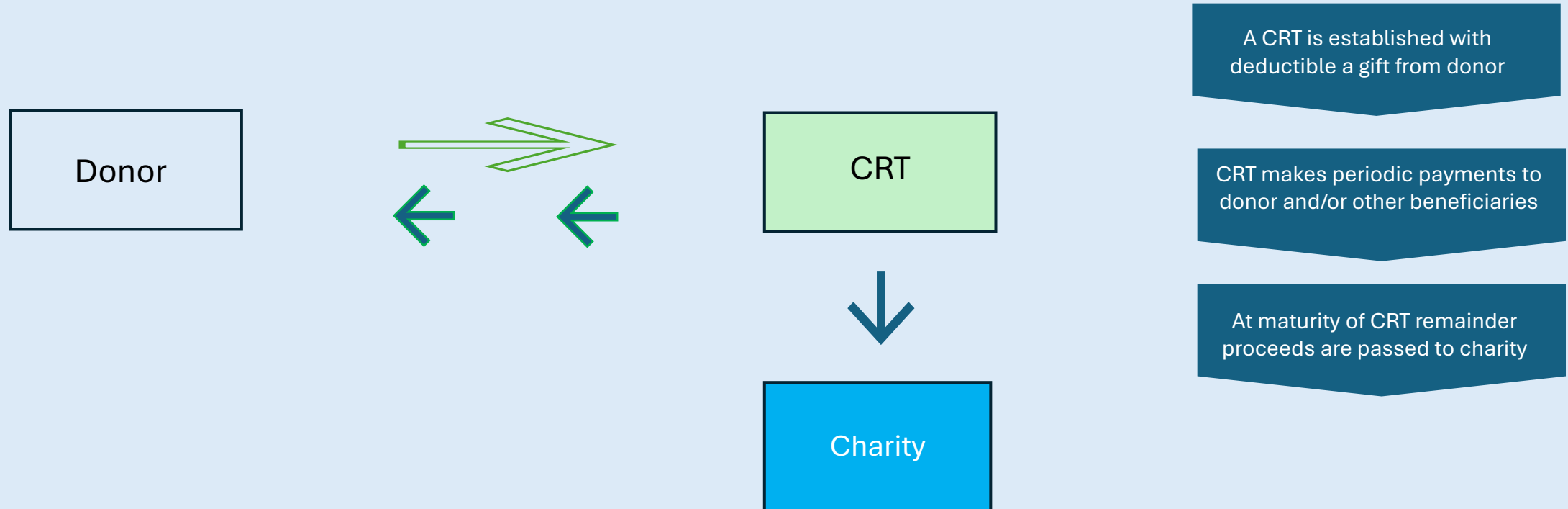
*"Split" cash gifts to  
enhance ultimate gift  
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# Can Life Insurance Enhance a Donor's willingness to give?

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*Replace CRT asset*

# Charitable Remainder Trust



# Charitable Remainder Trust

## Benefit Summary:

### 1 Benefit to Donor

- Immediate income tax deduction of NPV of remainder interest
- Removal of gifted asset from taxable estate
- Income Stream

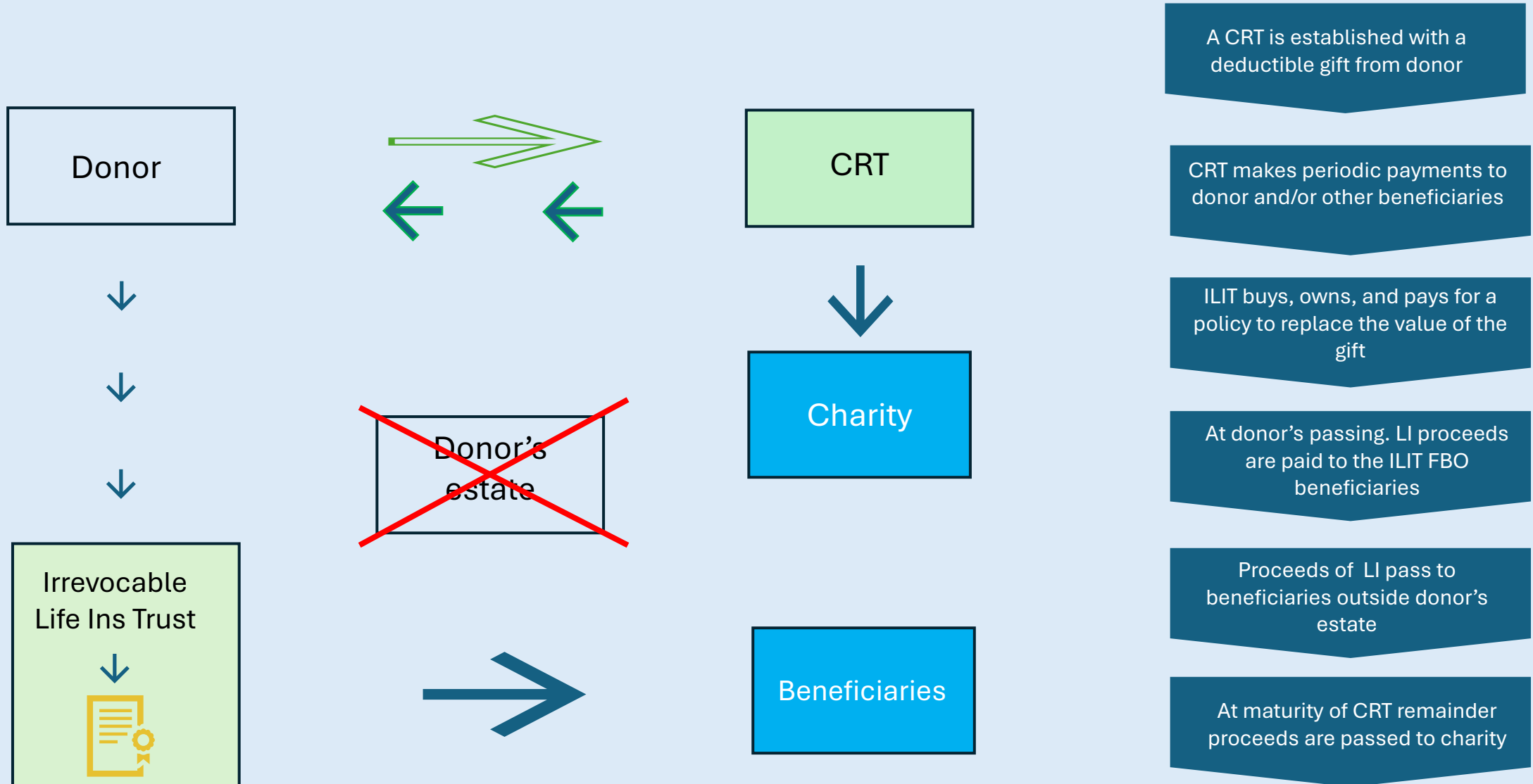
### 2 Benefit to Charity

- Remainder interest of CRT at CRT termination

### 3 Benefit to beneficiaries

- ??

# CRT “Wealth Replacement”



# CRT “Wealth Replacement”

## Benefit Summary:

### 1 Benefit to Donor

- Immediate income tax deduction of NPV of remainder interest
- Removal of gifted asset from taxable estate
- Insurance premium can be paid with a portion of CRT income

### 2 Benefit to Charity

- Remainder Interest of CRT
- Elimination of financial conflict between charity and beneficiaries, thus...
- ...potentially larger gifts

### 3 Benefit to beneficiaries

- Assurance that value of gifted asset will be replaced
- Insurance proceeds will be received **income** tax free
- Insurance proceeds will be received **estate** tax free

# CRT with “Wealth Replacement”

## Relevant tax code sites

### **Related to specific CRT type:**

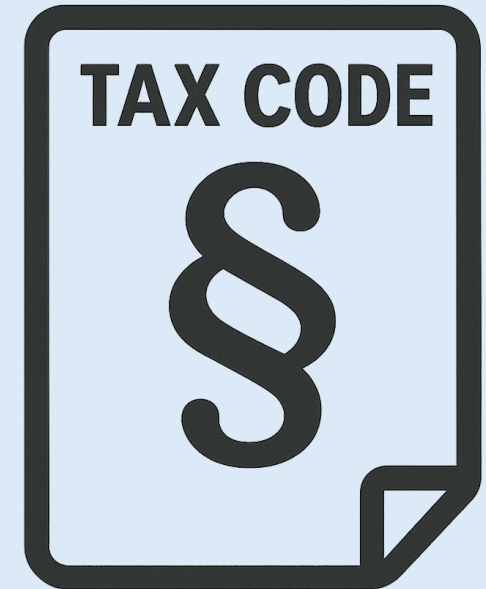
- §664(d)(1)
- §664(d)(2)
- §664(d)(3)

### **Related to Tax Treatment:**

- §664(c)
- §170(f)(2)(A)
- §2055(e)(2)(A)
- §2522(c)(2)(A)

### **Related to beneficiary taxation:**

- §170(e)(1)(A)
- §170(b)(1)(A)



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# Can Life Insurance Enhance a Donor's willingness to give?

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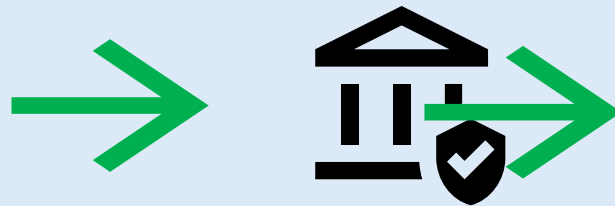
*Fill the "gap" of  
testamentary lead  
trust*

# Testamentary Lead Trust

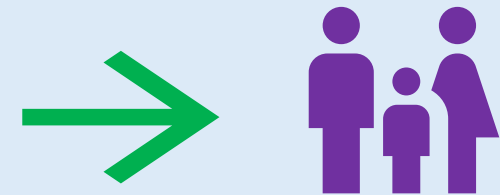
A Testamentary Charitable Lead Trust is established



At donor's passing, the lead trust is funded, reducing the taxable estate



Payments commence:  
CLT payments to charity



At maturity of lead trust  
remainder proceeds are  
passed to beneficiaries

# Testamentary Lead Trust

## Benefit Summary:

1 Benefit to Donor

- Removal of asset from taxable estate

2 Benefit to Charity

- Future Income Stream to Charity

3 Benefit to beneficiaries

- Reduction in Estate Tax Liability...
- ...but at the Cost of the Deferred Receipt of Assets

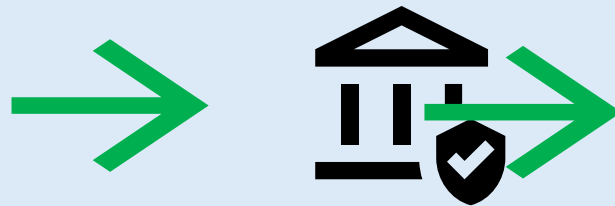
# Filling the “gap” of a Testamentary Lead Trust

A Testamentary Charitable Lead Trust is established




At donor's passing, the lead trust is funded, reducing the taxable estate

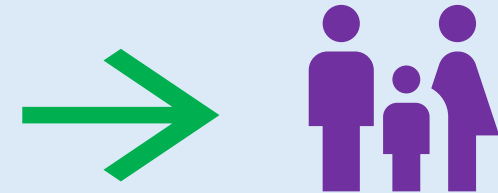
An amount is determined for asset replacement for heirs (lump sum or income stream)



2 payments commence: CLT payments to charity and ILIT asset replacement for heirs

ILIT buys and pays for a policy in the amount of asset replacement for heirs

Irrevocable Life Ins Trust 



At maturity of lead trust remainder proceeds are passed to beneficiaries

# Filling the Income Gap of a Testamentary Lead Trust

## Benefit Summary:

### 1 Benefit to Donor

- Immediate income tax deduction of NPV of remainder interest
- Removal of asset from taxable estate
- A portion of CRT income pays insurance premium

### 2 Benefit to Charity

- Future guaranteed funds
- Potentially larger gifts
- Elimination of financial conflict between charity and beneficiaries

### 3 Benefit to beneficiaries

- Assurance that value of gifted asset will be replaced
- Insurance proceeds will be received income tax free
- Insurance proceeds will be received estate tax free

# Filling the Income Gap of a Testamentary Lead Trust

## Relevant tax code sites

### **Related to estate tax deduction:**

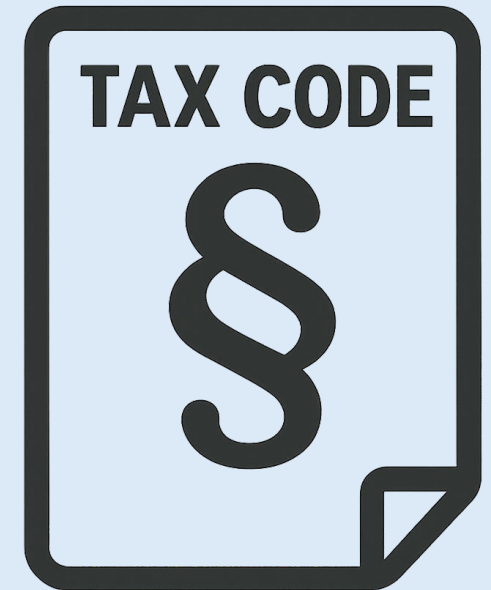
- §2055(e)(2)(b)
- §664(d)(2)
- §664(d)(3)

### **Related to Trust Structure:**

- Treas. Reg. §20.2055-2(e)(2)(vi)
- Treas. Reg. §20.2055-2(e)(2)(vii)

### **Related to trust taxation:**

- §642(c)
- §170(b)(1)(A)



# Life Insurance As a Complement to Other Charitable Giving Strategies

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*Replace CRT asset*

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*Fill the “gap” of  
testamentary lead  
trust*

3

*“Split” cash gifts to  
enhance ultimate gift  
to charity*

# Life Insurance As a Complement to Other Charitable Giving Strategies

3

*“Split” cash gifts to  
enhance ultimate gift  
to charity*



# “Splitting” cash gifts for benefit of charity



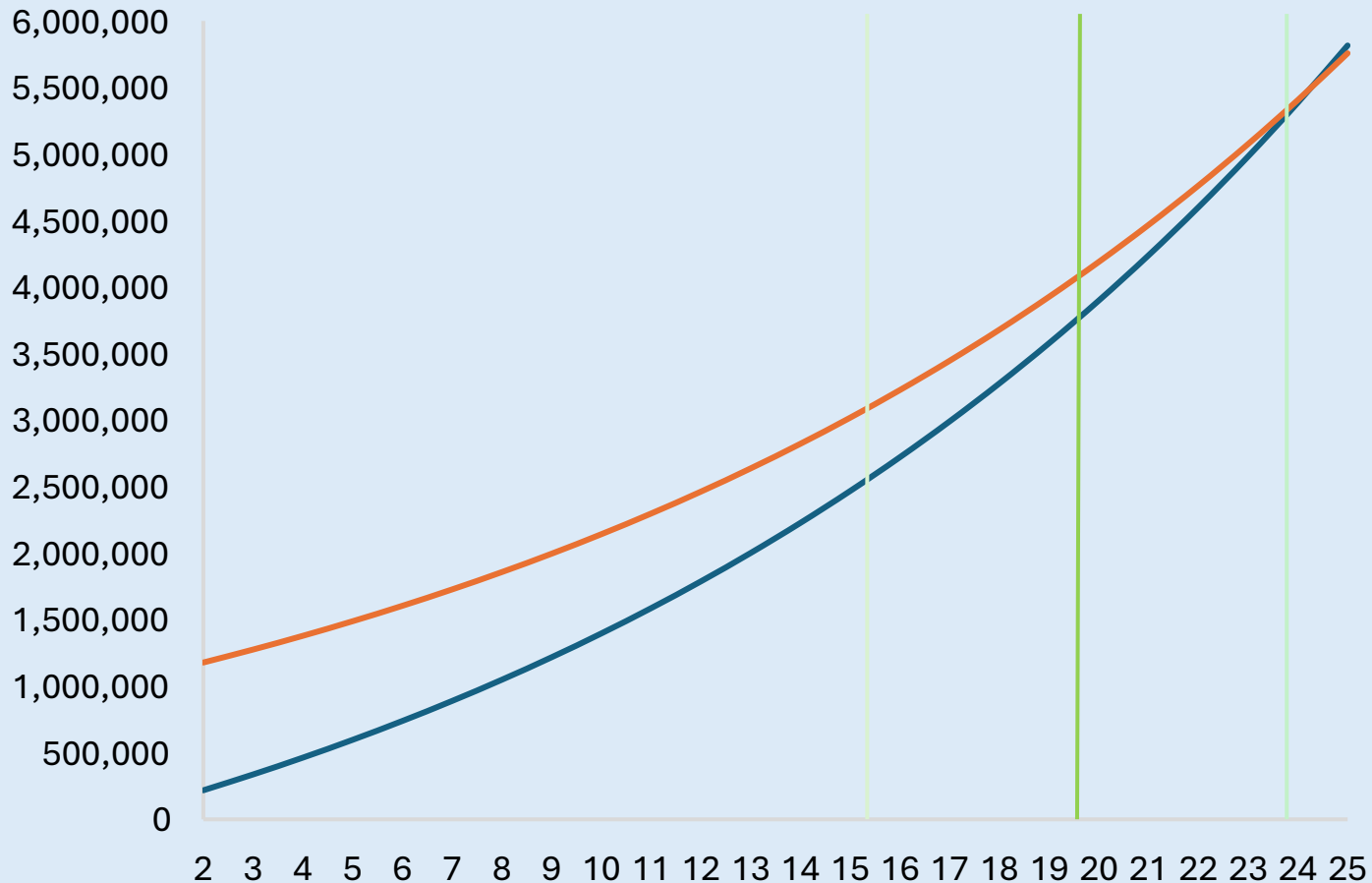
Donor commits to becoming a pledge donor

Parties agree to applying some of donor's annual gift to buy life insurance on donor's life

Charity buys, owns, and pays for a policy using a nominal portion of annual gift

At donor's passing, death benefit proceeds are paid to charity

# “Split” gift, illustrated...



Married couple, both age 70, want to gift \$100k per year, charity invests at 6.00% annual growth.

If \$19,200 of that \$100k was directed into a \$1MM survivorship life policy and invests the balance...

...the charity will net an additional \$349k if donors pass at joint life expectancy

# “Splitting” cash gift for benefit of charity

## Benefit Summary:

1

### Benefit to Donor

- Knowledge that value of gift to charity will be enhanced
  - Potential for enhanced recognition during lifetime of donor
- 

2

### Benefit to Charity

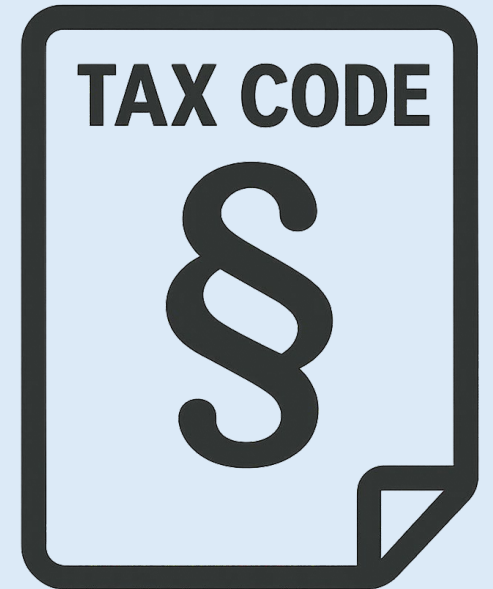
- Building a “bank” of enhanced future gifts
  - Potentially larger gifts
-

# “Splitting” cash gift for benefit of charity

## Relevant tax code sites

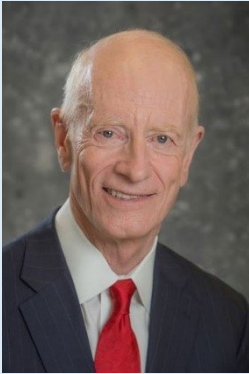
### **Related to Cash Gifts:**

- §170(b)(1)(A)



Q & A

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