



## **Life Insurance Gifts: Planning Considerations**

Gifts of life insurance are an additional option for charitable giving. While life insurance is not the answer to every financial planning and estate planning problem, the possibilities for using life insurance can serve to meet certain needs. Ownership rights in a life insurance policy are often readily transferable.

### **Reasons for considering gifts involving life insurance:**

- Life insurance permits you to arrange for a substantial gift by making a series of modest payments (the premium or premium amount) during your lifetime.
- A gift of life insurance is a certain way to give, and the full proceeds are payable to the Church when the insured passes away.
- Life insurance proceeds are ordinarily paid promptly; proceeds are generally not delayed by the administration of the estate.
- Unlike a will, life insurance is not a matter of public record. The proceeds may not be challenged by creditors or others.
- Life insurance usually is not the type of asset that will be relied upon by the insured for his or her financial security.
- A gift of life insurance is simple to make – forms are supplied by the insurance company.
- Your income tax picture may improve. The premiums or premium amount may be viewed as an annual gift to the Church, and tax deductible.

### **Tax Advantages of Life Insurance Gifts**

Tax considerations often play an important role in selecting life insurance as the subject of a charitable contribution. Ordinarily, you get no income tax deduction for premiums you pay on your life insurance policies. As an offset, of course, there is generally no income tax payable on the death proceeds of the policy. If you transfer ownership of your policy to the Church, however, you may deduct the value of the policy in the year you make the assignment, up to a certain 50% of your adjusted gross income in that year. Any excess usually may be deducted in future years. The premiums you pay on a policy irrevocably transferred for our benefit also qualify for an income tax charitable deduction.

Example: Suppose you give the Church your insurance policy with a face value of \$100,000 and a present market value of \$50,000. This amount is generally slightly more than the cash surrender value shown in the policy. You can deduct \$50,000 on your income tax return, which in a 35% tax bracket saves you \$17,500 in taxes. Subsequent premium payments are also tax deductible. So if the annual premium is \$1,000, you actually increase each year's



spendable income by \$350.

The estate tax consequences of a charitable gift of an insurance policy can be especially important for individuals with taxable estates. The death proceeds will pass to the Church free of any federal estate tax. In determining the overall savings that may result from a gift of a life insurance policy, both estate tax and income tax savings must be considered. To determine the approximate value of the income tax charitable deduction, multiply the cash value of the policy by your income tax bracket. This amount plus the estate tax savings can be substantial.

In addition, after transferring a policy to the Church, you may wish to make an annual contribution equal to the annual premium on the policy; of course, this amount is also deductible. We will use your annual contribution to pay the premium each year. Thus, the gift of a life insurance policy can result in estate tax savings, immediate income tax savings and continued income tax savings for your annual contributions equal to the premium.

### **Policies That Are No Longer Needed**

Let's assume that your circumstances have changed over time, and that there is no longer a real necessity for retaining a \$50,000 policy purchased many years ago. Let's assume further that the cash value of your policy is now \$20,000. What are your alternatives in planning for some present use of this policy:

- *Alternative 1* – You can surrender the policy for its cash value of \$20,000. This terminates the policy so that no proceeds will be payable upon death.
- *Alternative 2* – You can continue to pay premiums (\$500 a year) and retain the policy. However, you realize that the proceeds may be depleted by the federal estate tax. If you decide to retain the policy, you may wish to borrow the cash value, paying the policy interest rate (which may be lower than rates available elsewhere) and invest it in higher yielding investments. This will leave the policy in force; however, the death proceeds payable will be reduced by the amount of the loan outstanding at your death.
- *Alternative 3* – You can assign ownership of the policy to the Church and continue to pay the premiums. You'll gain an immediate tax savings of \$5,000 (a deduction for about \$20,000 at an assumed 25% income tax rate). Plus you'll gain an additional tax savings of \$1,875 (25% of premium payments of \$7,500 assuming you live for another 15 years). This amount can pass to your beneficiaries, and we will receive the full \$50,000, with no reduction for the estate tax, to benefit our core activities.



## **A Simple Beneficiary Designation**

Perhaps you would like to assist the Church but do not wish to make an immediate and irrevocable gift. You can name us as beneficiary – with a right to change the beneficiary or surrender the policy at any time – and the proceeds will be free of the federal estate tax. In fact, you can name the Church as a co-beneficiary with a member of your family – or as a contingent beneficiary to take the proceeds only if your primary beneficiary dies before you. The full amount passing for our use will qualify for an estate tax deduction.

## **Fund a Charitable Remainder Trust**

It is not necessary to give the Church the entire proceeds of a life insurance policy in order to achieve tax savings. A gift of a partial interest in your policy may, if made in the proper form, qualify for an income tax or an estate tax deduction. If a deduction is allowable, the gift is valued actuarially according to government tables.

If you name a trust as the beneficiary of your life insurance policy, you can direct the trustee to make specified payments to a friend or family member for life and pay the remaining proceeds to us at the beneficiary's death. For example, the trust instrument would direct the trustee to collect and invest the proceeds of a \$100,000 policy, pay 5% annually to your husband or wife for life and pay the Church whatever remains in the trust when he or she dies. The present value of our right to receive the proceeds at a later time will be immediately deductible for estate tax purposes.

You may wish to go a step further and transfer your policy to a charitable remainder trust while you are alive. Your spouse or anyone else you choose will receive an income for life, and the remaining property will then pass for our eventual benefit. You may be able to take an immediate income tax deduction for the portion of the value that will ultimately pass for our benefit. In addition, you may be entitled to deduct a portion of the policy premium you pay each year that is attributable to our remainder interest on your income tax return for that year. Little or no income is paid out to your spouse or other designated income beneficiary prior to your death, but a substantial income is paid out thereafter.

## **Wealth Replacement with Life Insurance**

Another option is to transfer cash or property to a charitable remainder trust, reserve income for your life and use the tax savings generated by your gift to purchase life insurance for your family's needs. The life insurance replaces the assets that would come for our benefit, and if you employ a so-called irrevocable life insurance trust, your family can receive the proceeds free of estate tax.



Suppose you own low-yielding securities with a fair market value of \$100,000 and a basis of only \$20,000. If you sell those assets, you would be subject to income tax of as much as \$12,000 on the gain. Instead, you could use those securities to fund a charitable remainder trust, reserving for yourself and possibly your spouse the right to receive an annuity income for life. The trust can sell the securities without incurring tax on the gain. You can use your charitable deduction tax savings and some of the trust income to purchase \$100,000 in life insurance within an irrevocable insurance trust (sometimes called a “wealth replacement trust”). At your death the proceeds would pass estate-tax free. The two trusts allow you to enjoy an income for life, pass the same \$100,000 to your family upon your passing, and benefit our future, all while reducing your taxes.

Note that the availability of these deductions is a complex matter, and the trust must meet certain tests laid down by the Internal Revenue Service. Check this with your attorney. And, of course, we’ll be happy to provide illustrations.

### **Wealth Replacement Arrangements for IRA Gifts and Life Insurance**

A combination of estate taxes and income taxes can severely reduce the net benefit of an IRA account as it passes to loved ones. If an individual has assets other than the IRA, a more productive option might be to leave the retirement account to support the Church and preserve all of the IRA funds free from tax. Loved ones would benefit from other assets. However, you could also make a bequest to the Church of a retirement account and purchase life insurance to replace what a family member would have kept. Thus if you had a \$1 million IRA and estimated that a loved one would retain only \$500,000 after taxes, you could purchase \$500,000 of life insurance through the “wealth replacement” arrangement described above. If you then named the Church as beneficiary of your IRA, the Church would receive \$1 million, tax free, and your loved one would receive \$500,000 of life insurance, also potentially free of tax.

### **Gift of Excess Group Life Insurance**

Here is a special gift opportunity for executives whose companies provide them with group life insurance. Generally if an employer provides an employee with more than \$50,000 of group term insurance, the employee is taxed on the excess coverage each year. But if a qualified charitable organization is named as the sole beneficiary of any portion of the coverage in excess of \$50,000, the employee may not have to pay income tax on that portion of the coverage. Your attorney can advise you on whether you may be able to take advantage of this gift opportunity, with its attendant tax advantage.



## **Second to Die (Survivorship) Policy Gifts**

Charitable gifts of life insurance policies that make payments after the death of the survivor of two insured persons are also a consideration. Survivorship (or second-to-die) policies are useful for married couples to pay death taxes in the estate of the surviving spouse, who may not have the estate tax marital deduction. For donors, such policies offer an extremely low-cost way to fund and contribute life insurance.

## **Some Additional Planning Options**

You might consider purchasing a new policy to make a substantial sum available for the Church's future benefit upon your passing. With proper planning, an individual may be able to purchase a \$500,000 policy at a low after-tax cost, thanks to annual income tax savings from making the premium payments, assuming the Church is made both owner and beneficiary of the new policy.

You can elect to take a reduced death benefit based on the present value of a policy, assign it to the Church and pay no additional premiums. The full value of the policy will be deductible in the year the assignment is made.

If you own what is called a "vanishing premium" universal life insurance policy, you may contribute it the Church, and the interest earned on the policy may be enough to pay the premiums, without the need for either premium payments or reduced benefits.

## **How to Proceed**

Making The First Church of Christ, Scientist the beneficiary of a life insurance policy can be achieved by calling the company or your agent and asking for a change of beneficiary form. If you are interested in making a gift of life insurance, please e-mail, call or write our office.

We are pleased to advise you:

1. Our correct legal name and address, for the purpose of the new beneficiary designation and/or change of ownership on the records of the life insurance company
2. The details of the transfer process, if you are giving a new or existing policy
3. An estimate of the possible charitable tax deduction, if you will be transferring full ownership in the policy



You will need to share with us:

1. The type and face value of the life insurance policy you plan to contribute
2. Whether the policy is paid up or whether premiums remain to be paid
3. Whether the Church will be simply a beneficiary or the owner of the policy

You can contact our office at [philanthropy@csps.com](mailto:philanthropy@csps.com), by phone at 1-800-288-7155, extension 3288, or write to us at the address below. We look forward to hearing from you.

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