# Leave a legacy of gifting

## Using life insurance as a charitable gift

LIFE SOLUTIONS

Overview

Insurance products issued by:
The Lincoln National Life Insurance Company

3852270

For use with the general public.

# Add some life to your gifting goals

Life insurance offers an incredible amount of flexibility. It can provide income to loved ones; pay taxes and expenses at death; and can be used to provide tax-free supplemental retirement income.

A life insurance policy also allows you to leave a legacy – not just for the people you love but for organizations and causes important to you. That's because a charity can receive the payout from a life insurance policy. In fact, of those surveyed, more than a quarter of Americans who own life insurance say that one of the reasons they bought a policy was to provide a charitable gift.* And because life insurance may provide a death benefit several times larger than the premium paid, it is a great way to boost charitable giving.

## What types of life insurance can be donated?

**The two types of life insurance policies that can be used for donations are term or permanent life insurance.** A term life policy is generally not used for charitable giving because the policy is in-force for only a certain number of years, usually set up for a specific purpose.

Donating a permanent policy can be more beneficial. That's because a permanent life insurance policy stays in-force throughout your life, as long as you continue to pay premiums. Plus, the organization will have the option of surrendering the policy for cash if you transfer policy ownership before your death.

* *Forbes Advisor*, April 25, 2021, https://www.forbes.com/advisor/life-insurance/donate-to-charity/.

# Benefits of donating life insurance

Donating a life insurance policy is a simple way to leverage your charitable giving. For the charity, the benefit is receiving a much larger donation than they would otherwise. Many charities have "deferred giving" experts to facilitate the use of insurance as a charitable gift.

For the donor, the advantage is that any premium or premiums paid when the charity is owner and beneficiary of a policy is deductible for federal income tax purposes, up to the applicable adjusted gross income or AGI limit.

Another advantage is that you can choose to make a large lump-sum payment or make smaller monthly or annual premium payments for a life insurance policy. Those amounts you're paying might not make a big impact if you paid them directly to a charity. But, by putting that money toward an insurance policy with a sizeable death benefit, your generosity will be multiplied.

## Ready to donate a life insurance policy?

There are a few ways you can donate a life insurance policy to a charity. It's important to take note of tax consequences that can vary depending on the method used. Plus, the insurance company might require that you have a history of giving to a particular charity in order to donate your life insurance policy to it.

Before getting into the ways a policy can be donated, it's important to understand key components of an insurance contract. Knowing how these four roles work can help prevent confusion about the donation process.

1. **Insured:** The person whose life is covered by the insurance contract.
2. **Owner:** The person who owns and controls the contract. The owner can make material changes to the contract, such as changing beneficiaries. To get a deduction for income tax purposes, the charity must be owner and beneficiary of the policy.
3. **Donor:** The person, company or trust that pays for the life insurance policy.
4. **Beneficiary:** The recipient of the death benefit, which is paid out when the insured dies.

## Who should you name as beneficiary?

You can name a charity or nonprofit organization as the beneficiary of a life insurance policy just as you can name people as beneficiaries. And because you can name more than one beneficiary, you can divide the death benefit among your loved ones and a charity. The percentage of the payout the charity gets is up to you.

If it is an existing policy, it is easy to change the beneficiary to a charity or add a charity as a beneficiary. It is likely that the insurer will need the Tax ID number of the organization. Also, it is important that the charity is aware it is a beneficiary so it will know to contact the insurance company to collect its payout when you die.

If applying for a new policy and want to name a nonprofit as a beneficiary, the insured should be the applicant and name the charity as beneficiary. Working with the charity during the application process is important since certain tax information may have to be included with the application.

**Advantage for the donor:** As owner, you still control the policy. This gives you access to any cash value or living benefits accumulation while you're living and gives you the option to change the beneficiary if you want. The proceeds of the policy, payable to the charity, will be free from estate tax.

**Advantage for the charity:** The charity receives a lump-sum payment from the death benefit, usually more than they would receive as payments given throughout the donor's life.

# Already have a policy in place?

Rather than name a charity as the beneficiary of your policy, you can transfer ownership of an existing policy to give the organization immediate control of the contract. It should name itself the beneficiary and receive a tax-free payout when you die. If it's a permanent policy with cash value, the charity will not have to wait until your death to get a payout. It could surrender the policy for the cash value **immediately**.

**Advantage for the donor:** You can take an immediate charitable contribution tax deduction for transferring ownership of an in-force policy to a charity. The deduction is based on the fair market value of the policy. If premiums are still owed on the policy, you can take tax deductions if you remain the payor, meaning you continue paying premiums for the charity.

**Advantage for the charity:** It now controls the contract, which means it can name itself as the beneficiary or has the power to cash out the policy.

# Want to create a new policy?

The best planning option is to make the charity the initial owner and beneficiary of a new policy. The insurer may require that the death benefit is limited by age and by a history of the donor's charitable giving. This approach is efficient and avoids the valuation issue that exists when you transfer an existing policy. The IRS has a long history of challenging the value of property transferred to a charity. In the case of a new policy owned by the charity, there is no valuation issue. The deduction equals the premium. This approach also minimizes paperwork, as it avoids having to change ownership, and takes just one step — applying for the policy.

**Advantage for the donor:** This approach creates an immediate income tax deduction. It does not need a valuation, which can take time and money. The creation of the gift through the application is simple and straight-forward and the policy is also exempt from estate taxes.

**Advantage for the charity:** Since premiums are paid directly to the insurer by donor, the charity does not have to transfer its own funds for the premium. The recordkeeping is much simpler, and the gift can be accomplished quickly with the charity listed as the complete owner of the contract.

# Looking for other gifting options?

You have an opportunity to get a charitable contribution tax deduction without transferring ownership of your life insurance policy. If you have a permanent life insurance policy, you can receive tax-free income from the insurance company.

**Advantage for the donor:** You can take a tax deduction for donating life insurance withdrawals. You also maintain ownership of your policy.

**Advantage for the charity:** It gets a cash contribution without waiting for the death of the insured or having to potentially pay premiums for a transferred policy.

# Let's look at some examples

## Meet Ben

*Maximized death benefit for charity*

Ben is a 45-year-old male in a preferred nontobacco underwriting class. He wants a death benefit of $1,000,000 with a 10-year premium payment period and a guaranteed death benefit to age 85.

**Ben wants to:**

- Leave a maximized death benefit to charity
- Lock in a guaranteed death benefit to age 85
- Maximize internal rate of return for charity
- Spread out his premium payments over 10 years

**How it played out:**

| | |
|---|---|
| Ben's policy death benefit | $1,000,000 |
| His total total premium | -$287,400 |
| His policy gain of death benefit over his premium outlay | $712,600 |

## Meet Linda

*Maximized cash donations during her lifetime*

Linda is a 65-year-old female in a preferred nontobacco underwriting class. She wants a death benefit of $1,000,000 with a 10-year premium payment period.

**Linda wants to:**

- Provide a death benefit for charity
- Maximize cash value available for charitable uses before death
- Maximize internal rate of return for charity
- Spread out her premium payments over 10 years

**How it played out:**

| | |
|---|---|
| Linda's policy death benefit | $1,000,000 |
| Her total total premium | - $403,690 |
| Her policy gain of death benefit over her premium outlay | $596,310 |

**Linda's cash surrender value gain over her premium outlay was $118,939 at age 85.**

Samples for illustration only, and based on assumptions below, with premiums paid as planned and no loans or withdrawals. Each individual policy will perform differently.

[1] Based on male, age 45, preferred nontobacco, *Lincoln WealthPreserve*® 2 indexed universal life insurance policy, $28,740 premium annual premium paid for 10 years, $1,000,000 level death benefit, assuming 5.70% annual crediting rate. **With 0% return, policy lapses at age 73.**

[2] Based on female, age 65, preferred nontobacco, *Lincoln WealthAccumulate*® 2 indexed universal life insurance policy, $40,369 premium annual premium paid for 10 years, $1,000,000 level death benefit, assuming 5.70% annual crediting rate. **With 0% return, policy lapses at age 78.**

## Estate planning helps you control the assets you've worked hard to attain.

Using tools such as life insurance in a charitable trust is just one way to do this. Start preparing for your family's needs and fulfill your philanthropic goals today — Lincoln can help.

Talk with your financial professional today about leaving a legacy of gifting through life insurance.

| |
|---|
| Not a deposit |
| Not FDIC-insured |
| Not insured by any federal government agency |
| Not guaranteed by any bank or savings association |
| May go down in value |



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