

Gifts of Life Insurance



COMMUNITY
FOUNDATION OF
MORGAN COUNTY

The mission of CFMC is to connect donors and their charitable giving with our evolving community needs in order to enhance quality of life for current and future generations through impact grant making.

A Low-Cost Gift Opportunity

Life insurance provides a unique opportunity to make a substantial, cost-effective gift. While there are many ways to use life insurance to fulfill charitable goals, the simplest and most common method is to make a charity the beneficiary of the policy.

Naming a Charity as Beneficiary

Using a Change of Beneficiary form from the life insurance company, you can make us the sole beneficiary of the policy. You can also choose to make us a percentage beneficiary while leaving the rest of the proceeds to your heirs. This gift is easy and flexible, as you can make changes in the future if your circumstances or goals change.

EXAMPLE: Jeremiah purchased a \$100,000 life insurance policy decades ago to protect his family. When his wife passes away, he decides to make his two young adult children 25% beneficiaries of the policy and he makes us a 50% beneficiary. Ten years later, his children are both financially successful, and Jeremiah decides to make us the sole beneficiary of the policy, leaving his other assets to his children. While he does not receive a charitable income tax deduction for this gift, if his estate is large enough, it may benefit from an estate tax charitable deduction for the gift.*

Other Ways to Give

A beneficiary designation is not the only way to make a gift of life insurance. You can also:

- **Donate a paid-up policy.** In many cases, the after-tax cost of this generous gift is only a fraction of the benefit provided to us, and you would qualify for an income tax charitable deduction equal to the policy's replacement value or your basis in the policy, whichever is less.
- **Donate an existing policy that is not yet paid up.** This would require you to make annual gifts to us to pay the premiums. These annual gifts are, of course, tax deductible.
- **Buy a new policy and transfer ownership to us.** This method would require you to make annual gifts to us to pay the premiums. These annual gifts are, of course, tax deductible.

* All examples are for illustrative purposes only.

PLEASE REACH OUT

Have you already made a gift to us through a beneficiary designation on a life insurance policy? If so, let us know! We would appreciate the opportunity to thank you for your generosity.

NOTE: Beginning in 2026, only donation amounts that surpass 0.5% of your adjusted gross income will qualify for a charitable deduction.

- **Transfer a policy to a charitable remainder trust.** This giving option provides many tax and financial rewards. The trust will pay an income for life to your beneficiaries. At the death of the trust beneficiary, all remaining proceeds pass to us. A charitable remainder trust lets you deduct the present value of our remainder interest as a charitable contribution.

Replacing Donated Assets

Some supporters who want to make a major gift are deterred by the fear that a charitable gift will deprive family members of assets they may need in the future. This presents a classic dilemma where family needs compete with charitable objectives.

Fortunately, the “wealth replacement” (or “capital replacement”) technique can solve this problem. It can help you achieve both objectives while minimizing income and estate taxes—and in some cases, capital gains taxes. Wealth replacement works by combining:

- A charitable remainder trust
- A life insurance policy, and
- An irrevocable life insurance trust.



The Wealth Replacement Arrangement

- You transfer long-term appreciated property to a charitable remainder unitrust (CRUT) and qualify for a federal income tax deduction for the present value of our remainder interest, subject to limitations.
- The CRUT pays you an income for life, or for a term of years not to exceed 20.
- The trustee of the CRUT can sell an asset without paying capital gains tax.
- You use the income from the CRUT to make gifts to an irrevocable life insurance trust (ILIT). The ILIT trustee can use the gifts (after the beneficiary's right of withdrawal has expired) to pay premiums for a life insurance policy on your life owned by the ILIT. The initial face amount of the policy is often the fair market value of the property you transferred to the trust.
- When you die, the ILIT receives the policy proceeds and distributes them to the trust beneficiaries, and we receive the remaining CRUT property.

RESULT: You qualify for a current income tax charitable deduction and create a new income stream. You make a significant charitable gift, and your heirs are “made whole” with life insurance proceeds in an amount equal to the donated capital.



WEALTH REPLACEMENT CASE STUDY

THE DILEMMA. Mary purchased marketable securities many years ago for \$100,000. They are now worth \$500,000, and they are producing income of around \$12,500 each year (a 2.5% return). Mary considers selling the securities and reinvesting the proceeds to obtain a higher income, but she is not happy about the capital gains tax that she would have to pay as a result of the sale. Ultimately, Mary would like to split the securities (or the sale proceeds) in her will among her three grandchildren. Mary is also one of our ardent supporters who is committed to making a significant gift to us, but not at the expense of her grandchildren.

A LOGICAL SOLUTION. With the assistance of her advisors, Mary transfers the securities to a charitable remainder unitrust (CRUT) that will pay her an annual income of 5% of the value of the trust assets as re-valued every year. Payments continue for as long as she lives, with the remainder going to us at Mary's death. Mary is eligible to take a charitable tax deduction for the present value of our remainder interest in the trust (assuming she itemizes and meets the requirements under federal tax law to claim the deduction), and she will not owe any capital gains tax on the transfer to the trust.

Next, Mary creates an irrevocable life insurance trust (ILIT) and the trustee purchases a life insurance policy on Mary's life in the amount of \$500,000 (or more) to replace the value of the securities she donated in the CRUT. Mary uses her income from the CRUT to make annual gifts to the ILIT to pay the premiums on the policy. As grantor of the ILIT, Mary names her grandchildren as equal beneficiaries of the trust.

When Mary dies, the charitable remainder trust will pass all remaining assets to us, and the ILIT will distribute the insurance proceeds to the grandchildren (or hold and invest the proceeds for their benefit).

CONSIDER THE BENEFITS. This technique helped Mary effectively accomplish both her goals by enabling her to:

- Fulfill her long-held desire to make a substantial gift to us.
- Preserve the size of the gift passing to her grandchildren.
- Bypass an immediate capital gains tax liability by transferring the appreciated securities to a charitable remainder unitrust.
- Enjoy an income tax charitable deduction in the year she transfers the securities to the charitable remainder unitrust.
- Remove the transferred securities and the life insurance proceeds from her gross estate for tax purposes, potentially saving her heirs thousands of dollars.
- Pass the insurance proceeds to her grandchildren income tax free.
- Make two major gifts with the same asset—one to her grandchildren and one to us!

Evaluate the Fit

A gift of life insurance may be a particularly good option to consider if you:

- Want to make a substantial gift with a modest after-tax cost and no out-of-pocket expense
- Want the ability to change your gift if your circumstances or goals change
 - Bought a life insurance policy to cover expenses that are no longer an issue
 - Would like both a tax deduction and a future income stream
 - Would like to implement a strategy to make a major gift while meeting multiple planning goals.

A Final Word

As you can see, there are many ways to make a significant gift with a new or existing life insurance policy, from the simplicity of a charitable beneficiary designation to the complexity (and added benefits) of the wealth replacement technique. We are happy to help you explore your options, provide additional information, or answer any questions you or your financial advisors may have.

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