



Community Foundation
of Washington County MD, Inc.
Looking forward...giving back

8 WAYS TO USE LIFE INSURANCE FOR CHARITABLE GIFTS

- 1. Buy a new policy for charity:**
This is becoming a very popular technique, mostly because you can create a sizable gift for pennies on the dollar. For example payments of \$200 a month for five years pays for a \$100,000 life insurance policy on a 40-year-old man. In other words, it costs 12 cents to buy a dollars worth of a charitable gift! Life insurance is particularly valuable to nonprofits because it pays in a lump sum.
- 2. Buy life insurance to protect a pledge:**
Many people will make pledges to charities from time to time. You may make a pledge to the local hospital to pay \$10,000 a year for five years. What happens if you die before you are able to pay the full pledge amount? Technically, the charity could sue your estate. Of course, that usually doesn't happen. But, if you feel a moral obligation to fulfill the pledge, you may want to buy a life insurance policy to cover your obligation.
- 3. Use life insurance to replace property you might give:**
Perhaps you have property you would like to give to charity (stock, real estate, jewelry, etc.) But you feel that if you give it to charity, you would be cutting the family out of an inheritance. One solution is to make the gift and use the resulting income tax savings to buy life insurance equal to the value of the property. This way, the charity gets the gift, the family gets the inheritance due them, and any unnecessary tax burden is avoided.
- 4. Trade life insurance for a gift annuity:**
You could give the policy to charity in return for a gift annuity agreement with the charity. The charity agrees that, after you die, it will pay your spouse an annuity for life. The amount of those payments will depend on your spouse's age when you die.
- 5. Assign your dividends to charity:**
Many life insurance policies pay dividends. You can tell the insurance company to pay the dividends directly to a charity you name. Because life insurance dividends are usually tax-free, you don't have to pay taxes on the dividend income, but you get to deduct the dividend as a charitable contribution.
- 6. Change your beneficiary:**
This is a good option if you feel the people you have named as your beneficiaries don't need all of the insurance proceeds. Name the charity as beneficiary of, say, 30% of your life insurance proceeds. Your family still gets the remainder.
- 7. Give an existing paid-up policy:**
Many people have paid-up life insurance policies. Most are older policies and most are in smaller amounts, like \$10,000. You may find such a policy an excellent way to satisfy your charitable desires. You are able to make a significant gift with no out-of-pocket expense. This kind of gift is much easier to make than writing a check.
- 8. Give an existing policy and pay the premiums:**
Perhaps your policy is not completely paid-up but, nevertheless, you no longer feel you need the policy. You can donate the policy to charity. You receive an income tax deduction for the replacement value of the policy. Then, as you make each premium payment, you deduct that as well.

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