

Life Insurance for Charitable Gifts

Create a fund at the Community Foundation.



Buy a new policy for charity. With this very popular technique, 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 for a 40-year-old man. In other words, it only costs 12 cents to buy a dollar's worth of a charitable gift! Nonprofits find life insurance very valuable too because it pays a lump sum.

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 pass away before you can pay the full pledge amount? Technically, the charity could sue your estate. Of course, that usually doesn't happen, but, if you feel an obligation to fulfill the pledge, you can buy a life insurance policy to cover it.

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 feel if you give it to them, your family misses out on their inheritance. Instead, you can 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 receives the gift, your family gets the inheritance due to them, and you avoid any unnecessary tax burden.

Trade life insurance for a gift annuity. You could give the policy to charity in return for a gift annuity agreement with them. The charity agrees that, after you pass away, it will pay your spouse an annuity for life. The amount of those payments will depend on your spouse's age when you pass.

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.

Change your beneficiary. If you feel the people you have named as your beneficiaries don't need all of the insurance proceeds, you can name a charity as a beneficiary of, say, 30%, of your life insurance proceeds. Then your family still gets the remainder.

Give an existing paid-up policy. Many people have paid-up life insurance policies. Most are older policies in small amounts, like \$10,000. You may find such a policy an excellent way to satisfy your charitable desires. You can make a significant gift with no out-of-pocket expenses. This gift is even easier than writing a check.

Give an existing policy and pay the premiums. If you have not yet paid-up your policy, but no longer feel you need it, you can donate it 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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Community Foundation
of Washington County MD, Inc.

Looking forward...giving back