Life Insurance as a Charitable Gift

Philanthropic individuals may contribute a wide variety of assets to charity. But there's one asset that is commonly overlooked when it comes to charitable contributions: life insurance.

There are generally four ways you may use life insurance as a charitable giving vehicle:

- Naming a charity as the beneficiary of your group term life insurance
- Naming a charity as the beneficiary of your individually owned life insurance
- Gifting an existing policy that you may no longer need to a charity
- Gifting enough money regularly to a charity so that the charity may purchase insurance on your life and continue to make the premium payments over time

Naming a Charity as the Beneficiary of Your Group Term Life Insurance

If you have employer-provided group term life insurance, the face amount of that coverage may be a multiple of your salary. If your company provides you with group term insurance in excess of $50,000, you are taxed on the value of the face amount that *exceeds* $50,000. You may be able to avoid that tax while benefitting a charity. Here's how this type of contribution works:

- If you name a charity as a beneficiary of your group term insurance for a full year, you will not be taxed that year on any of the group term insurance that exceeds $50,000.
- In future years, you can change your beneficiary designation[1] if you choose. Doing so will not affect the tax break that you already received.
- There is no income tax charitable deduction for this contribution, although if you were to pass away with this plan in place, your estate would receive an estate tax benefit from your contribution.

[1] As long as you don't make an **irrevocable** beneficiary designation.

Naming a Charity as the Beneficiary of Your Individually Owned Life Insurance

Another way to use life insurance as a charitable gift is to simply name a charity as the beneficiary of the death benefit in a policy that you own and have purchased yourself. If you're concerned that you need to provide for loved ones first, you may prefer to name them as primary beneficiaries, with the charity as the contingent beneficiary. Here's how this would work when you pass away:

- If your primary beneficiaries *survive* you, they will receive your policy's death benefit.
- If your primary beneficiaries *predecease* you, the charity, as contingent beneficiary, would receive the insurance proceeds.
- You can always name a charity as a primary beneficiary for a *portion* of the death benefit, with family members receiving the rest. In this way, your loved ones are protected and the charity benefits.

Using the beneficiary designation this way gives you a great degree of flexibility, as you may change it at any time[1]. Although there are no income tax benefits with this strategy, there will be an estate tax benefit if the charity is a beneficiary of your policy at the time of your death.

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Gifting an Existing Policy to Charity

Gifting an existing permanent life insurance policy (i.e., one with a cash value) to charity is a common method for donating life insurance. If the charity does not wish to keep the insurance in force until the donor's death, it can cash in the policy for its cash surrender value. Individuals often use this contribution method when they have existing life insurance that they no longer need. If the policy you wish to donate needs to be kept in force with additional premiums, you can also gift the premiums to charity in the form of additional charitable donations.

Gifting an existing policy to charity will provide you with an income tax benefit from the charitable donation — and an estate tax benefit by having the life insurance proceeds removed from your taxable estate.

Gifting Premium Dollars to Charity

You may also gift money to a charity so that the charity can purchase an insurance policy on your life. This allows your designated charity to leverage a modest gift of cash into a much larger deferred benefit (the life insurance death benefit). Before this method can be used, you have to check with your legal advisor because a few states have "insurable interest" laws that may not allow this strategy. Insurable interest laws require that the person or organization applying for life insurance have an interest in the life (or death) of the person being insured — to prevent people or organizations from speculating on the lives of strangers. With respect to charities, however, most states recognize that they have an insurable interest in the lives of their donors, particularly those who regularly make large contributions. The gift of the premium dollars should result in an income tax charitable deduction each time a contribution is made.

Why Guardian?

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