GUEST COLUMN

Affordable Philanthropy
Gift of Life Insurance

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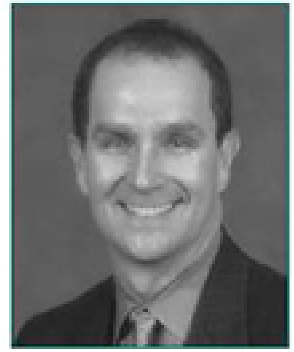

You need not be wealthy to make a significant and meaningful gift. If you are inclined to give, but wonder how to maximize your donation, consider the gift of life insurance.

Life insurance is an affordable way to make substantial charitable gifts, and can be used in a variety of ways to meet your charitable objectives. Here are a few of the benefits:

- **Give a Larger Donation.** The death benefit of a life insurance policy is a much larger amount than the premiums paid, so ultimately, you can give more to the charity.
- **Access Cash Values.** A charity-owned policy allows the organization to access and use cash values accumulated in the donated policy as needed.
- **Share Tax Benefits.** With proper ownership arrangements, the life insurance death benefit is not subject to estate tax or income tax. Charities receive proceeds on a tax-free basis upon the donor's death or when the policy matures.
- **Avoid Probate.** Death benefits are transferred without the delay and cost of probate court. The contractual nature of life insurance also dissuades disgruntled heirs from protesting.

Structure of Life Insurance Gifts

Gifting life insurance is a winning strategy because it allows donors to make contributions they might not otherwise be able to give comfortably within their lifetime. There are numerous ways to structure the ownership of life insurance policies for charitable gifts. For example, you could assign proceeds from your life policy to the organization, purchase a policy making the charity the owner (or name the charity the owner of already existing one) or use the life insurance as an estate planning tool.

- **Name the charity as beneficiary.** One option is simply to name a charity as the primary or contingent beneficiary on an existing life insurance policy. As the owner, you would not receive an immediate income tax deduction and the death benefit would be included in your estate. However, estate taxes are offset by an estate tax charitable deduction. Cash dividends received from a whole life policy can also be gifted to charity.
- **Give an existing policy.** Over time, your family's insurance needs may change and donating an existing life insurance policy can be an ideal use of a policy once needed for other purposes. To donate an existing policy, the policy owner would transfer ownership of the policy to a charity. If the policy is not paid up, it may be possible that the annual dividend may be able to cover any future premiums due. If the annual dividend is not larger than the premium, the donor can continue to pay the premium for a policy owned by the charity or gift money directly to the charity to pay all or part of the premium due. In either case, the original policy owner would receive an income tax deduction equal to the lesser of the policy's cost basis or its fair market value along with any premiums paid by the donor or to the charity to cover the premium payment.
- **Wealth replacement in estate planning.** Finally, life insurance can be an effective wealth replacement tool as part of an estate plan. If money, property or other assets are gifted to a charity, an income tax deduction may be immediately available for the charitable gift. The tax savings from the deduction can then be used to purchase a life insurance policy to replace the wealth heirs would have received from the donated assets.

Leaving a Legacy

Using the benefits of life insurance is an innovative way to provide meaningful, and often much greater, financial support to a favorite charity, regardless of the ownership structure. A good financial representative can help you determine if gifting life insurance is appropriate and guide you through the transfer strategies and tax consequences.

And, of course, by arranging a gift of life insurance to create a fund at the Baltimore Community Foundation, you can be assured that your charitable intentions will be carried out in perpetuity. Your legal or tax consultant, in partnership with the professional team at BCF, can design a philanthropic plan that fits your particular situation.

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