Life Insurance and Charitable Giving

Thrivent
Metro DC Associates
Mary Lou Marshall, FIC
Financial Consultant
314 Hanford Ct
Sterling, VA 20164
703-444-9576
marylou.marshall@thrivent.com

Prepared for:
Holy Trinity Lutheran Church

February 09, 2024

Life Insurance and Charitable Giving

How can life insurance be used for charitable giving?

Giving life insurance to a charity may allow you to make a larger gift than you otherwise could afford. Further, the government encourages charitable giving by providing tax advantages for certain charitable donations (the charity must be a qualified charity). This means that both you and the charity could benefit from your donation (though some charities may not accept a gift of life insurance for various reasons).

Typically, a donor makes a charity the owner and beneficiary of some type of permanent life insurance policy. But, there are many ways of structuring a charitable gift involving life insurance, and one alternative may better suit your needs and those of the charity than others.

Caution: *This discussion contains only a brief description of some of the many charitable giving strategies involving life insurance. You should consult your tax advisor before making such a gift to make sure it is structured properly.*

Caution: *Life insurance products contain fees, such as mortality and expense charges, and may contain restrictions, such as surrender periods. Please keep in mind that the primary reason to purchase a life insurance product is the death benefit.*

Name charity as beneficiary of proceeds

How to do it

This is the simplest type of charitable gift using life insurance. You designate the charity as the beneficiary of your existing policy or a new policy by completing a beneficiary designation form. You own the policy and pay the premiums. Upon your death, the charity receives some or all of the proceeds from the policy.

Advantages and disadvantages

Designating a charity as beneficiary while retaining ownership of the policy allows you to retain control over and rights to the policy, including the ability to change the beneficiary or access to the policy's cash value.

However, because you retain ownership of the policy, the premium payments you make are not tax deductible for either income tax or gift tax purposes. At your death, the proceeds will be included in your gross estate, however, there is an offsetting estate tax charitable deduction for the amount of proceeds that pass to the charity.

Name charity as recipient of dividends

How to do it

Another simple way of making a charitable gift is to assign to the charity policy dividends from cash values (term life insurance cannot be used). You own the policy and your heirs (the designated beneficiaries) receive the proceeds at your death.

Advantages and disadvantages

By assigning policy dividends to charity, you are able to make a gift without diminishing the amount of your heirs' inheritance. You retain ownership of the policy allowing you access to the policy's cash value. The dividends paid to the charity are deductible for both income tax and gift tax purposes. Because you retain ownership of the policy, the proceeds will be included in your gross estate at your death. However, in this case, your estate will not receive an offsetting estate tax charitable deduction because the proceeds will not go to charity.

Tip: *Your estate may be entitled to the unlimited marital deduction, though, if your spouse is the beneficiary. Or, your estate may not owe estate taxes anyway because of the applicable exclusion amount and other deductions and credits.*

Tip: *With permanent life insurance policies that are not modified endowment contracts, you do not have to include dividends until they exceed your basis (generally, gross premiums paid) in the policy.*

Donate an existing life insurance policy to charity

How to do it

In order to donate an existing life insurance policy to charity, you must assign all rights in the policy to the charity. You must also deliver the policy itself to the charity. The charity becomes the new owner of the policy as well as the beneficiary, but you will continue to pay the premiums (unless the policy is paid up). As the owner, the charity will have access to any cash values during your life.

Caution: *If you retain any "incidents of ownership, " no income tax or gift tax deductions will be allowed.*

Advantages and disadvantages

The gift of the policy and any future premium payments you make will be deductible for both income tax and gift tax purposes. Further, because you give up ownership of the policy, the proceeds will not be included in your gross estate at your death (unless you die within three years of the transfer, and then your estate will also get an offsetting estate tax charitable deduction). However, by relinquishing ownership of the policy, you give up all control over and rights to the policy, including the ability to change the beneficiary and access to the policy's cash value.

Tip: *When you donate an existing policy, the amount of your deduction is either the value of the policy or your cost basis (net premiums paid), whichever is less.*

Tip: *Premium payments made directly to the insurer may be considered to be gifts for the use of the charity (rather than gifts to the charity) and, as a result, may be deductible only up to 30 percent of your contribution base (your contribution base is generally equal to your adjusted gross income). On the other hand, if you make a cash donation to the charity that is used to pay the premiums, your deduction is limited to 50 percent of your contribution base.*

Donate a new policy to charity

How to do it

In order to use this strategy, you purchase a new insurance policy in the charity's name. You never own the policy. The charity is the owner and beneficiary. You will make any future premium payments (unless it is a single premium policy). As the owner, the charity will have access to any cash values during your life.

Advantages and disadvantages

The gift of the policy and any future premium payments you make will be deductible for both income tax and gift tax purposes. Further, because you never own the policy, the proceeds will not be included in your gross estate at your death (unless you die within three years of the transfer, and then your estate will also get an offsetting estate tax charitable deduction). However, because you do not own the policy, you do not have any control over and rights to the policy, including the ability to change the beneficiary or access the policy's cash value.

Caution: *The IRS may treat this transaction as if the charity itself had purchased the policy on your life. Most states require the purchaser of a policy to have an insurable interest in the life of the insured. If the charity does not have an insurable interest, all deductions may be lost. If this is the case in your state, consider having your spouse purchase the policy and then immediately assign all rights to the charity.*

Tip: *When you donate a new policy, your deduction will generally be equal to your cost basis (i.e., initial premium) in the policy.*

The material presented includes information and opinions provided by a party not related to Thrivent. It has been obtained from sources deemed reliable; but no independent verification has been made, nor is its accuracy or completeness guaranteed. The opinions expressed may not necessarily represent those of Thrivent or its affiliates. They are provided solely for information purposes and are not to be construed as solicitations or offers to buy or sell any products, securities or services. Thrivent and its affiliates accept no liability for loss or damage of any kind arising from the use of this information. Concepts presented are intended for educational purposes. This information should not be considered investment advice or a recommendation of any particular security, strategy, or product. The concepts in this presentation are intended for educational purposes only. They may not be suitable for your client's particular situation. The suitability of any specific product or strategy will be dependent upon your clients' particular situation.

Hypothetical example is for illustrative purposes. May not be representative of actual results. Past performance is not necessarily indicative of future results.

Thrivent and its financial advisors and professionals do not provide legal, accounting or tax advice. Consult your attorney or tax professional.

Thrivent financial advisors and professionals have general knowledge of the Social Security tenets. For complete details on your situation, contact the Social Security Administration.

Thrivent is the marketing name for Thrivent Financial for Lutherans. Insurance products issued by Thrivent. Not available in all states. Securities and investment advisory services offered through Thrivent Investment Management Inc., a registered investment adviser, member FINRA and SIPC, and a subsidiary of Thrivent. Licensed agent/producer of Thrivent. Registered representative of Thrivent Investment Management, Inc. Thrivent.com/disclosures.

Insurance products, securities and investment advisory services are provided by appropriately appointed and licensed financial advisors and professionals. Only individuals who are financial advisors are credentialed to provide investment advisory services. Visit Thrivent.com or FINRA's Broker Check for more information about our financial advisors.

A licensed insurance agent/producer may contact you and financial solutions, including insurance may be solicited.

Certified Financial Planner Board of Standards Inc. (CPF Board) owns the CFP® certification mark (with plaque design) logo in the United States, which it authorized use of by individuals who successfully complete CFP Board's initial and ongoing certification requirements. 3172761.4

Thrivent
Mary Lou Marshall, FIC
Financial Consultant
314 Hanford Ct
Sterling, VA 20164
703-444-9576
marylou.marshall@thrivent.com