Planned giving using life insurance reviews

In the current economic environment it is becoming increasingly difficult for non-profit organizations to meet their funding needs. Donor life insurance reviews offer one option to promote planned giving that is often overlooked.

Donors with cash value life insurance policies may be able to significantly increase their death benefit with a replacement policy. Several years ago life expectancy tables were revised to reflect the fact that people are living longer today. The longer life expectancy, combined with the lower expenses and the accumulation of cash value from the existing policy, can create an opportunity to significantly increase the death benefit of the policy. This may be true even though the donor is older or has had some health impairment. Donors may then decide to make the non-profit a beneficiary of some or all of the death benefit.

In addition to an increase in the death benefit, a long-term care rider can often be added to the policy allowing the insured to access the death benefit during their lifetime should the need arise.

Example

Bob is 60 years old and in average health. (He had a melanoma removed ten years ago.) He has several policies that are 10 years old with no surrender charges or loans against the cash value. The older policies have a combined cash value of $42,000 and a death benefit of $100,000. His annual premium is $2,967. A review of the policies indicate that the death benefit can be doubled to $200,000, his annual premium reduced to $1,000 and a long-term care rider can be added that allows him access to his death benefit at a rate of $8,000 per month for 25 months. In addition, he has chosen to donate a portion of the death benefit to the nonprofit of his choice, the 4-H Clubs of America, resulting in a benefit to 4-H Clubs and a possible estate tax deduction at death.

Potential advantages

In this case the benefits accruing to the policy owner/donor are as follows:

1. A substantial increase in the death benefit
2. An increase in the estate for the heirs and a planned charitable gift
3. A reduction in premium
4. A long-term care feature
5. An estate tax deduction for the portion of the death benefit going to the nonprofit

Unlike many other planned giving techniques, this approach involves complete control of the policy without giving up income rights, and the owner retains the right to change beneficiaries at will.

Precautions

This approach does not work in all cases. If a policy has surrender charges in force, or a loan against the policy, it may not work. Serious deterioration in the health of the owner can, of course, be a potential problem, although it should not be assumed that a health issue is a show stopper. In the above example, the insured had a melanoma removed among other health issues. Newer policies may not offer the same opportunity and this approach will not work with term policies.

Is it right for you?

If you have charitable goals — and wish to potentially improve your life insurance coverage — exploring this opportunity is fairly easy. Simply provide your most recent annual policy statement and sign one form authorizing the release of the information. Once your financial advisor receives the information from the insurance carrier, illustrations can be run to compare the policies. With the current policy and the new illustration side-by-side, we are able to see whether it is practical to use this approach to update your life insurance policy. Contact your financial advisor today to learn more.

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