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Success with Life Insurance

Date:	October 19, 2022
Time:	1:00 – 2:30 Eastern
Presenter:	Craig Wruck
	Senior Advisor, PG Calc

Agenda

- Life Insurance Basics
  - Life Insurance Contract
  - Financing a Life Insurance Policy
- Charitable Gifts of Life Insurance
- Three Scenarios
  - The Good
  - The Not Too Bad
  - The Ugly
- Evaluating Gifts of Life Insurance

Life Insurance Contract

Owner	Insurer	Insured	Beneficiary
Buys and pays for the policy, has right to name beneficiary or transfer ownership	Promises to pay an amount of money (death benefit) upon death of insured	Individual upon whose death the insurer will pay the death benefit	The one to whom the death benefit will be paid

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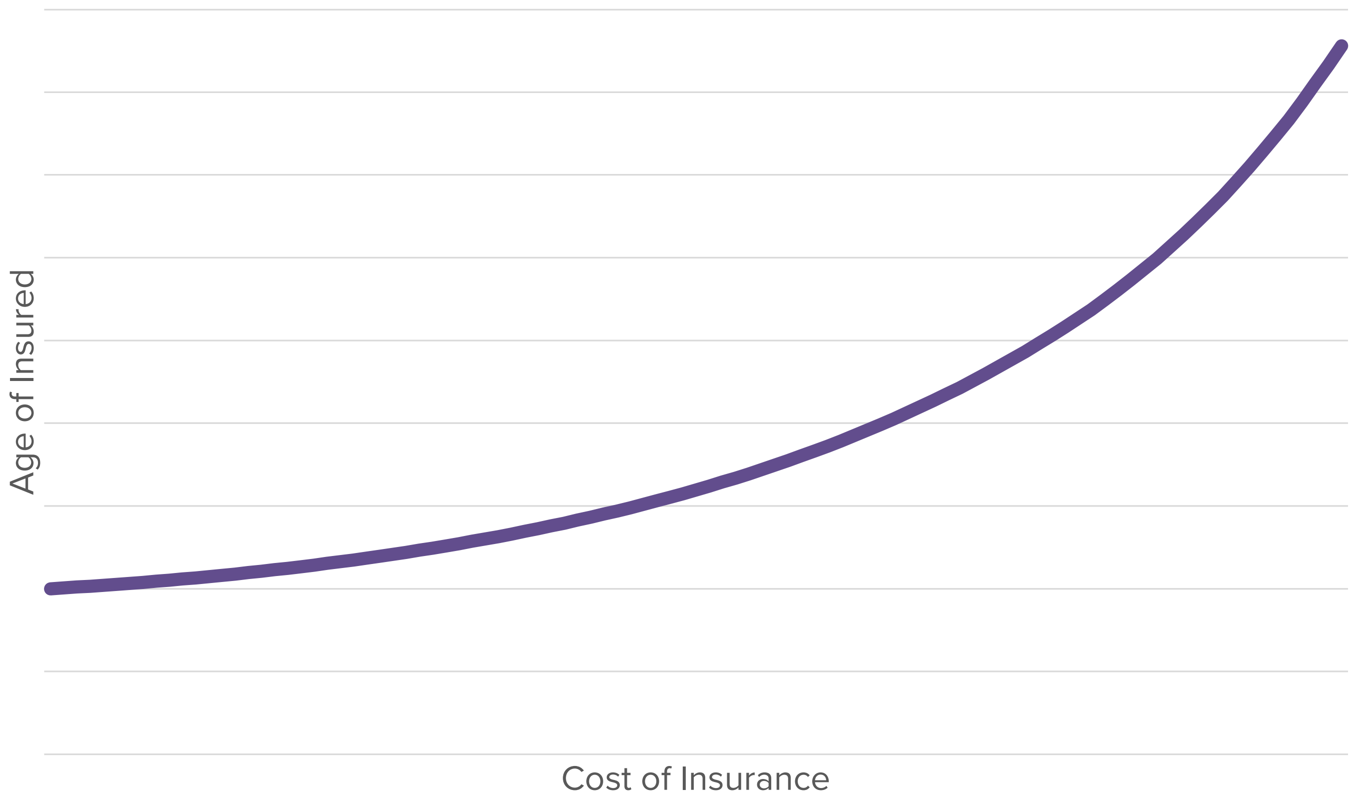
Cost of Insurance

1,000 insureds, with a $100,000 death benefit				
Age of Insured	Probability of Death in One Year	Number Dead in One Year	Total Death Benefit to be Paid in One Year	Cost of Insurance per Policy
30	0.001795	2	$200,000	$200
40	0.002580	3	$300,000	$300
50	0.004890	5	$500,000	$500
60	0.011452	11	$1,100,000	$1,100
70	0.022381	22	$2,200,000	$2,200

Cost of Insurance



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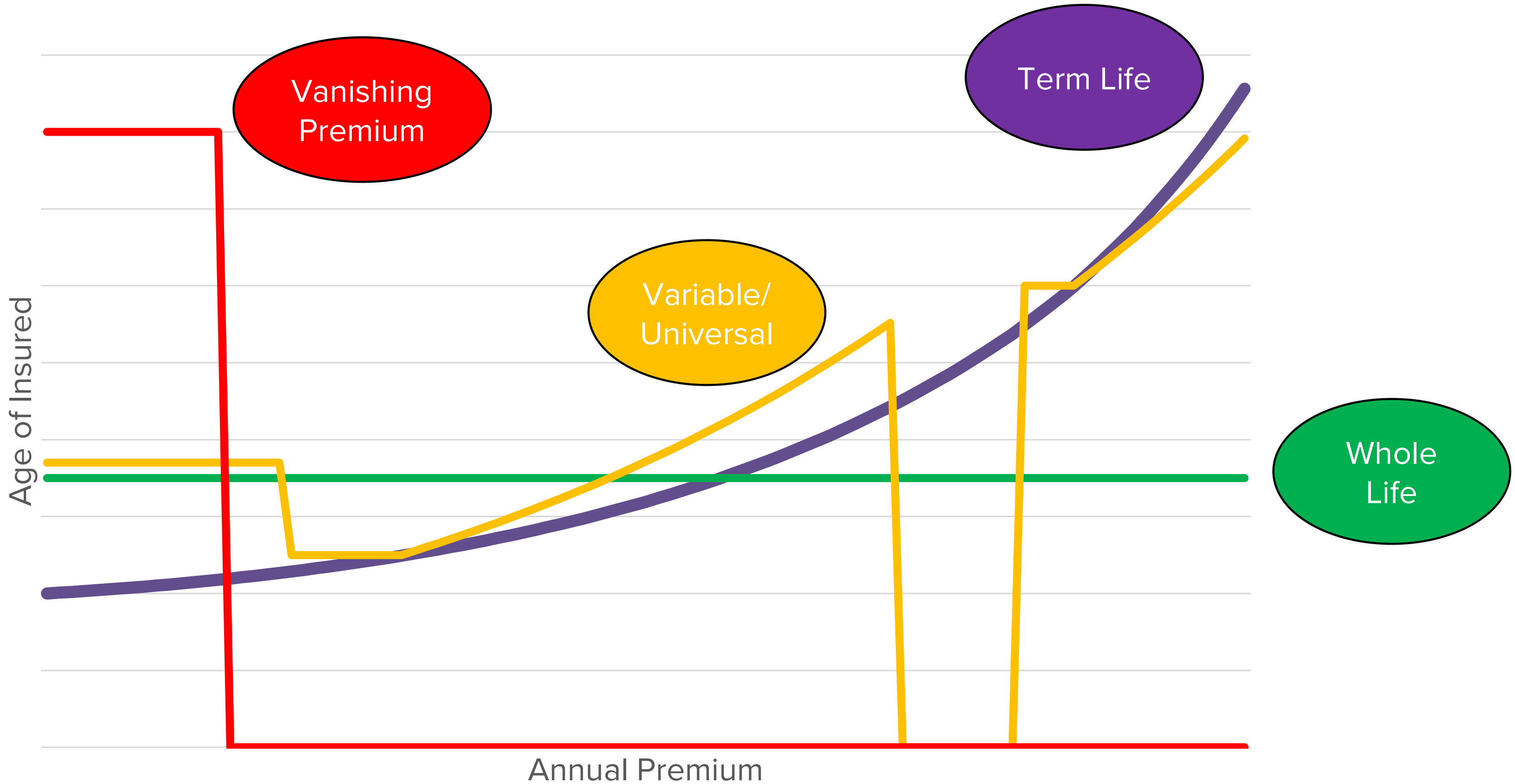
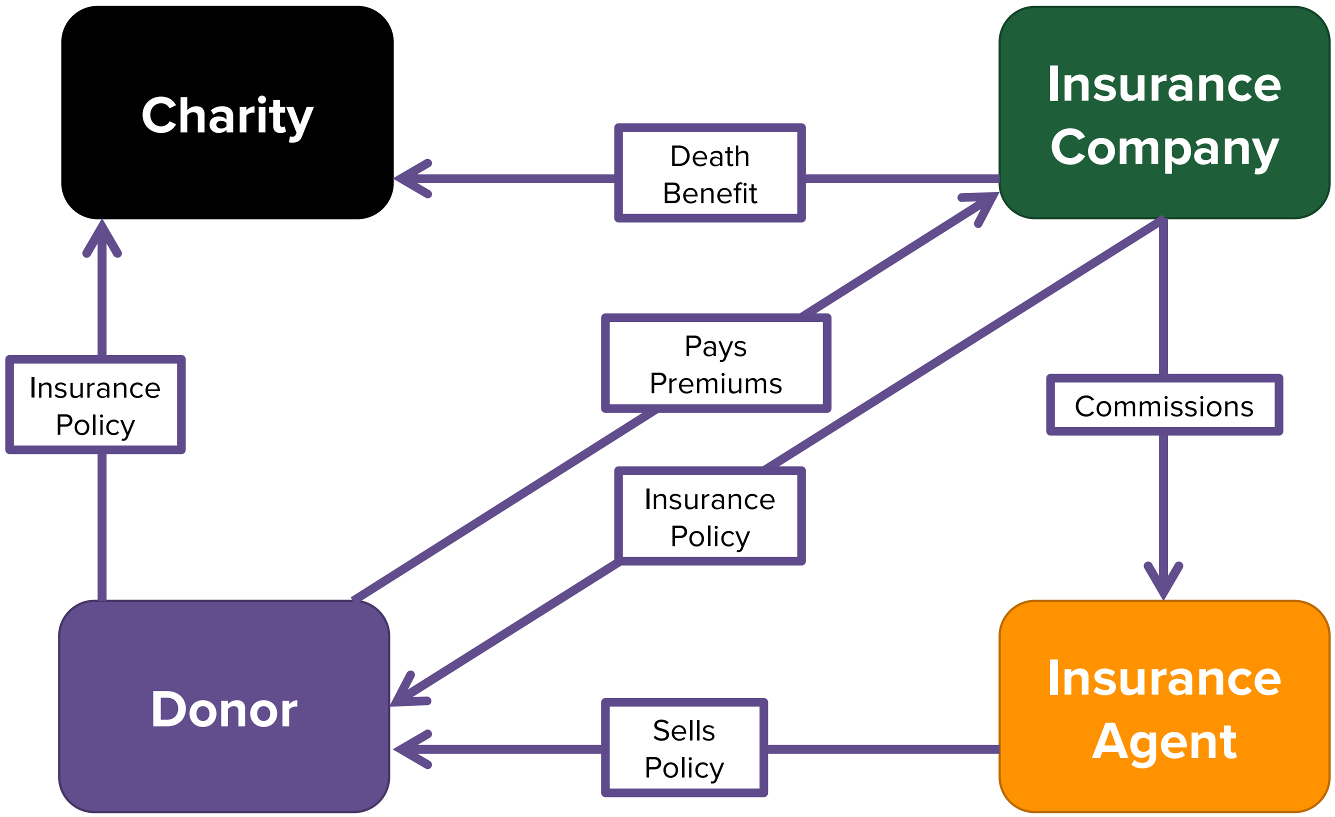
Financing the Cost of Insurance

- **Term Life** – coverage for a fixed period of time, usually one year
  - Annually Renewable Term – renews each year with same death benefit but increased premium
  - Decreasing Term – renews each year with same premium but decreased death benefit
- **Whole Life** – premium and coverage are fixed for lifetime of the insured
- **Universal or Variable Life** – both premium and death benefit may be adjusted; cost of insurance, mortality assumptions, investment return and value of death benefit are not guaranteed
- **Limited Payment or "Vanishing Premium"** – a limited number of premiums are projected to pay cost of insurance for lifetime of the insured

Financing the Cost of Insurance



Life Insurance – Outright Gift



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Life Insurance – Outright Gift

- Charity must be named beneficiary in order to receive death benefit
- If donor transfers ownership to charity, income tax deductions for:
  - Appraised value of the policy
  - Future premium payments made on the policy
- Other considerations:
  - Charity is not obligated to make future premium payments
  - Outstanding policy loans may reduce value of death benefit
  - Polices are valuable assets and should periodically be reviewed and evaluated – cash in the policy, accept paid-up policy with lower death benefit, sell the policy

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Three Scenarios

1. The Good – Outright Gift

2. The Not Bad – Wealth Replacement

3. The Ugly – Newly Purchased

Scenarios: The Good – Outright Gift

Donor owns a whole life policy with a $100,000 death benefit; $950 annual premiums are paid and current; cash value is $40,000

- Donor names charity as death benefit beneficiary
- If donor transfers ownership to charity:
  1. Current charitable deduction for appraised value
  2. Additional deduction for annual premium payments
- Charity advises donor it will evaluate the policy annually and may:
  1. Retain and wait for death benefit
  2. Cash in the policy
  3. Accept paid up policy with lower death benefit

Scenarios: The Not Bad – Wealth Replacement

Donor has committed to a $1 million charitable bequest; now considering a charitable reminder unitrust funded with highly appreciated assets

- CRUT benefits for donor:
  1. Avoid capital gains tax on transfer to CRUT
  2. Opportunity to convert to higher yielding investments
  3. Significant income tax deduction
- CRUT benefits for charity:
  1. Gift is irrevocable
  2. Opportunity to deepen relationship

Summary of Benefits Projection		
	CRUT 5%	Sold and Reinvested
Property Value	$ 1,000,000	$ 1,000,000
Cost Basis	$ 100,000	$ 100,000
Capital Gains Tax		$ 135,000
Reinvested Principal		$ 865,000
Charitable Deduction	$ 557,240	$ 0
Income Tax Savings	$ 133,738	$ 0
Investment Assumptions:		
Annual Income	3%	3%
Annual Appreciation	5%	5%
Sell Asset in First Year	Yes	Yes
Annual Amount to Spend	5.0%	5.0%
Total After-Tax Benefit To Payment Recipient	$ 931,895	$ 844,054
Benefit to Remainder Beneficiary	$ 1,702,433	$ 1,472,605
	(Charity)	(Donor)
Total Benefit	$ 2,634,328	$ 2,316,659

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Scenarios: The Not Bad – Wealth Replacement

- Objections:
  - Isn't this really a gift of nearly $1.5 million? I'd planned to give your organization $1 million.
  - And, aren't my heirs really making a contribution of nearly $500,000? They may not want to do that.
- Solution:
  - Donor purchases a $500,000 policy, naming his heirs as the death benefit beneficiary.
  - Projected tax savings of about $134,000 can be used to pay for policy
  - Planning opportunity to estate taxes by naming heirs as owner of policy

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Scenarios: The Ugly – Newly Purchased

A younger donor, age 40, is motivated to make a large contribution and has been convinced that a life insurance policy will “leverage” his contribution

- If he purchases a $100,000 death benefit policy for $1,400 per year and transfers ownership to the charity:
    1. Minimal charitable deduction now
    2. Annual deduction as he makes premium payments
    3. Charity receives $100,000 when donor dies (~51 years)
- Consider contributing $1,400 annually to a special fund agreement invested in the endowment portfolio
    1. Fund would grow to $100,000 in 30 years (59% of life expectancy)
    2. Or $342,000 at projected life expectancy

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Scenarios: The Ugly – Newly Purchased

	Life Expectancy			If invested at 5% instead			
Age Now	Years	Year	Assumed Annual Premium	Total at End of Life Expectancy	Years Until Value Reaches $100,000	Year	Percent of Life Expectancy
30	62	2084	$950	$411,000	36	2058	58%
40	51	2073	$1,400	$342,000	30	2052	59%
50	41	2063	$2,150	$305,000	23	2045	56%
60	31	2053	$3,550	$281,000	17	2039	55%
70	21	2043	$6,100	$247,000	11	2033	52%

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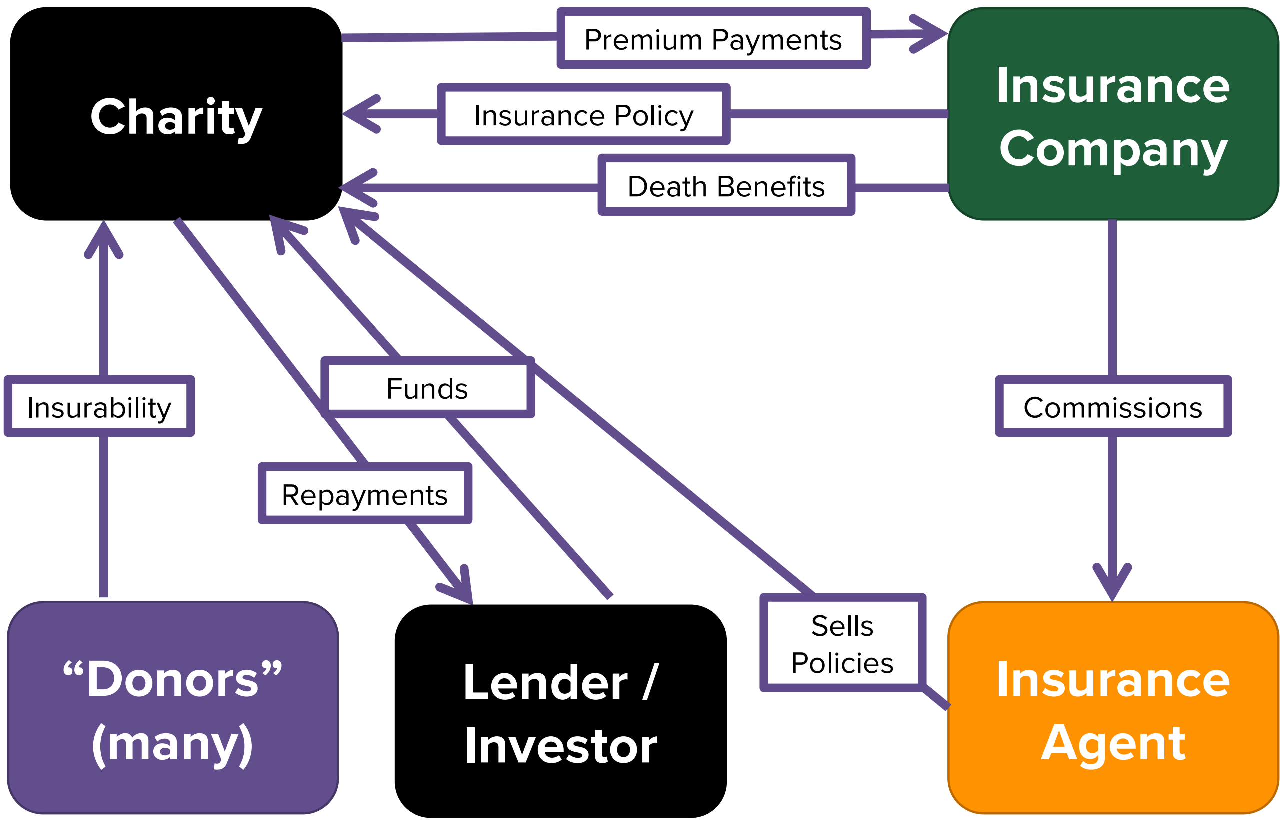
Premium Financed Insurance



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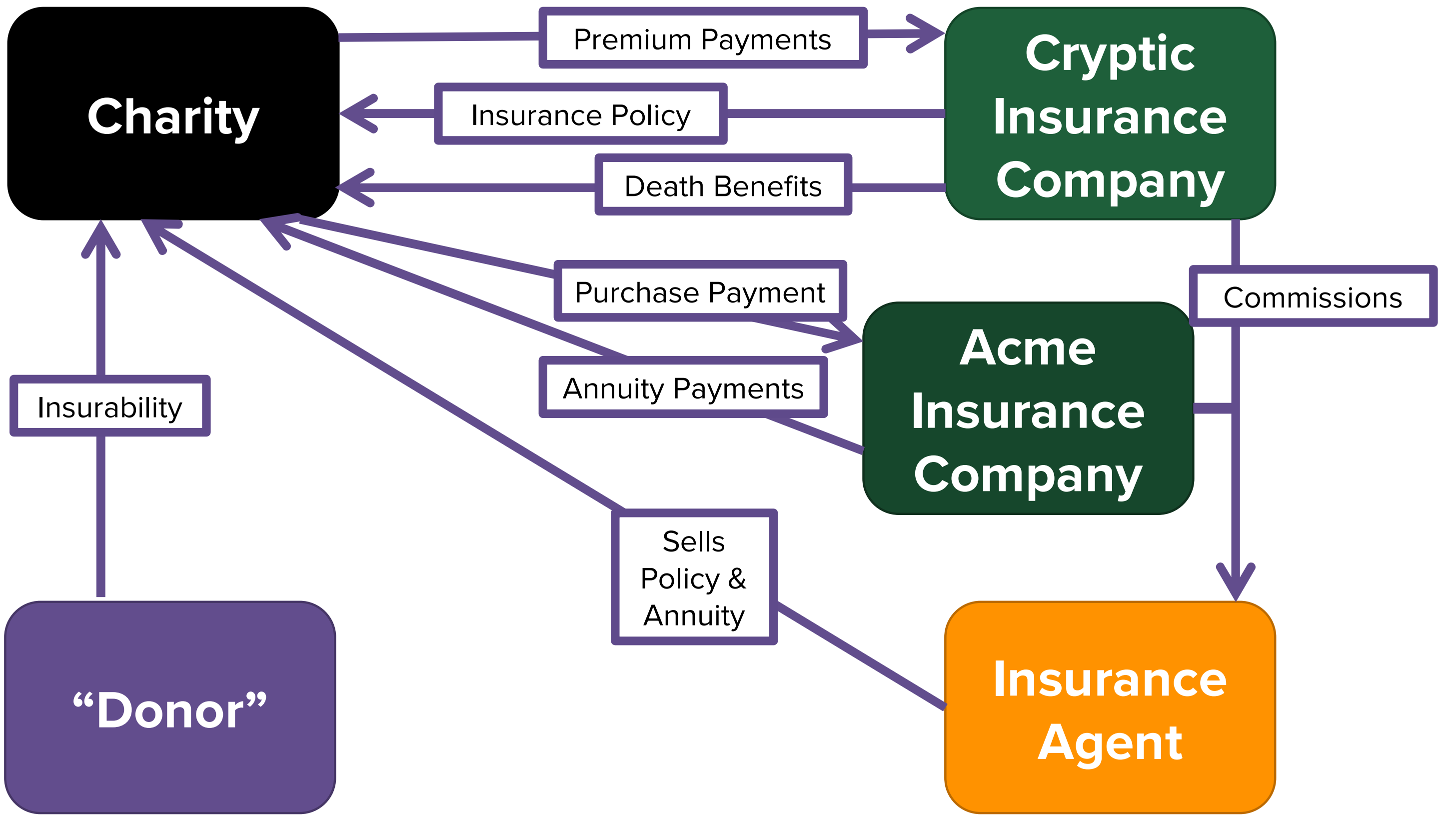
Life Insurance – Premium Arbitrage



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Evaluation Guidelines

- **Complete Analysis** – Review both subjective and objective factors; more than just funds, program should enhance donor relationships
- **Value and Values** – Guard both economic value and values of the charitable organization; consider reputational risk and investment of staff and resources
- **Nothing is Free** – Understand all costs of the program and the sources of funds to pay these costs
- **Charitable Interest** – program must respect and serve the mission and reputation of the charity and the charitable interests of the donor
- **Obligations and Commitments** – understand obligations, especially if program does not unfold as planned; interest rates, mortality assumptions, and the cost of insurance may increase or decrease the charity’s cost

To ask a question click the Q&A button at the bottom

Craig Wruck
PG Calc, Senior Advisor
(617) 497-4992
cwruck@pgcalc.com

Still Have a Question?

Contact: Craig Wruck
Senior Advisor
PG Calc

E-mail: cwruck@pgcalc.com

Phone: 888-497-4970