

PG Calc YOUR PARTNER IN PLANNED GIVING SUCCESS



Success with Life Insurance

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

1

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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

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2

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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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3

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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

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4

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Cost of Insurance

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5

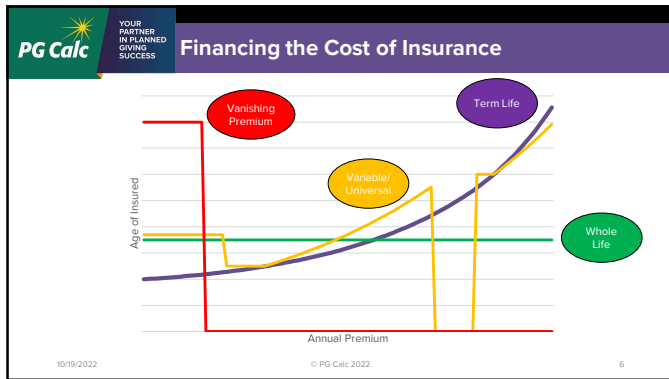
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Financing the Cost of Insurance

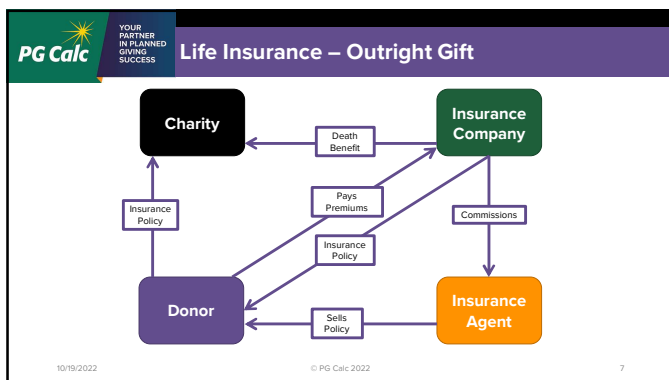
- **Term Life** – coverage for a fixed period of time, usually one year
 - Annually Renewable Term – renews each year with same death benefit but increased premium
 - Decreasing Term – renews each year with same premium but decreased death benefit
- **Whole Life** – premium and coverage are fixed for 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

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6



7



8

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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
 - Policies 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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9

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Three Scenarios

1. The Good – Outright Gift
2. The Not Bad – Wealth Replacement
3. The Ugly – Newly Purchased

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10

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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

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11

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Scenarios: The Not Bad – Wealth Replacement

Donor has committed to a \$1 million charitable bequest; now considering a charitable remainder 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

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12

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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

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19

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

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20

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Still Have a Question?

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21
