A resource for individuals and families

Guardian Wealth Advanced Markets

Life insurance as a charitable gift

Philanthropic individuals may contribute a wide variety of assets to charity. But there's one asset that is commonly overlooked when it comes to charitable contributions: life insurance.



If you're like most charitable Americans, you probably give cash or other assets that can easily be sold to charity. It can be an easy way to give, and the charity wants and needs cash to pay for projects and expenses. However, there are other ways to give to charity that could make an even greater impact.

One solution — donating a life insurance policy as a way to leverage your charitable giving

If you regularly support a charitable organization, you may be interested in donating a life insurance policy on your life to leverage your charitable giving. Life insurance can be an effective asset to give, as it allows you to ultimately transform your gifts into much larger ones. Modest gifts are important for a charity, particularly when such gifts are received in volume from many donors, but each individual gift may have a lesser impact. However, a regular modest gift of cash that is used to purchase life insurance can eventually have a greater impact on the charity.

Life insurance can be a convenient and impactful asset to give because it provides an amount of capital that isn't tied to traditional investments or market fluctuations.

There are generally four ways you may use life insurance as a charitable giving vehicle:

- Naming a charity as the beneficiary of your group term life insurance
- Naming a charity as the beneficiary of your individually owned life insurance
- Giving an existing policy that you may no longer need to a charity
- Giving enough money regularly to a charity so that the charity may purchase insurance on your life and continue to make the premium payments over time

Naming a charity as the beneficiary of your group term life insurance

If you have employer-provided group term life insurance, the face amount of that coverage may be a multiple of your salary. If your company provides you with coverage in excess of $50,000, you may be taxed on the imputed cost of the coverage for that portion of the face amount that exceeds $50,000. You may be able to avoid that tax while benefiting a charity. Here's how:

- If you name a charity as a beneficiary of your group term insurance for a full year, you will not be taxed that year on any of the group term insurance that exceeds $50,000.
- In future years, you can change your beneficiary designation[1] if you choose.
- There is no income tax charitable deduction for this contribution, although if you were to pass away with this plan in place, your estate may receive an estate tax benefit from your contribution.

Naming a charity as the beneficiary of your individually owned life insurance

Another way to use life insurance as a charitable gift is to name a charity as the beneficiary of a policy that you own and have purchased yourself. If you're concerned about providing for loved ones first, you may prefer to name them as primary beneficiaries, with the charity as the contingent beneficiary. Here's how this would work when you pass away:

- If your primary beneficiaries survive you, they will receive your policy's death benefit.
- If your primary beneficiaries predecease you, the charity, as contingent beneficiary, would receive the insurance proceeds.

You can always name a charity as a primary beneficiary for a portion of the death benefit, with family members receiving the rest. In this way, your loved ones are protected and the charity benefits.

Using the beneficiary designation this way can give you added flexibility, as you may change it at any time. Although there are no income tax benefits with this strategy, there will be an estate tax benefit if the charity is a beneficiary of your policy at the time of your death.

Giving an existing policy to charity

Giving an existing permanent life insurance policy to charity is a common method for donating life insurance. If the charity does not wish to keep the insurance in force until the donor's death, it can cash in the policy for its cash surrender value.[2, 3] Individuals often use this contribution method when they have existing life insurance that they no longer need. If the policy you wish to donate needs to be kept in force with additional premiums, you can also gift the premiums to the charity in the form of additional charitable donations.

You may also convert a convertible term life insurance policy to a permanent policy and continue paying the premiums through ongoing cash gifts to the charity.

Giving an existing policy to charity can provide you with an income tax benefit from the charitable donation — and an estate tax benefit by having the life insurance proceeds removed from your taxable estate.

Giving premium dollars to charity

You may also give money to a charity so that the charity can purchase an insurance policy on your life. This allows your designated charity to leverage a modest gift of cash into a much larger deferred benefit (i.e., the life insurance death benefit). First, however, check with your legal advisor, because a few states have "insurable interest" laws that may not allow this strategy.

With respect to charities, however, most states recognize that they have an insurable interest in the lives of their donors, particularly those who regularly make large contributions.

The gift of the premium dollars could result in an income tax charitable deduction each time a contribution is made.

Insurable interest laws require that the person or organization applying for life insurance have an interest in the life (or death) of the person being insured — to prevent people or organizations from speculating on the lives of strangers.

Why Guardian?

If you consider integrating life insurance with your charitable giving, you'll want a company that will be around for the long term — a company like Guardian.[4]

- History and experience as a mutual life insurance company — founded in 1860
- Broad portfolio with products designed to help fund estate planning strategies
- Access to knowledgeable representatives and professionals

Share your legacy.

Contact a Guardian financial advisor today to learn more.

The Guardian Life Insurance Company of America

guardianlife.com

New York, NY
Pub6291 (05/26) 8945366.1 (Exp. 05/28)

1 As long as you do not make an irrevocable beneficiary designation.

2 Some whole life policies do not have cash values in the first two years of the policy and don't pay a dividend until the policy's third year. Talk to your financial representative and refer to your individual whole life policy illustration for more information.

3 Policy benefits are reduced by any outstanding loan or loan interest and/or withdrawals. Dividends, if any, are affected by policy loans and loan interest. Withdrawals above the cost basis may result in taxable ordinary income. If the policy lapses, or is surrendered, any outstanding loans considered gain in the policy may be subject to ordinary income taxes. If the policy is a Modified Endowment Contract (MEC), loans are treated like withdrawals, but as gain first, subject to ordinary income taxes. If the policy owner is under age 59½, any taxable withdrawal may also be subject to a 10% federal tax penalty.

4 Financial information concerning Guardian as of December 31, 2023, on a statutory basis: Admitted assets = $80.3 billion; liabilities = $71.2 billion (including $58.0 billion of reserves); and surplus = $9.1 billion.

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