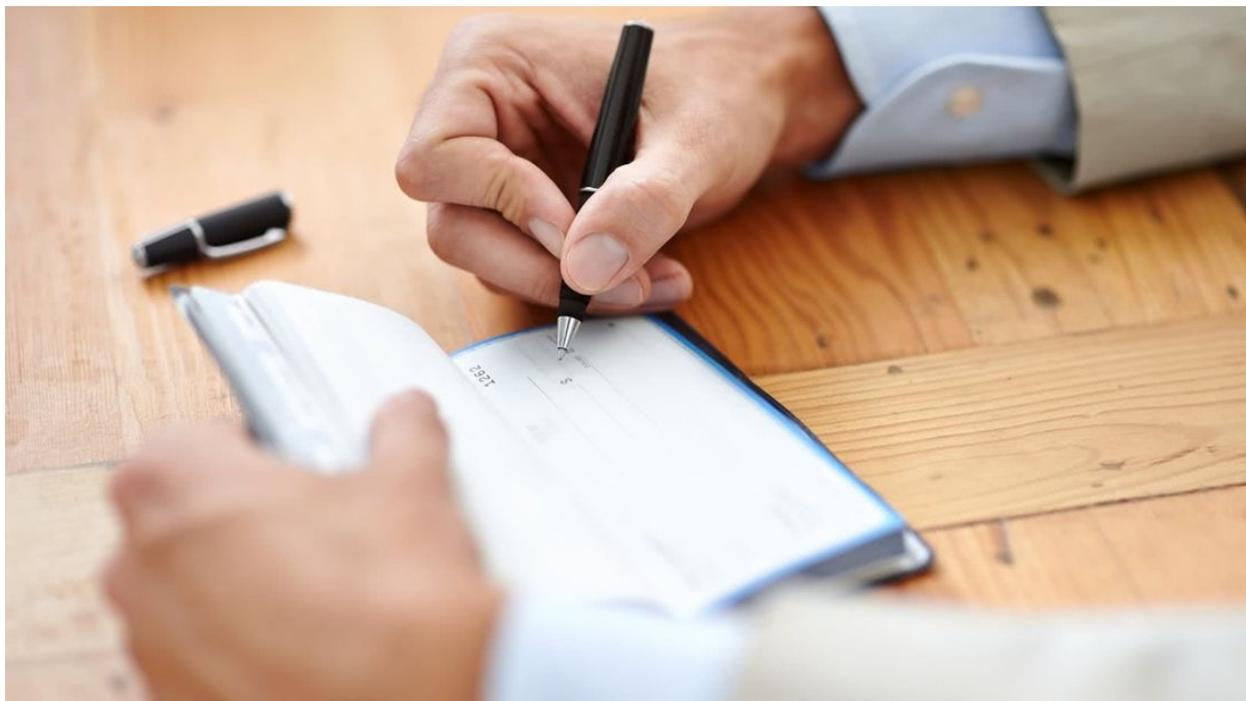


Donating Your Life Insurance to Charity: How It Works

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When Dr. Jeffrey Nielsen, 61, first took out his life insurance policy, he never guessed that he would someday donate it to charity.

As a young surgeon, he bought the policy to ensure he could take care of his family if anything were to happen to him. But now that his mortgage is paid off and his family is financially secure, the death benefit his insurance provides is no longer as critical as it once was.

In fact, he and his wife, Kristine, have been increasingly focusing on giving away their wealth in recent years. “We feel very fortunate,” he said. “I’ve done very well in my career, and we feel that to those who much is given, much is expected.”

While they’ve contributed generously to numerous causes in their community in the past, they decided to make a significant donation toward the **Hancher Auditorium**, a performing arts venue at the University of Iowa. The old auditorium was destroyed after a flood and was

recently rebuilt. So the couple decided to donate their **permanent life insurance policy**, which had accumulated a cash value of around \$230,000.

“Once the charity receives that policy,” said Northwestern Mutual Financial Advisor Ryan Brems, who works with the Niensens, “they can decide to cash it in for the current cash value, hold it while the cash value continues to grow, or wait and eventually use the full death benefit.” Brems has a handful of clients each year who decide to donate their insurance policies. “When people make contributions to charity,” he said, “they don’t often think about donating their life insurance policies — but it can be a great way to make a contribution.”

According to Brems, the reason life insurance is such an attractive vehicle for making donations is the flexibility it offers for both the charity and the donor.

For those who want to make a sizable donation, it can also be easier to donate a permanent life insurance policy rather than liquidate other assets in order to make that donation. That was the case for the Niensens, who wanted to make a larger donation but wouldn’t have been able to give as generously because they didn’t have the liquidity.

There are two ways to donate life insurance to charity.

MAKE THE CHARITY THE OWNER AND BENEFICIARY OF THE POLICY

This is what the Niensens did. By making the charity the owner and the beneficiary, you get a tax deduction equal to your tax basis in the policy — usually based on the amount you paid in — or the cash value of your policy (whichever is less), and the charity has a number of options. This was helpful for the Niensens since they needed to offset a higher tax bill this year after inheriting stocks. Brems suggests that you consult an accountant before donating your insurance policy to ensure that it’s the right choice for you. In this scenario, the charity then has the option of surrendering the policy and taking the cash value immediately or continuing to pay the premiums (if premiums are still owed) and letting the cash value and policy continue to grow. In the latter case, the organization could access that money later or wait and use the proceeds from the death benefit.

“It was really easy. I just met with Ryan and told him what I wanted to do, and he coordinated everything with my accountant and the University of Iowa. I had to sign a few papers, and that was it. “

MAKE THE CHARITY A BENEFICIARY OF THE POLICY

If you don't want to give away ownership of your policy to a charity, you can make it the sole or partial beneficiary of your policy. "If you do that," said Brems, "you'll maintain ownership of the policy, but you won't get a tax deduction while you're alive."

This might be the better choice for people who are concerned that circumstances might change and they might need access to their cash value or death benefit in the future. By maintaining ownership, you maintain the flexibility to change the beneficiary at a later date or use the cash value yourself.

When you leave a legacy gift through insurance, you should let the charity know so that you can tell them what you would like done with the money.

AN EASY WAY TO DONATE

Many people think that donating their insurance policy would be difficult or require a lot of paperwork, but that's not the case, according to Nielsen. "It was really easy," he said. "I just met with Ryan and told him what I wanted to do, and he coordinated everything with my accountant and the University of Iowa. I had to sign a few papers, and that was it."

You can sign over a policy in its entirety, or you can give away part of your policy. "At some insurance companies like Northwestern Mutual," Brems said, "you can divide your policy into two policies and give away ownership of one of those policies to a charity while keeping the other."

BENEFITS OF DONATING YOUR INSURANCE

The Nielsens are very happy that they were able to use their insurance to make a large gift toward a cause that they were passionate about. "I think it's a great vehicle to use," Nielsen said. "It allows you to give a sizable donation without a big cash outlay."

Now that the donation has been made, the Nielsens feel good about their decision. "We feel like we've done something very positive and very good for our community," Nielsen said. "We enjoy giving. It's an important part of who we are."