



Life Insurance and Charitable Giving

Life insurance can be an effective and flexible tool for charitable giving. By incorporating life insurance into a philanthropic strategy, individuals may be able to make a larger charitable impact than would otherwise be possible, while also benefiting from favorable tax treatment under current law. As with any charitable planning strategy, the recipient organization must be a **qualified charitable organization** under IRS rules.

Charitable gifts involving life insurance can be structured in several ways, each offering different advantages related to control, tax deductibility, estate planning, and legacy goals. Some approaches may be more appropriate than others depending on your financial situation and the charity's policies.

Important: This document provides a general overview of charitable giving strategies involving life insurance. Tax and estate laws are complex and subject to change. You should consult a qualified tax or legal advisor before implementing any charitable gifting strategy.

Why Use Life Insurance for Charitable Giving?

Life insurance can be particularly attractive for charitable planning because:

- It may allow you to make a larger future gift at a relatively modest cost
- Death benefit proceeds are generally paid quickly and income-tax free to the charity
- Certain strategies may provide income tax, gift tax, and estate tax advantages
- It allows you to align philanthropic goals with overall estate and legacy planning

Not all charities accept life insurance gifts, so it is important to confirm acceptance policies in advance.

Strategy 1: Name a Charity as Policy Beneficiary

How It Works

You designate a qualified charity as the beneficiary of an existing life insurance policy or a newly issued policy. You retain ownership of the policy and continue to pay the premiums. Upon your death, the charity receives some or all of the death benefit proceeds.

Advantages

- Simple to implement
- You retain full control of the policy
- You may change beneficiaries or revoke the designation at any time

Considerations

- Premium payments are not income-tax or gift-tax deductible
- Policy proceeds are included in your gross estate, but
- Your estate generally receives an offsetting estate tax charitable deduction for the amount passing to charity

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This approach is often used by donors who want flexibility during their lifetime and prefer to finalize charitable decisions later.

Strategy 2: Name a Charity as Recipient of Policy Dividends

How It Works

With certain permanent life insurance policies (not term insurance), you may direct policy dividends to be paid to a qualified charity. You retain ownership of the policy, and your designated beneficiaries receive the death benefit at your passing.

Advantages

- Allows charitable giving without reducing heirs' death benefit
- You retain ownership and access to cash value
- Dividends paid to charity are generally **deductible for income and gift tax purposes**

Considerations

- Death benefit proceeds remain part of your taxable estate
- No estate tax charitable deduction applies to the death benefit since proceeds go to heirs

Note: For non-modified endowment contracts (non-MECs), dividends are generally not taxable until they exceed your cost basis in the policy.

Strategy 3: Donate an Existing Life Insurance Policy to Charity

How It Works

You transfer ownership of an existing life insurance policy to a qualified charity by assigning all ownership rights and delivering the policy to the organization. The charity becomes both owner and beneficiary. You may continue to make premium payments unless the policy is paid-up.

Advantages

- The value of the donated policy may be **income-tax deductible** (generally limited to the lesser of fair market value or cost basis)
- Future premium payments may also be deductible
- Death benefit proceeds are **excluded from your gross estate** (subject to the three-year rule)

Considerations

- You permanently relinquish all control over the policy
- The charity has access to any cash value during your lifetime
- Retaining any incidents of ownership may eliminate tax benefits

Deduction Limits: Premium payments made directly to the insurer may be subject to lower AGI percentage limits than cash contributions made to the charity to pay premiums.

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Strategy 4: Donate a New Life Insurance Policy to Charity

How It Works

A new life insurance policy is issued with the charity as both owner and beneficiary. You never own the policy. You make contributions to the charity, which it uses to pay premiums, or you may pay premiums directly on the charity's behalf.

Advantages

- Premium payments and initial contributions are generally **income- and gift-tax deductible**
- Policy proceeds are excluded from your taxable estate
- Enables creation of a significant charitable gift at relatively low cost

Considerations

- You have no control over the policy once issued
- Some states require the policy purchaser to have an **insurable interest** in the insured

Planning Tip: If state insurable interest rules are a concern, a spouse may purchase the policy and then transfer ownership to the charity.

Tax Considerations and Planning Notes

- Life insurance used for charitable giving must comply with federal tax rules to qualify for deductions
- Estate inclusion may apply if death occurs within three years of transferring ownership
- Contribution deductions are subject to AGI percentage limitations based on the nature of the gift and the recipient organization

Because rules vary by strategy, professional guidance is essential to structure gifts correctly and maximize tax efficiency.

Key Takeaways

- Life insurance can significantly enhance charitable giving and legacy planning
- Multiple strategies exist, each balancing control, tax benefits, and estate planning outcomes
- The optimal approach depends on personal goals, financial resources, and charitable intent
- Advance coordination with tax, legal, and insurance professionals is critical

IMPORTANT DISCLOSURES

One Resource Group does not provide investment, tax, or legal advice. The information presented here is not specific to any individual's personal circumstances.

To the extent that this material concerns tax matters, it is not intended or written to be used, and cannot be used, by a taxpayer for the purposes of avoiding penalties that may be imposed by law. Each taxpayer should seek independent advice from a tax professional based on his or her individual circumstances.

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