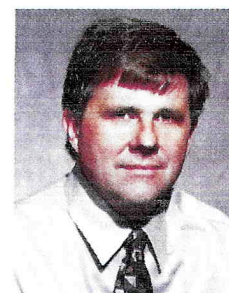


Using Life Settlements For Charitable Giving



Steve Shorrock

By Steve Shorrock, ChFC, CLTC, FLMI

Sir Winston Churchill said, "We make a living by what we get but we make a life by what we give."

Although charitable giving programs can be funded in a number of ways, life settlements offer unique advantages. Many charities depend upon a volunteer base which is often made up of seniors who bring a lifetime of experience to the organization. Some of these people would love to donate money as well, but don't really have the wherewithal to dip into their life savings. A life settlement (selling of a life insurance policy that has become unwanted or unneeded by an insured aged 65 or older) can offer a new approach.

Life settlements are a solution that provide immediate leveraged dollars to the charity, without the donor writing a check.

For charities needing capital sooner than later, life settlements can provide an immediate supply of cash.

Seniors who donate also benefit. They can turn an asset that has become unneeded into a valuable gift and be recognized for generosity during their lifetime. And when tax season rolls around, many high-net-worth seniors might find it beneficial to have donated the proceeds from the sale of a highly appreciated asset to get a current income-tax deduction equal to the asset's fair market value (the life settlement proceeds) rather than their lower cost basis in the asset (premiums paid) if the policy itself were donated.

Donating to charity by designating it as the recipient of all or part of the proceeds from a life settlement can benefit the donor by providing additional gift options. If there is a taxable gain on the policy sale, the donor is eligible to receive an offsetting income tax deduction for the gift, thereby reducing or even eliminating taxable gains and income on the policy sale.

In many scenarios, donating a life insurance policy to charity remains an effective strategy. But if the charity cannot meet the premium obligations, the policy owner simply can sell the policy in the secondary market, often for an amount far beyond the Cash Surrender Value that would have been received from the insurance carrier.

Also, many charities may be sitting on an inventory of donated policies with a true market value exceeding their currently assumed value. The ability to appraise these policies in the secondary market can provide financial administrators valuable information to make more informed business decisions regarding the management of these assets.

Non-profit organizations are adding life settlements to their Planned Giving programs.

A recent case involved a married couple in their late 70's. Their policy was a second-to-die contract that was purchased to offset future estate taxes at the time of their deaths. As the government has steadily increased the value of the estate exempt from estate

taxes, this couple no longer had an insurance need and decided to proceed with a life settlement. The couple also wanted to give to the selected charity, their church, *now* rather than at the time of their passing.

The couple sold their \$250,000 second-to-die policy through a life settlement for \$105,000 and donated all the proceeds to their church. Not only did the church receive a tax-free donation of \$105,000, the couple was able to take a \$105,000 tax deduction. Now when they walk into church and see the new pews that their generous donation purchased, they feel like a million bucks!

A win-win for all.

Another recent case involved a major university owning a \$500,000 Universal Life policy that was donated by an 82-year-old former trustee. It had a Cash Surrender Value of \$80,000 with annual premiums of \$40,000 that the university could not afford to maintain. The policy was settled for \$210,000 in the secondary market, resulting in \$130,000 in found money. **Another win-win for all parties involved!** *FA*

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