



M Financial Group™

# M INTELLIGENCE

## An Introduction to Charitable Planning Using Life Insurance

Many affluent individuals and families express a desire to establish a legacy via charitable planning. Charitable bequests can take many forms and, in a wide variety of circumstances, life insurance can be used as a tool to bring leverage, privacy, and certainty to the transaction. As such, life insurance planning presents an important opportunity to maximize the benefits for both the donor and the charity.

A properly structured charitable plan may include the goal of obtaining certain tax benefits in the form of charitable income tax deductions. Depending upon the type of gift and charity, this deduction may allow the donor to deduct up to the full value of the gift. Generally, charities are stratified into two categories: public or private. The latter offers the potential for more donor control but can include additional legal and administrative hurdles.

Tax benefits resulting from a charitable plan may also differ based upon the type of assets involved, also requiring a detailed review of the program and analysis of the client's specific assets and intentions. It is vital for individuals seeking to maximize the potential charitable and tax benefits of a transaction to work with qualified insurance, legal, and tax advisors to properly structure policy ownership and entity type, as well as consider potential risks within the transaction.

During the course of the charitable planning process, a number of important income and estate planning goals may be accomplished:

- The donor can diversify a highly concentrated equity position without immediate tax consequences.
- Highly appreciated assets can be restructured or sold without incurring a large tax bill in the current year.
- The gifted asset can be structured to provide an ongoing income stream as well as a tax deduction.
- A taxable estate can be reduced and transferred to heirs at a discount.

Life insurance plays an important role in most sophisticated charitable planning strategies:

- **Leverage:** Replacing gifted assets using discounted dollars to maximize both charitable and personal bequests. Free cash flow from reduced income taxes can be used to fund life insurance premiums, providing powerful leverage that can increase the overall transfer value.
- **Certainty:** Life insurance can be used to provide a reliable source of funds, not correlated to the returns of other assets classes, for legacy planning. Furthermore, the policy death benefit's Internal Rate of Return at life expectancy far exceeds the returns available through other asset classes on a risk- and tax-adjusted basis.

*Life insurance due care requires an understanding of the factors that impact policy performance and drive product selection.*

*M Financial Group continues to lead the industry in life insurance due care and client advocacy, providing valuable insight and analysis that delivers significant value to clients.*

## An Introduction to Charitable Planning Using Life Insurance (continued)

- **Privacy:** Due to the private nature of a life insurance transaction, charitable planning objectives can be accomplished with discretion and without public filing requirements.

Selection of the proper charitable planning approach is often determined by the desired timing of tax benefits and charitable proceeds, as well as the current and future ownership of assets. Depending on the donor's goals, strategies can allow charitable deductions with different timing characteristics.

Life insurance underwriting, or the process of risk assessment and selection, deserves particular attention in cases involving charitable planning. An extensive donative history should be established, quantifying the charitable life insurance need, to provide financial underwriting justification for the appropriate amount of coverage.

A wide variety of complex charitable planning strategies are available to assist donors with substantial assets in maximizing both the personal and societal benefits of their legacy planning. Interested individuals will benefit from reviewing their legacy planning goals with a qualified life insurance expert.

## For More Information

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