

The CHIEF Plan - Charitable Insured Endowment Fund Plan: Frequently Asked Questions and Answers

The following is a list of frequently asked questions and answers regarding the CHIEF Plan. While this attempts to address typical concerns, it is by no means exhaustive. Should you have additional questions, please contact us.

Is the plan approved for use exclusively in New York?

No. The CHIEF Plan itself can be implemented anywhere in the United States. The specific life insurance products and insurance companies may vary from state-to-state.

Can New York-domiciled nonprofit organizations own life insurance policies issued on residents of other states?

Yes. National Madison will ensure that the insurance application and policy issuance comply with all governing insurance regulations in both jurisdictions.

What insurance companies have reviewed and approved the CHIEF Plan?

The insurers review CHIEF Plan applications for the existence of insurable interest between the nonprofit and the proposed insured, the suitability of the transaction, and the economic justification for the amount of insurance sought. These are all elements within the CHIEF Plan. Both John Hancock and AXA Equitable have issued policies under the CHIEF Plan and are comfortable with the structure and logic National Madison has used in creating and implementing the CHIEF Plan. To increase the array of insurance companies available, National Madison is in discussions with Pacific Life, Sun Life and ING.

Is ‘guaranteed’ life insurance our only option?

No. National Madison’s research has found that the use of the guaranteed insurance product enhances the internal rates of return on the insurance products and the guarantee provides a comfort level to Board Members due to the certainty of product performance. All forms of permanent life insurance are available under the CHIEF Plan. The particular insurance product is chosen and structured to meet the specific goals and objectives of the nonprofit client organization.

Since permanent, or ‘cash value’ life insurance is being used, can we, as policy owner, make loans against the policy if we need to?

The cash value of a life insurance policy is always available to the policyowner and can be accessed by loans in all permanent products and by loans and withdrawals in universal type products. Policies issued under the CHIEF Plan are designed to lower premiums and increase death benefits. As a result, cash values are minimized. When cash values are minimal inside a policy and are removed by policy loan or withdrawal, the policy will not perform as intended. Therefore,

although cash values can be accessed as needed, the design with the CHIEF Plan is inconsistent with a plan of borrowing.

Our organization currently has significant debt. Can the CHIEF Plan help us in dealing with the debt management?

Much of the debt incurred by nonprofits relates to capital projects. Bonds and mortgages have been the financial instruments of choice in financing these projects. Real estate may have been financed over a 30-year time period. Policies issued under the CHIEF Plan are anticipated to have maturities in a 12-15 year timeframe. The proceeds of the policies issued under the CHIEF Plan can be used to prematurely retire the principal of such debt and additionally save years of interest and payments. Another aspect of the use of the CHIEF Plan in debt offset planning is that lenders may negotiate lower interest rates if the debt principal is insured using life insurance policies for the benefit of the nonprofit. National Madison welcomes the opportunity to analyze your debt structure and develop a CHIEF Plan-based solution.

Our organization’s Chief Legal Counsel has advised us against the proactive procurement of life insurance. Is this what the CHIEF Plan proposes?

Several years ago, there was notable controversy involving charities that purchased life insurance policies on the

and can be quantified, the loss can be offset through the use of life insurance. What distinguishes the CHIEF Plan is its strict reliance on insurable interest that the carriers have approved. The CHIEF Plan does not propose insuring people unrelated to the nonprofit. Rather, the people most valuable to the nonprofit are the CHIEF Plan’s

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lives of people with little or no relation to the charity. Such arrangements became known as ‘STOLI’ or ‘Stranger-Owned Life Insurance’. In the particular instance of nonprofits, the acronym used has been ‘CHOLI’ or ‘Charity-Owned Life Insurance’. At the heart of the debate has been the issue of ‘insurable interest’, the absence of which classifies the transaction as one of ‘wagering’ rather than ‘insurance’. Insurable interest is based upon the principle of ‘economic loss’. What economic loss would befall the policy applicant at the death of the insured person? If the economic loss can be described, is legal in nature,

proposed insureds. Under the CHIEF Plan, National Madison presents the economic relationship of the insured individual and quantifies it for the insurance company. As an example, let’s look at a donor with a long history of giving \$100,000 annually to an organization participating in the CHIEF Plan. At death, the annual gifts will cease. Assuming a 4% return on invested capital, a life insurance death benefit in the amount of \$2.5 million will permit the \$100,000 annual income to continue for the nonprofit in perpetuity. This relationship has economic value and the relationship is one in which there is an insurable

interest between the nonprofit and its donor. National Madison welcomes the opportunity to discuss the issues of insurable interest and stranger-owned life insurance with your advisors. The CHIEF Plan does not involve ‘STOLI’ in any form.

Who regulates this industry?

The CHIEF Plan is built upon recognized and known uses of life insurance products. In the United States, life insurance is a state-regulated industry. Each state has a governmental department to oversee the life insurance activities within that jurisdiction including financial well-being of insurance companies, approval of products to be available, licensing of insurance agents, and oversight of the market conduct of both insurance producers and companies. There are some forms of life insurance, namely variable life insurance, that are registered securities overseen by the Securities Exchange Commission (“SEC”) and the Financial Industry Regulatory Authority (“FINRA”). The principals of National Madison working on CHIEF Plan matters are licensed and credentialed professionals and members of professional organizations in which they subscribe to a code of ethics and to oversight

and disciplinary sanctions for conduct infractions. National Madison is happy to disclose license numbers, securities registrations, organization memberships, and professional credentials upon request.

Is there a connection between the CHIEF Plan and life settlements?

No. Prior to 1995, if a policyowner no longer had a need for his/her insurance policy, one could surrender it to the issuing insurer in exchange for its cash surrender value. Around 1995, a ‘viatical market’ came into existence with capital provided by individual and institutional investors to purchase the policies of terminally ill people with a price paid to the policyowner at a discount from the policy’s face value. At the turn of the century, the concept of a viatical settlement was extended to include all insured people, healthy and ill alike, typically aged 70+. Investors purchase existing life insurance policies for a specific sum, likely in excess of the cash values of the policy. As the primary market for the life insurance policies consists of the issuing insurance companies, this secondary market consists of the individual and institutional investors. A policy purchase in this secondary

market is known as a ‘life settlement’. The aim of the CHIEF Plan is to create and enhance endowment funds for nonprofits; the CHIEF Plan relies upon the payment of the death benefit of an insurance policy to the nonprofit owner of that policy. The life settlement transaction involves the sale of the policy to an unrelated third party to whom the policy death benefits will be payable. The CHIEF Plan does not involve life settlements. Once a nonprofit owns a life insurance policy, all rights to the policy belong to the nonprofit, including the right to surrender or otherwise dispose of the policy, including the ability to engage in a life settlement at the discretion of the nonprofit. National Madison has been involved with clients to whom this right does not present a problem; other clients have restricted their right by Board resolution to not engage in any life settlement without the express written permission of the insured person.

Does the insured person or the funding donor have any rights to the policy?

No. All policies are owned by and beneficial to the nonprofit organization. The limitation described above, to restrict a policy from being

sold in the secondary market without the express written consent of the insured person, can be by written agreement between the nonprofit and the insured person, but that agreement is not part of the insurance policy.

Are there policies that can continue without regular premium payments?

Yes. The products that National Madison has chosen to use with the CHIEF Plan are a general category known as ‘flexible premium’ life insurance products. As the name implies, the premiums can be structured under many different payment scenarios to accommodate the aims of the nonprofit. A particular situation, for example, may call for a policy to be funded with only a single payment. National Madison can design such an arrangement. In another situation, the cashflow needs of the nonprofit may be stressed so that it can no longer support the premium needs of a given policy. Under those circumstances, there may be adequate cash values within the policy to carry the coverage for a period of time without any premium payments or a greatly reduced premium level. Another alternative is to reduce the face amount of the policy to extend the period of

coverage. The CHIEF Plan comes with National Madison's assurance of long-term service. The nonprofit will not be left on its own to deal with the complexities and opportunities of the life insurance products in their CHIEF Plan portfolio.

How much insurance can we buy?

The amount on any one insured person is limited by quantifiable economic value of that person to the organization. The historical donor is simple to quantify. The Board Chair with fundraising prowess is more complex to value. The valuation of the individuals as insurance candidates is within the expertise of National Madison and the insurance companies.

Are there differences among potential insured persons?

An ideal prospective insured person within the CHIEF Plan is one whose life expectancy can be evaluated and measured to be fewer than 15 years. The fewer the years of life expectancy, the less premium must be paid, and the sooner the 'investment' comes to maturity. This measurement period will usually indicate an ideal prospect to be a person age 70 or older in average health – what the insurance

companies describe as a 'standard risk'. Health and age are the two most notable differences among potential insureds. A third notable difference will be the quantifiable economic value of the person to the organization. We discussed earlier the historical donor (\$2.5M insurable value) and the fundraising Board Member (multi-millions of insurable value). A third example of an insurable person within your organization is the volunteer who donates time rather than money. As an example, take a volunteer who gives your organization 20 hours each week, 48 weeks each year, for a total of 960 hours per year. If you were to replace that volunteer with a paid employee at a low cost of \$20 hourly, this volunteer then gives your organization the equivalent of \$19,200 annually in donated services. For insurance purposes, we capitalize that value at 4% and find that the volunteer has an insurable value to your organization of \$500,000. With the volunteer's permission, your organization can acquire \$500,000 of coverage on the life of the volunteer for the benefit of the organization.

What is the appeal of the CHIEF Plan to a donor?

Donors donate because they care about your organization and want to assist the organization in its work. They also want to help ensure your organization's continuity so that your work will continue into the future. Donors are aware of the havoc wreaked by the turmoil in the global financial markets over the past two years. They are aware of the financial damage done to your endowments, down by 20% to 50%, and what this has done to your annual programming and to your future plans. Not only are they aware, but they likely have been financially damaged as well.

With the CHIEF Plan, there are four funding approaches, positioned from easiest to more difficult:

- (i) the asset allocation approach using life insurance as an investment class within the existing portfolio of the organization;
- (ii) the donor advised fund approach in which your organization seeks the donor's approval to use these funds to finance the insurance acquisitions your organization wants to make;
- (iii) the 'funding benefactor' approach in which a donor advances funds to your organization to finance

the insurance acquisitions in exchange for a return of those cumulative advances at death. Such return of premium may be enhanced with a nominal rate of return; and,

(iv) the outright major gift in which a benefactor gives a sum of money either at once or over a period of years which the organization can use to finance the insurance acquisitions.

The asset allocation approach uses existing funds and likely requires the approval of the CFO, the Investment Committee of the Board, and quite possibly, the Board as a whole.

Although it requires several levels of approvals, the funds are already in place and available to be invested. The donor advised fund also has funds in place and again approvals must be sought. Given that benefactors have been adversely affected by financial markets, outright gifts are likely to be more difficult. The CHIEF Plan gives you another tool in the planned giving toolbox. With the CHIEF Plan approach, you have an opportunity for a benefactor to make a gift over a period of years, earn a return of 3% payable at the end of the term, and receive a full return of both the cumulative monies advanced to the organization plus the return. Think of this as an 'AA' bond investment for the benefactor and as a

zero coupon bond investment for your organization. Unique times require unique approaches. The CHIEF Plan qualifies.

How should the CHIEF Plan be communicated to a donor? To a proposed insured person?

To the donor: The CHIEF Plan is an innovative concept in creating and enhancing the endowment funds of tomorrow. It is a program of matching assets with liabilities and combining that matching approach with cost recovery in exactly the same manner as that used in the private sector benefit programs. For the first time, nonprofit organizations will quantitatively value the services of people key to the success of the mission of the organization. With the permission of those people, the organization will insure their lives for the benefit of the nonprofit. With your help, we can restore/increase/create the funds needed to accomplish our needed work.

To the proposed insured person: You and your service to this organization are important and we highly regard both. We have embarked on a program called the CHIEF Plan to build our future endowment so we can continue

our valuable work. You can help. Using some of our existing investment funds and combining those with newly donated funds, we are asking you and our other key personnel/volunteers/ Board Members to be insured under a life insurance policy owned by and for the benefit of our organization. You need not contribute money for this purpose; your donation is to lend the organization a part of your ability to be insured. We have engaged the professional services of a firm called National Madison to handle all the details of the insurance so the process of obtaining the insurance remains a confidential one for you. The organization will not have access to any of your medical information or other private information. All information will flow directly from National Madison to the insurance company.

What makes the CHIEF Plan different from other tools and techniques of philanthropic planning?

A key distinction is the concept of financial leverage on a guaranteed basis. An example of this is that \$42,000 controls a \$1,000,000 asset (female, age 70, standard risk). Assuming the premiums are paid in timely manner, the \$1,000,000 maturity value, i.e.,

death benefit, is guaranteed by the insurance company to be paid to the organization regardless of changes in the interest rate environment, mortality expenses, policy administrative costs or any other variable. There is a 3% annual maturity value growth factor built into each CHIEF Plan policy. This enables the \$1,000,000 capital value at inception to grow to \$1,871,987 by life expectancy at age 86, 16 years into the future. If measured as an investment, the annual rate of return is 10.12%. The exclusive variable is life expectancy: if fewer years, higher

endowment fund combine to make this CHIEF Plan approach unique among philanthropic planning tools.

If a funding donor/benefactor dies before the insured person, what happens to the insurance policy funding? Are there options?

Yes. This situation has been dealt with in any one of several ways. In a case involving a donor advised fund as the source of the premium dollars, the family foundation has pledged its financial support to the nonprofit if

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returns; if additional years, lower returns. The maturity value structure, i.e. an increasing 3% annual growth in combination with a ‘return of premium rider’ allows the organization to recover its cumulative premium investment (its cost), to realize a 3% return on its invested premiums, and to achieve a net \$1,000,000 increase in its endowment fund. This recovery of all costs, return on investment, and net increase in

the donor dies prior to the completion of the insurance funding. In another scenario, the nonprofit stood ready to employ its existing investment funds to assume the responsibilities of the donor who predeceased the plan completion. In a very creative approach, the donor designated the nonprofit as the revocable beneficiary of an existing life insurance policy insuring his life to cover his funding obligations in

the event of his premature death. A fourth option is to place a substitute donor in place of the deceased donor. Finally, as discussed in an earlier question involving policies continuing without regular premium payments, additional options include reducing the face amount of the policy or using existing cash values to maintain the policy. National Madison remains committed to working with you and your organization to address these challenges and opportunities as they present themselves.

Is the CHIEF Plan a tool for our CFO or is it a technique for planned giving?

The good news is that the CHIEF Plan is effective in both realms. For the CFO, it is a method of forecasting endowment values into the future with some degree of certainty and aligning the organizations financial resources accordingly. Using the CHIEF Plan asset allocation approach that regards life insurance as an investment class within the fixed income sector, the CFO effectively uses life insurance in a manner similar to employing options to offset some degree of risk in the organization's bond holdings. With regard to charitable gift annuities, it can mitigate downside risk when

used in conjunction with reinsurance. It can increase the benefits to the organization via the maturity values of the life policies if they are used in connection with the CGA pool.

The CHIEF Plan also presents itself as a technique in planned giving. It is novel. It employs a creative approach. Donors and prospective donors have not heard it before as with all other planned giving techniques. It is both simple and complex simultaneously. It allows the planned giving specialist to join forces with life insurance professional counterparts at National Madison to design an innovative, major gift.

What are the steps involved in the process of adopting and implementing the CHIEF Plan?

Adopting the CHIEF Plan for your organization is largely your internal process for program approval with you in the position of primary responsibility with technical, consulting, and presentation assistance provided by National Madison.

Implementing the CHIEF Plan has National Madison in the position of primary work under your leadership and supervision.

CHIEF Plan adoption involves:

- (i) clarifying your understanding of the CHIEF Plan;
- (ii) designating National Madison as your exclusive life insurance firm to be involved with your CHIEF Plan activities;
- (iii) determining the approach your organization wants to pursue [asset allocation? donor advised funds? funding donor? outright gifts?]; and,
- (iv) obtaining sign-off approval from the appropriate parties within the organization and on the Board.

CHIEF Plan implementation involves:

- (i) identifying one primary contact with authority to act on behalf of the organization;
- (ii) deciding on a communications strategy with donors;
- (iii) determining funding sources and amounts;
- (iv) identifying candidates to be proposed insured persons;
- (v) communicating with insurance candidates to gain consent;
- (vi) introducing National Madison to the insurance candidates;
- (vii) National Madison will handle all underwriting activities, including obtaining consent of proposed insured persons to gather medical records,

- arrange medical exams, and negotiate with insurance carriers for best classifications;
- (viii) National Madison will prepare financial models for each situation;
- (ix) National Madison will obtain approval from nonprofit contact;
- (x) National Madison will supervise insurance policy issuance by carrier;
- (xi) National Madison will deliver policies to organization and help to satisfy all delivery requirements;
- (xii) National Madison will prepare a life insurance portfolio summary and review of all policies annually to the organization.

Should you have additional questions, please contact [Andrea McDaniel](#), Director of Firm Development.

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