

Life Legacies

Using Life Insurance To Secure Large Gifts and New Endowment Funds

Insurance Basics

- Insurance is used to transfer financial risk
- Insurance plans ensure that future needs will be met regardless of outside circumstances
- It is often found used in:
 - Personal Planning
 - Business Planning
 - Charitable Planning

- Two types of insurance policies: Term and Permanent
- Term Insurance covers risks for a defined period of time
- Permanent Insurance covers risks indefinitely provided that required premiums are paid and the policy is structured efficiently
- Permanent insurance comes in many different “flavors” to address varying degrees of risk and need
 - Whole Life
 - Variable Life
 - Universal Life
 - Indexed Universal Life

Insurance In Charitable Planning

What Donors Know About Insurance

- It plays an important role in their personal and business planning
- Most have insurance – far less pay attention to it after it is purchased
- Only a fraction of donors understand that insurance is not just a risk management tool but is also a financial asset
- Savvy donors understand their insurance is a financial asset and is a piece of their overall investment portfolio

- Non-profit organizations (“NPOs”) communicate to their donors that they will accept paid-up permanent policies as charitable gifts
- NPOs rarely actively pursue insurance as a gift in conversations or solicitation materials
- Insurance advisors and NPO development professionals are not often brought together in a donor’s planning
- Yet, in the 2008 Bank of America Study of High Net-Worth Philanthropy, ~5-6% of donors with net worth between \$1 and \$50 million chose life insurance as their giving vehicle

- Life insurance combines characteristics of bequests and annual cash gifts
- Permanent guaranteed life insurance ensures the NPO will receive the stated amount at the time of death of the insured donor, whereas bequests may not guarantee the NPO will receive the amount promised
- Life insurance doesn't go through probate, is not a part of the donor's estate and is not subject to creditors or other claims on the estate
- Leveraging premiums may allow a donor to create a much larger gift than he or she could otherwise

Life Legacy Programs

- Giving programs and campaigns aren't new to NPOs. Charitable gift annuity programs, endowment and capital campaigns and constant appeals to be included in estate plans are routine for NPOs
- Life insurance is a means to guarantee a donor can leave a legacy to an NPO, with less cost than necessary for a major current gift and with more guarantees than a bequest
- Life insurance may create more opportunities for less wealthy donors to give on higher levels
- Life insurance program administration is typically less difficult and less risky than CGA programs
- According to the BofA study, ~30% of donors with a net worth of \$1 million to more than \$50 million indicate an important motivation for giving is the ability to leave a legacy

Creating a Life Legacy Program

- Giving levels and recognition would be similar to other programs
- Offer materials on why to consider life insurance as the giving vehicle. Professional insurance advisors can help you draft new solicitation materials and educate your development officers on how to discuss it with donors
- Administration can be done in house or through an insurance advisor
- Donors can use either their own insurance advisor or the NPO's professional partner
- NPO should have professional advisor review potential policies before accepting a gift
- NPO should create standards and requirements for policy acquisition (minimum death benefits, required guarantees and features that the policy design must incorporate, etc.)

- Minimum and maximum death benefits should be reflective of the NPO's size and financial position (i.e., an NPO with a small endowment may be unlikely to secure millions in life insurance death benefits or have enough office support to oversee such a program)
- Policies should all be structured with no-lapse guarantees
- Policies may be structured to include return of premium riders (i.e., the annual premium increases the overall death benefit every year) or be structured to increase the death benefit by a set interest factor each year
- Policies may be structured to limit the required number of premiums to a set number of years to minimize the risk of a donor being unable to continue premium payments indefinitely
- Single premium immediate annuities may be purchased to establish the recurring premium while eliminating all risk that a donor may be unable to continue premium payments in future years. In some cases, annuity arbitrage may create an environment with significant advantages to the NPO
- An independent insurance advisor should be consulted for all significant matters to assist the NPO with developing a successful and responsible giving program

Life Insurance Gifts in Numbers

Insurance Policies – Premiums and Returns

- The following illustrates varying premiums and rates of return on a guaranteed \$1 million death benefit. All insured are assumed to be standard risks.

Age	Gender	Annual Premium	Life Expectancy (years)	Cumulative Premiums at Life Expectancy	Internal Rate of Return
70	Female	\$26,199	19	\$488,349	6.58%
72	Female	\$29,966	17	\$517,812	7.11%
74	Female	\$33,878	16	\$540,015	6.88%
76	Female	\$44,217	15	\$646,010	4.98%
78	Female	\$52,809	13	\$702,360	5.25%
70	Male	\$31,877	16	\$507,163	7.54%
72	Male	\$35,973	15	\$533,839	7.39%
74	Male	\$40,434	14	\$560,415	7.31%
76	Male	\$50,418	12	\$629,721	7.52%
78	Male	\$58,531	11	\$657,303	7.19%

Major Life Legacy Gifts to Fund Endowments

- In this example, a donor's one time gift of \$825,000 - \$1.4 million creates a gift of \$2,500,000 for the NPO. Using a SPIA, the risk that the donor may not continue annual premium payments is eliminated.

Sex	Age	Risk	Tax Deductible Gift	Donor Gift Cost	NPO Annuity Purchase Price	Annual SPIA Income to NPO	NPO Annual Life Insurance Premium	Insured Endowment Benefit
M	65	Std	\$1,003,000	\$501,500	\$1,003,000	\$76,800	\$75,000	\$2,500,000
M	70	Std	\$1,205,000	\$602,500	\$1,205,000	\$101,910	\$98,600	\$2,500,000
M	75	Std	\$1,400,000	\$700,000	\$1,400,000	\$140,730	\$135,300	\$2,500,000
F	65	Std	\$825,000	\$412,500	\$825,000	\$58,080	\$56,600	\$2,500,000
F	70	Std	\$970,000	\$485,000	\$970,000	\$76,440	\$74,300	\$2,500,000
F	75	Std	\$1,210,000	\$605,000	\$1,210,000	\$110,670	\$106,900	\$2,500,000

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