

Gifts of Life Insurance



If you ever bought a life insurance policy, you recognized it as a relatively inexpensive way to ensure financial support for your spouse, children or other loved ones after your lifetime.

Perhaps, though, a change in circumstances means that the life insurance policy is no longer necessary. For instance, maybe your spouse or children are well provided for otherwise. Your policy can be an ideal asset for funding a charitable gift larger than you might have thought possible.

Naming Providence as beneficiary

Naming a Providence foundation as the primary or contingent beneficiary of a life insurance policy is easy to do. Simply request a beneficiary designation form from your life insurance company and name a Providence foundation as beneficiary. If in the future your personal or family needs change, you can always replace the named beneficiary with a new one.

Transferring ownership of an existing policy to Providence

You may have a life insurance policy that you simply no longer need. If you have paid all premiums owed (a paid-up policy), or you've paid all premiums due and more will be owed in the future (a partially paid-up policy), you might consider transferring ownership of the policy to a Providence foundation and naming Providence as the beneficiary.

If you make a Providence foundation the owner, you can claim a charitable income tax deduction. The deduction will be equal to the policy's replacement value or its basis, whichever is less. If premium payments are still owed (a partially paid-up policy), and you make annual cash gifts to Providence equal to the premium amounts as they become due, you will be entitled to an income tax deduction equal to each of those premium payments.

Making the gift of a new policy to Providence

Another option to consider is taking out a new policy making Providence the policy owner and beneficiary. Your annual gifts to Providence that will be applied to premium payments will entitle you to charitable income tax deductions for those gifts.



Maximizing tax benefits with a gift of securities

In providing for premium payments, you can maximize the tax advantages of your life insurance gift by making annual gifts of appreciated securities to Providence to cover the payments. Not only will you be entitled to an income tax deduction, but you will avoid all capital gain tax that would have been paid had the securities been sold.

An example

Thomas Wright would like to fund an endowment to support cancer research at Providence. However, he knows his current income isn't sufficient to fund the endowment during his lifetime.

Mr. Wright owns a partially paid-up \$500,000 life insurance policy with an annual premium of \$10,000 and a replacement value of \$200,000. He has paid annual premiums of \$10,000 for 21 years. Thus, his basis in the policy is \$210,000 (21 x \$10,000 annual premium). Mr. Wright had purchased the policy to take care of his minor children, but they are now grown and well provided for, making the policy no longer necessary.

When Mr. Wright names a Providence foundation as the beneficiary and owner of the policy, he is entitled to a charitable deduction of \$200,000, which is the lesser of his basis and the replacement value.

In each year to follow, Mr. Wright will make a cash gift to Providence of \$10,000 to cover the cost of the policy's annual premium. He will be entitled to a charitable income tax deduction for that amount.

After Mr. Wright's lifetime, the \$500,000 in insurance proceeds will be used to fund his cancer research endowment. He will have had the satisfaction of creating a legacy to Providence to benefit the cause he cared about most.

For more information

Regardless of how you choose to establish a life insurance policy gift, know that when the policy matures at your passing, your generosity will create a gift larger than might have been possible during your lifetime.

For more information about making a gift of life insurance, please call Providence's Office of Gift Planning at 503-216-6639 or 1-877-228-2574, or e-mail giftplanning@providence.org. You can also visit our website at www.providencefoundations.org/giftplanning.