BUSINESS

Life insurance can go to charity

The great recession has affected the financial condition of millions of families. While many struggled to pay bills and keep their own fiscal house in order, charitable donations took a back seat.

As economic conditions continue to improve, a lot of people are looking to give back to their favorite charities, having been unable to do so for years. There may be a way for you to provide a large, lump-sum donation to a charity in the future while reaping tax benefits today.

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Personal Finance

This can be achieved through life insurance donations whereby the charitable organization is the beneficiary on the policy. Through annual tax advantaged premium payments, you can enhance your legacy with a large donation upon your death. This may be the perfect way to endow a charity, research initiative or fund a project.

There are two ways to make such a donation. The first involves simply giving the existing policy to the organization of your choice by changing the ownership and beneficiary. If you have an old policy that is not currently needed, you may consider dusting it off and making it a gift to a charitable organiza-

The second involves taking out a new policy for the express purposes of giving it to the charitable organization. In the latter case, you will need to determine the amount of annual donations you are in a position to make. Then you will need to consult a financial representative who can find out the corresponding death benefit amount.

One product that is particularly useful in facilitating this objective is a universal life product with a no-lapse guarantee. While the intricacies of this policy type are beyond the scope of this article, suffice it to say that as long as you continue to pay the premiums as planned, the policy will not lapse. Of course, in the event that you are taking out a new policy, you will need to go through the underwriting process.

As long as you continue to make annual premium payments, you will receive a tax benefit up to the allowable amount. When you die, the charitable organization receives the money tax-free, which often amounts to a one-time donation far greater than the cumulative contributions you would have otherwise made annually.

The donations made via this life insurance policy are assets outside your estate and thus are not subject to estate taxes upon your death. In regard to your estate, it would be wise to address your personal estate planning situation to ensure it's in order prior to giving monies at the expense of your family's fiscal health.

If this piques your interest, contact your designated organization to see if they have a director of endowments. From there, you can facilitate the donation in coordination with both your financial representative and the organization to ensure its execution maximizes the benefit to both parties.

Columnist Gary Parsons is