Please Note:

Issues of *Futures* appear as they were originally published. Information in these publications has not been updated to reflect changes that could affect calculations given in case examples.

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Futures

Spring 2006

A no-nonsense newsletter for estate planners and financial advisors from The Dayton Foundation

Increasing Wealth and Charitable Giving

The Role of Insurance in Financial and Estate Planning

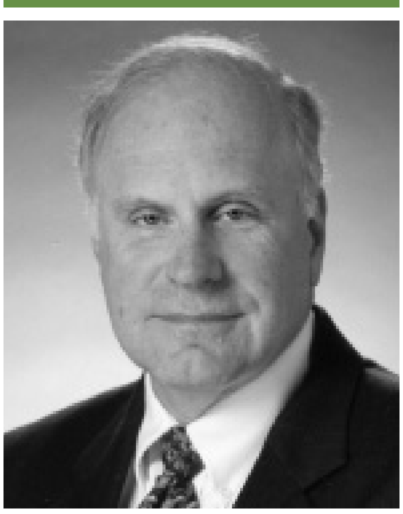
By L. Wesley Boord, CLU, ChFC, MSFS, CLTC; Partner, Comprehensive Planning Group, Inc.

"…permanent insurance can give you more flexibility and more control…and reduce the tax consequences to your estate."
– L. Wesley Boord

Frequently, when people first begin thinking about their financial or estate plans, they approach it from a wealth-preservation or defensive posture. Do I have enough money to take care of myself and my family? Will I outlive my money? What about taxes and estate costs? These are the questions everyone asks.

While these are prudent questions, the better question may be: *How can I maximize my wealth for myself and my family and, if I'm so inclined, for the charities I and my family care about?*

To answer this requires a broad view of a person's age and stage of life, assets, liabilities, needs and dreams, his or her risk tolerance and view of if and how he or she wishes to divide assets between family and social, or community, capital (charity).



L. WESLEY BOORD

The Role of Insurance in Maximizing Wealth

Central to maximizing wealth is enhancement of your economic flexibility and your ability to respond to circumstances, i.e. more financial control.

As a career insurance professional, I have time and again observed how permanent life insurance gives you more flexibility and more control, provides financial leverage, as well as increases available options and reduces tax consequences.

In an environment when tax laws and the state of the economy change with regularity, when health issues can surface unexpectedly and life expectancies are longer, and when jobs and investments can make sudden shifts, a sound plan is needed that includes built-in economic stabilizers. Permanent life insurance is a versatile, effective stabilizer. It can work in a catalytic way in your financial and estate plans – increasing both your family's wealth and your social (charitable) capital. Permanent life insurance bypasses probate and is delivered free of income tax to named beneficiaries.

From a tax standpoint, an important factor in making a charitable gift is the asset you select to use. For example, appreciated assets that you have held for more than a year make great lifetime gifts to charity. The charity can sell the asset tax free, allowing you to bypass capital gains tax while receiving a charitable income tax deduction. For charitable gifts that you intend to make as part of your estate plan, the best assets to use are your traditional IRA and qualified tax-deferred retirement assets (including 401(k), 403(b) and qualified deferred annuities). Because these assets escape estate tax and income tax when left to charity, you can maximize your charitable gift, while minimizing the cost to family. Life insurance can be used to further enhance the amount going to family.

One of the most powerful uses of life insurance is as a wealth-replacement or wealth-enhancement tool. If, for example, your financial/estate planning calls for a gift to charity that you want to assure won't diminish family assets, you can contract for permanent life insurance to replace any assets conveyed by a charitable gift. It even can increase the net value passed to your heirs.

Example

Let's say that "Marie," age 62, wants to fulfill her wish to make a gift to The Dayton Foundation in her late husband's name. Among other assets, she has $200,000 in a CD that is earning 4%. She has heirs and wishes to reduce income and estate taxes, while making the charitable contribution.

To accomplish this, her financial advisor might suggest that she use the $200,000 to purchase a charitable gift annuity from The Dayton Foundation. Based upon her age, the annuity will increase annual income to $11,400 (or 5.7% of $200,000), guaranteed for the rest of her life. When Marie dies, most of the remainder of the charitable gift annuity can be used for an endowment in her husband's name at The Dayton Foundation, benefiting his special charities.

At the time of her gift, Marie receives an immediate income tax deduction of $72,340. She can use

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The Role of Insurance in Financial and Estate Planning

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her tax savings and her increased annual income to purchase $330,000 of life insurance to enhance her heirs' inheritance. Since Marie has a taxable estate, she can place the life insurance in an irrevocable life insurance trust (ILIT), and the insurance proceeds will pass to Marie's heirs without being subject to estate taxes.

Everyone wins in this situation. Numerous other variations of this scenario are possible.

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– L. Wesley Boord

Other Examples of the Use of Life Insurance for Charitable Purposes

If you have an insurance policy you no longer need, you may want to consider an irrevocable transfer of the ownership of the policy to charity. An outright gift of such a policy generally produces a charitable income tax deduction equal to the lesser of the policy's value or the donor's basis in the policy. Usually this basis equals the total amount of premiums paid by the donor. As a practical matter, the charitable income tax deduction normally will equal the donor's basis. This is because, in most instances, the cost basis will not be greater than the policy's value, i.e., replacement cost or interpolated terminal reserve value (ITRV).

If you choose not to make an irrevocable gift because you want to retain the right to change the beneficiary at a later date, a charitable income tax deduction will not be allowed. However, any life insurance proceeds that pass to charity at your death will qualify for a charitable estate deduction at that time.

Foundation Recognized for Achieving National Accountability Standards

The Dayton Foundation received word from The Council on Foundations that it has been nationally certified for its organizational and financial practices and has successfully met 43 National Standards for U.S. Community Foundations.

Just 4 other community foundations in Ohio (of 78 statewide) and 110 community foundations (of more than 700 nationally) have been accredited to date with the Council on Foundations certification.

The Council on Foundations, located in Washington, D.C., is the premier international organization for both community and private foundations. The Council on Foundations and leaders of the community foundation field created the National Standards to aid community foundations in adherence to a high standard of legal, ethical and effective operational practices that demonstrate transparency and financial responsibility.

Transferring an existing policy may not be advantageous if your policy has a large cash value and you have use for the flexibility and liquidity that it gives you. In this case, you may prefer to purchase a separate policy and irrevocably gift it to your favorite charity. You would receive a charitable income tax deduction not only for the gift of the policy, but also for additional contributions to charity to cover the annual premium payments. You can maximize your tax benefits further by gifting appreciated stock to cover the premiums.

A charity to which you might consider gifting a life insurance policy is The Dayton Foundation. The Foundation can help you establish an endowed fund in your family's name to receive the death benefit. The Foundation then will make grants to your favorite charities for generations to come from the income generated by your fund. The Dayton Foundation is an excellent steward of your charitable legacy for future generations.

In Conclusion

Everyone wants to live a life of significance. *Whether you plan or not, what you leave behind is your legacy*. A successful plan is a powerful expression of self, which can positively impact the lives of others and extend the fruits of your efforts. Charitable contributions can be an important part of your whole financial picture – and charitable deductions can be of great benefit, if you have anticipated their use as you build your financial structure.

In the end, the only defense against changes over which you have no control is in building an estate on the principles of total wealth creation and the coordination of all financial instruments so they work together, much as a symphony does. Permanent life insurance plays an important role. It's not about rates of return, but about maximizing wealth, protecting assets, growing social capital for people who have charitable purposes and building a plan that is successful under all conditions. ❧

Note: Solutions differ from case to case. The above does not constitute professional financial or tax advice.

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