Protective

Charitable giving concepts

Life insurance as alternative to bequest

The rationale

- Many people own life insurance they no longer need. Parents, for example, may own policies they purchased decades ago to protect minor children.
- As time goes by and policy values grow, policyowners may begin thinking about other uses for policies that were purchased long ago to meet a need that no longer exists.
- Instead of surrendering the policy or allowing it to lapse, the policyowner may want to consider using it to make a charitable gift. A donation of life insurance can often allow a donor to make a larger charitable gift than might otherwise be possible.

The advantages

- A gift of life insurance is private and avoids probate—unlike a gift in a will, which is subject to probate and becomes part of the public record.
- Heirs are less likely to contest a charitable gift of life insurance.
- When a charitable gift of life insurance is made, the donor pays the policy premiums, which qualify for charitable income tax deductions. The charity receives the policy proceeds—frequently resulting in a significant gift. The ratio of death benefit to premiums paid often allows the donor to make a larger charitable gift than might be possible using other means.
- A charitable gift of life insurance permits the donor to retain other assets for heirs, such as real estate, tangible personal property, or a family business.
- Alternatively, the donor can use life insurance to replace specific assets left to charity by naming family members as beneficiaries of a life insurance policy.

Note: Beginning in 2026, only gift amounts that surpass 0.5% of the donor's adjusted gross income will qualify for a charitable deduction. Also, itemizers in the 37% tax bracket will see their deductions capped at 35%.

The mechanics

- Making charitable gifts using life insurance can be simple and cost-effective. An outright gift of an insurance policy can be as simple as using insurance company forms to name the charity as beneficiary.
- Some donors might not want to assign ownership of the policy outright to charity. By naming the charitable organization as beneficiary only, ownership of the policy remains with the donor while allowing the charity to eventually benefit from the policy proceeds.
- Simply naming the charity as a beneficiary will not create an income tax charitable deduction for the donor. However, if the charity receives the proceeds when the insured dies, the estate may take an estate tax charitable deduction for the gift.

The bottom line

A life insurance policy doesn't necessarily lose its usefulness when it outlives its original purpose. The policy can become a valuable planning tool for philanthropically minded individuals.

Summary

Life insurance: switching roles

It can be a good thing when a valuable life insurance policy outlives its original purpose. A policy originally intended to provide for minor children, for example, can provide additional benefits after the children are grown.

Life insurance can play a particularly useful role in allowing a donor to make a significant gift to a favorite charity. By naming the charitable organization as beneficiary of an existing policy, the donor can often provide a more substantial gift than would have been possible using other assets.

Advantages of life insurance gifts

A charitable gift of life insurance avoids the costs and delays of probate. By avoiding probate, the donor can make a gift that is not part of the public record. This is an advantage over a charitable bequest, for example, which becomes part of an estate filed in the probate court and available for public inspection. Another advantage is that, since they aren't subject to probate, charitable gifts of life insurance are less likely to be contested by disgruntled heirs.

Making a charitable gift of life insurance can be as simple as completing a beneficiary designation form to designate the charity as a beneficiary. In contrast, a charitable bequest requires drafting and executing a valid, legal will.

The donor's designation of the charity as beneficiary creates a substantial gift of the policy proceeds. This means that the donor is often able to make a much larger charitable gift using life insurance than would have been possible using other assets.

Making a charitable gift of life insurance allows the donor to retain other assets for family members, such as retirement funds, real estate, tangible personal property, or a family business interest. On the other hand, when assets that are unattractive to heirs are earmarked for charitable bequests, estate owners can provide life insurance benefits to heirs that will replace the value of assets left to charity.

The tax picture

An outright gift of a life insurance policy offers income tax advantages that are not available by making a charitable bequest with the same policy. For example, an outright gift of an existing policy during life can qualify for an income tax charitable deduction, subject to limitations. And contributions made to charity to pay subsequent premium payments can also qualify for a deduction.

Note: Beginning in 2026, only gift amounts that surpass 0.5% of the donor's adjusted gross income will qualify for a charitable deduction. Also, itemizers in the 37% tax bracket will see their deductions capped at 35%.