Do you still need your life insurance policy?

Several years ago, I was managing an endowment fund for a small museum. As a result, I worked with several of the board members on their gift planning as a way to grow the endowment. I also helped these individuals and families further develop some of their personal financial planning strategies. This included deciding whether or not to sell their life insurance policy. Many times such planning can help both the donor and the charity further improve their financial situation.

In this particular case, one board member had a life insurance policy that had now outlived it usefulness. The policy had been purchased years previously. He wanted to provide for his family in case he had during his prime working years. His employment income was the main source of family funds. However, he was now retired, his children were adults and on their own, and there was sufficient personal wealth to provide for his spouse in case of death. As a result, he was now paying on a policy that had he felt was no longer needed.

What are your options?

Since he was a donor to the museum and wanted to continue supporting the institution, we entered into a discussion about using the policy for this purpose. His initial thought was that he would surrender the policy for its cash value and then donate the proceeds he received. If he did that, he would have realized a taxable event on the gain in the policy. The gain would arise from the value he would have received over and above what he had paid into the policy. He could then make a donation to the charity. However, this was not the best option. The tax on the proceeds received would be more than the tax deduction benefit he would have received.

He next considered donating the policy to the museum. He would receive a deduction for the current policy value. And the museum would now own the policy on his life. They could cash the policy in or hold it until his death realizing a larger benefit perhaps many years from now. In the meantime, the premium would have to be paid. This could be accomplished by either the museum continuing to pay the premium, using the policy cash value, or the donor donating an amount equal to the premium each year, or some combination the three methods.

When does it make sense to sell your policy?

It turns out that there is a third alternative that should be considered in such cases. This option would eliminate need to continue paying the premium and it would provide current funds to charity. It would also provide a substantial tax deduction for the donor. We looked into selling the life insurance policy.

In this case, it was determined that the policy could be transferred to the museum. After it was properly valued, the museum could then sell the policy and receive those proceeds. Offers to sell the policy resulted in bids substantially higher than could have received by simply cashing in the policy. This is a strategy that is often overlooked in such cases.

If you have life insurance policy that may qualify for this arrangement and would like to discuss this solution, please contact our Executive Director, Lindsey Hardegree.

Pat Renn (he/him) is the founder and president of The Renn Wealth Management Group and has more than 35 years of experience in the financial services industry. He is a member at the Cathedral of St. Philip where he has previously served as junior warden and endowment chair; he has also served as board member and endowment chair of Holy Innocents' Episcopal School. Learn more about the ECF Board of Directors

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