Planned Giving

A Way to Add Value to Your Charitable Gifts

The Company You Keep®

The record of charitable giving in the United States is striking evidence of the generosity of our country's people.

At its most basic, charitable giving provides a two-way gift—the charity receives the financial assistance it needs to operate, and donors can receive the peace of mind that comes with knowing they have made a difference to a cause or an organization that they feel strongly about. Recognizing the value of charitable gifts to society, the federal government has provided tax benefits that can be derived from charitable giving. When making a gift, it is only natural for donors to seek the maximum tax benefit allowable by law. Planned giving is one way to help prospective donors maximize these tax benefits.

Combined with estate planning, planned giving can provide for favorite charities and loved ones, all the while protecting valuable assets from income and estate taxes. Planned giving can help provide the donor with guaranteed income for life, create a gift that will live on after the donor's death, or both. Additionally, there are a variety of ways to structure a planned gift to a charity and simultaneously enjoy favorable tax and financial benefits. Time-tested strategies allow donors to substantially increase the size of their gifts, without substantially increasing costs. Of course, as with all matters that may have financial and tax consequences, it is important to consult with your personal tax and legal advisors before making a planned gift.

Using Life Insurance in Planned Giving

Most people know that they can make a bequest to a charity in their will. Many people do not realize how convenient and welcome a gift of life insurance can be to a charitable organization. A gift of life insurance may provide a number of advantages to the charity, including:

- Income to the charity which continues after your death
- A large, lump-sum distribution to the charity upon your death, which can allow the funding of a special project
- Proceeds which are received without the delay of probate

In addition, life insurance enables a donor to write the same check, but makes the funds generated by that check go much further—through the power of tax-deferred cash value accumulation.

Existing Policies—Life insurance needs change regularly, and a life insurance policy you own may no longer be needed for the reason it was originally purchased—perhaps the kids are all grown up and financially secure, and your mortgage is paid off. One of the easiest ways to make a significant gift for the future is to name a charity as a beneficiary to receive all or a portion of the proceeds from a policy that is no longer needed for family protection. While this does not provide an income tax deduction for your premiums (since you retain ownership of the policy and can change the beneficiary at a later date), the death benefit is deductible from your estate as a charitable gift.

However, if you transfer ownership and beneficiary designation of an existing life insurance policy, you may enjoy an immediate charitable income tax deduction. (The amount of the deduction is the lesser of your cost basis—generally the amount of premium paid—or the cash value of the policy.)

New Policies—Life insurance enables a donor to create a significant endowment for a charity, often without giving away substantial family assets. A donor applies for a new policy, naming the charity as owner[1] and beneficiary, and provides the funds for the payment of premiums through cash gifts to the charity (which are generally income tax deductible[2]).

Life Insurance for Wealth Replacement—Life insurance can also be used to replace the value of an asset that you give to a charity. Here is how it works: after a valuable asset is gifted to a charity, part of the money saved—through the income tax deduction—is used to buy a life insurance policy. At the time of your death, the policy proceeds can help replace the value of the asset you gave away (hence the term "wealth replacement"). This can have the added advantage of replacing a non-liquid asset with cash, which may be necessary to help your heirs pay debts and final expenses to settle your estate. Life insurance can free

[1] Subject to state "insurable interest" provisions.

[2] Subject to certain limitations.

your heirs from the necessity of liquidating assets to pay debts, and can be structured in such a way as to avoid having the proceeds included in your taxable estate (through the use of an Irrevocable Life Insurance Trust).

Using Trusts in Planned Giving

Trusts are often thought of—incorrectly—as tools that the fabulously wealthy use as a way to avoid paying estate taxes. In fact, trusts are useful tools for a variety of situations, including planned giving. There are several varieties of trust-gifts to charity (called split-interest gifts). These include Charitable Remainder Trusts and Charitable Lead Trusts.

A Charitable Remainder Trust (CRT) allows you to make a gift of an asset to a charity, and receive income from that gift for life or for a specified period of years, up to 20 years. The gift (generally an appreciated, low-yielding asset such as real estate or growth stocks) is transferred to the trust, which sells the asset. The proceeds from the sale are used to provide you with income. At the time of your death, the remainder of the trust is transferred to the charity. This type of arrangement can provide two tax benefits: You receive an income tax deduction for a portion of the value of your gift[3], and the trust is able to sell your highly appreciated asset without paying the capital gains taxes that would have been due had you sold the asset yourself[4].

A Charitable Remainder Annuity Trust provides you with a fixed income from the trust each year. This income is generally agreed upon at the time of the gift, and must be equal to at least 5 percent of the value of the assets placed in the trust. A Charitable Remainder Unitrust also provides you with an income; however the payments may vary. Rather than paying a fixed sum each year, the trust pays out a fixed percentage of its assets as valued each year. When the trust increases in value, the payments grow. Likewise, when the trust loses value, the payments shrink. Unlike Charitable Remainder Annuity Trusts, additions may be made to Charitable Remainder Unitrusts at any time.

A Charitable Lead Trust is the opposite of a Charitable Remainder Trust. Rather than providing an income to you, the Lead Trust provides an income to the charity for the term of the trust. When the term expires, the property passes to the named beneficiaries. An income tax deduction is permitted for a portion of the gift, in certain circumstances. Also, the value of the gift can be removed from your estate.

How It All Fits Together

The combination of various estate planning and planned giving strategies can provide you with a powerful tool to help your favorite charity, and provide for you and your heirs. For example, by combining a Charitable Remainder Trust with a life insurance policy for wealth replacement (often owned by an Irrevocable Life Insurance Trust) a properly structured plan may:

- Provide your favorite charity with a substantial gift
- Provide you with an income for life
- Provide you with substantial income and capital gains tax savings
- Replace the value of your gift with the cash proceeds of a life insurance policy—estate and income tax free

Planned giving adds value to the tradition of charitable gifts. Using insurance and trusts to multiply the value of your contributions, you can provide a substantial gift to a charity at an affordable cost—all the while providing for your heirs and your own future.

Please note: This article is for informational purposes only. Although many of the topics presented may also involve tax, legal, accounting, and other issues, neither New York Life nor any of its agents are in the business of offering tax, legal, or accounting advice. New York Life agents can work closely with a client's legal counsel and other advisors to assure that the client's goals are met. You should consult with your own professional advisors to examine the tax, legal, and accounting aspects of any topics presented here.

[3] The deduction is equal to the present value of the remainder interest going to the charity, as determined by IRS actuarial tables.

[4] There are several restrictions placed on CRT's by the Taxpayer Relief Act of 1997 in order for donors to qualify for income tax deductions. It is important to consult with your qualified tax and legal advisors before creating a CRT to make sure it qualifies for the most favorable tax treatment allowed by law.

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13730(9/03) SMRU 259920CV(12/02)