

contingent beneficiary of a policy could be a good strategy for a childless married individual who wants to assure maximum protection for his or her spouse while both spouses are alive, yet wants to provide a benefit to the charity if the primary beneficiary predeceases the insured or both perish in a common disaster.

**An Additional Strategy:
Wealth Replacement Through Life Insurance**

Perhaps you're interested in making a substantial charitable gift but feel constrained by family financial security goals. For some, the thought of depriving family members of inheritance or assets they might need for emergencies or unforeseen circumstances that require significant funds provides a barrier toward achieving charitable giving goals. Consequently, would-be donors lose the personal satisfaction of fulfilling their philanthropic objectives and also lose the income tax and/or estate tax savings available to those who make charitable gifts and bequests.

A "wealth replacement" strategy can achieve all these objectives. As part of a comprehensive philanthropic, estate, and financial plan, it might be more advantageous to donate a highly appreciated asset, such as property or stock, to Lake Junaluska, because you will usually be able to take a charitable deduction for the fair market or appraised value of the asset. Once the asset is in the hands of the charity, there will be no capital gains tax on the subsequent sale. You, in effect, get a double benefit – a substantial deduction and elimination of the capital gains tax. The charity receives its benefit when it might be most needed rather than having to wait. Your heirs also benefit even though these assets will no longer be available for inheritance. This is where life insurance can play an important role.

You can purchase a life insurance policy that provides your heirs with a cash payment at your death, to replace assets given to charity. Moreover, if the

life insurance policy is purchased and held by an irrevocable life insurance trust, the insurance proceeds can pass to your heirs free of estate taxes.

Conclusion

A gift of insurance provides great flexibility to meet charitable giving goals. Most donors and nonprofit organizations think of life insurance only as an asset that produces a future benefit for the nonprofit organization. However, by using the wealth-replacement strategy to meet the needs of the donor's family and the nonprofit, charitably-inclined individuals can truly get the most out of their financial, estate, and philanthropic goals.

We would be happy to provide information on the ways in which life insurance can help you achieve your objectives, and at the same time, support Lake Junaluska. Please return the enclosed form or call us at (828) 454-6680.



Lake Junaluska
Lake Junaluska Development Office
PO Box 67
Lake Junaluska, NC 28745
(828) 454-6680

Lake Junaluska LEGACY CIRCLE

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Life Insurance Checklist ✓

- 1. Do I have an up-to-date list of all my policies?
- 2. Where are my policies kept? Are they in a safe or readily available place?
- 3. Do I know what they cover and who are the beneficiaries of each policy?
- 4. Is there any reason for me to consider changing my beneficiaries?
- 5. Is my insurance still needed? All or a part of it?
- 6. Do I need additional coverage?
- 7. Is my spouse thoroughly familiar with the coverage provided by the policies?
- 8. Am I using my dividends in the best way?
- 9. Are any of my policies paid up or about to be paid up?
- 10. Is my premium payment plan (monthly, quarterly, semiannual, annual) still the best for me?
- 11. Would it be advantageous to change the ownership of my policies?
- 12. Have I borrowed against any of my policies? How much?
- 13. What is the current cash value of each of my policies?
- 14. Should I consider converting or donating any of my current policies?
- 15. Do I have clear instructions for my heirs on how to locate documents, web sites, and online passwords to successfully access life insurance policies and related information?



Charitable Giving Through Life Insurance Is Cost-Effective for Friends of the Lake

Life insurance is primarily used to provide protection and security for family members or as a retirement instrument. But, believe it or not, one of the most satisfying uses of life insurance policies are connected with charitable giving! In fact, more than a quarter of Americans who own life insurance say that one of the reasons they bought a policy was to provide a charitable gift, according to a survey by LIMRA, a financial services research and consulting organization. Life insurance can be an attractive way for friends of Lake Junaluska to make a charitable gift because it is a flexible, cost-effective, and in many cases tax-advantaged way to make a major gift. Life insurance can also be used for asset replacement. Under this strategy, a

donor makes a gift of an asset (such as real estate or appreciated securities) to a nonprofit institution and replaces the value of that asset to benefit his/her heirs with a life insurance policy. Moreover, the purchase of life insurance through an irrevocable trust can eliminate estate taxes on the benefit amount for the decedent. To determine how best to use life insurance as a charitable gift, we recommend the checklist at left as part of an annual financial review. If you have a life insurance policy you no longer need, you might contribute it to Lake Junaluska. Purchasing a new policy and naming Lake Junaluska as beneficiary is another consideration.



Tax Tip

To maximize the tax advantage of this gift, you should consider making annual gifts of appreciated securities to the nonprofit organization, which will then make the premium payment. This will produce a charitable deduction based on the fair market value of the gift of the securities on the date the stock is transferred to the charity, and all capital gains tax that would have been paid, had the securities been sold, will be avoided. In addition, an independent valuation of the policy is advisable, as there is now a market in many states for life insurance policies. Certain factors (i.e. age, health status, health history) may lead to a greater value for income tax deduction purposes than the interpolated terminal reserve value.

How To Make a Gift of Life Insurance

There are two basic ways to make a gift of life insurance:

- 1. An irrevocable gift of a new or existing policy where you give up all ownership, or
- 2. Naming the nonprofit organization as the outright or contingent beneficiary of a policy.

Each approach has its unique advantages, as summarized below. While most states allow for a transfer of life insurance to a charitable organization, a few states may restrict such transfers. Accordingly, it is advisable that you consult with your advisor to confirm your ability to make such a transfer.

Strategy #1: Irrevocable Gift of an Existing or New Policy

In considering an irrevocable gift of life insurance for the benefit of Lake Junaluska or another nonprofit institution, two options are available.

Gifting an Existing Policy: If you own excess life insurance (perhaps purchased for a reason that no longer exists), you might consider making an irrevocable gift of the policy to a charity. If complete ownership is transferred to

the nonprofit and the charity is named as the beneficiary, the gift will generate a charitable income tax deduction.

As discussed below, if the policy is "paid up" (i.e., no premiums remain to be paid), the deduction is generally equal to the policy's replacement value. If premiums remain unpaid on the policy, the deduction can usually be calculated based on the cash surrender value of the policy. If you continue to pay the premiums on the policy (either directly to the insurance company or as a gift to the nonprofit organization that pays the premium), each such payment is tax-deductible as a charitable gift.*

Gifting a New Policy: You may take out a new policy and irrevocably name the nonprofit organization as the owner and the beneficiary of the insurance contract. This can be an attractive strategy if you are a younger donor, because the premium cost is usually low compared with the ultimate death benefit that will accrue to the charity upon the donor's death. Whether you make one single premium payment for the policy or pay premiums annually, each payment produces a charitable income tax deduction.

*You may also consider contributing your interest in a group policy to a charity, although such a gift may produce little or no charitable tax deduction. You should consult with your tax advisor on this type of gift.



The Benefits of an Irrevocable Gift of Life Insurance to Support the Lake:

Lake Junaluska and its donors receive several benefits as a result of irrevocable gifts of life insurance to support our work. There are two major types of life insurance: 1) permanent and 2) term. Permanent life insurance (e.g., universal life and whole life) does not expire and carries a cash value, whereas term life insurance does not carry a cash value and eventually expires (based on the number of years selected within the policy). Accordingly, term life insurance isn't ideal for charitable giving because the policy is in force for only a certain number of years.

Overall, the advantages of a gift of life insurance for the donor include:

- 1. **Simplicity:** Giving life insurance is not complicated because the transaction is easily handled by your life insurance agent. There should be little or no legal fees with which to contend.
- 2. **Immediacy:** If Lake Junaluska is named as the beneficiary of a life insurance policy, then upon the insured's death, life insurance proceeds are generally paid without delay; the funds can be quickly applied to the purpose(s) that you designated.

3. **Confidentiality:** Unlike a will that is subject to probate proceedings, a gift of life insurance is not subject to public scrutiny and can be a private matter between Lake Junaluska and the donor, if desired.

4. **Deductibility:** As a charitable contribution, a gift of life insurance can provide you with a federal income tax deduction if Lake Junaluska is made the owner and the beneficiary of a policy that has a cash value. In the case of a donated policy, if the deduction amount exceeds \$5,000, you must seek an independent appraisal and file a Form 8283 with your tax return. Such gifts may be deducted in an amount up to 50% of your adjusted gross income, and any excess may be deducted within the next five years, subject to the same 50% limit each year. (If you retain the ownership of the policy and name Lake Junaluska as the beneficiary, you are not entitled to an income tax charitable deduction.)

5. **Certainty of Full Payment:** Lake Junaluska can receive the policy proceeds upon proof of death of the insured. The gift is not reduced by administrative fees or taxes. In contrast to assets passing under

a donor's will or living trust, life insurance may not be subject to claims by heirs or creditors.

6. **Major Gift for Modest Cash Outlay:** Although the amount to purchase life insurance may be relatively small, it can provide a major gift to Lake Junaluska. Funds from life insurance may also enable endowment gifts that keep on giving (like improvements at the Lake). For some, life insurance may be the only way to make a lasting and generous gift.

Strategy #2: Naming Lake Junaluska or Another Charity as a Primary or Contingent Beneficiary

If you want to retain maximum flexibility, Lake Junaluska or another charity can be named as either a primary or contingent beneficiary of the policy. This will not produce an income tax charitable deduction upon the designation of the charity as beneficiary, nor will it produce an income tax deduction for subsequent payments of future premiums on the policy. But it does afford you a full estate tax charitable deduction when you die and the charity benefits. The concept of naming one's favorite charity as a

