A Poker Hand You Can't Win

Here's a creative way to cash in on the true value of life insurance.

David Kottler

Have you ever scheduled a pick up with one of these charities that run a thrift shop? You clean out your closets, bag up clothes and household items you no longer want, and leave them on your front porch. Then someone from the charity comes by, picks everything up, and leaves you a receipt you can use to take a tax deduction.

Brilliant.

The charity gets items to stock their thrift shop or give away. The people served by the charity benefit. You get rid of stuff you didn't want anyway and you get to take a tax deduction.

Everyone wins.

The majority of life insurance policyholders have policies they're never going to benefit from.

Just like most of us have unwanted stuff cluttering up closets, the majority of life insurance policyholders have policies they are never going to benefit from. Just in the U.S., there are around 330 million policies with a total value of over $18 trillion. But 90% of them will not last to maturity.

And of course that's how insurance companies make their money. The company collects premiums for years on 100% of the policies but only pays $0 on most of them.

That is also brilliant… for the insurance carriers.

The insurance companies win. Who loses? The policy owner who has faithfully made payments his whole life (your prospects!). And you, the charity, lose out on an opportunity for a significant gift.

Why bet on a poker hand you can't win?

I often tell my clients that hanging onto insurance you don't need is like betting on a poker hand you know you aren't going to win. There's just no reason to do it. And speaking of betting, I'm willing to bet that in your database you have at least one loyal donor who is carrying a useless life insurance policy and would be willing to use it to support your organization.

As my colleague, Chuck Miller explains in his article on page 1, there are three basic ways donors can use life insurance to make a charitable gift. They can name the charity as a beneficiary on the policy. They can purchase a new policy with the intention of using it to make a charitable gift (that's what Chuck's article is about). Or they can transfer an existing policy to charity.

From the donor's point of view, that last option is attractive. But it can be problematic for charities. The policies are difficult and expensive to value, and most charities don't want the administrative hassle of maintaining policies they don't understand. My firm acts as a broker and takes those unwanted or no-longer-needed policies to the settlement market and sells them.

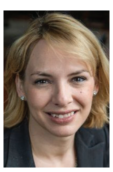
Life settlements, as they're called, are relatively new but quickly becoming mainstream. And for good reason. In 2009, the United States Senate Special Committee on Aging determined that life settlements typically produce eight times more than the cash value supplied by life insurance companies. So for your charity and for your constituents who have a deadweight insurance policy, a life settlement could pay off big. ●

David Kottler combines a legal education and an entrepreneurial background to help his clients fulfill their life mission both philanthropically and financially. In the past year he has helped his clients generate over $10MM in cash and tax benefits using his unique "True Value" Life Insurance Review process. www.strategiclifeinsurancesolutions.com.

500 Lawyers At The Bottom Of The Ocean

Say hello to the "lawyer-less" gift plan.

Meredith Sossman, Esq., CFRE



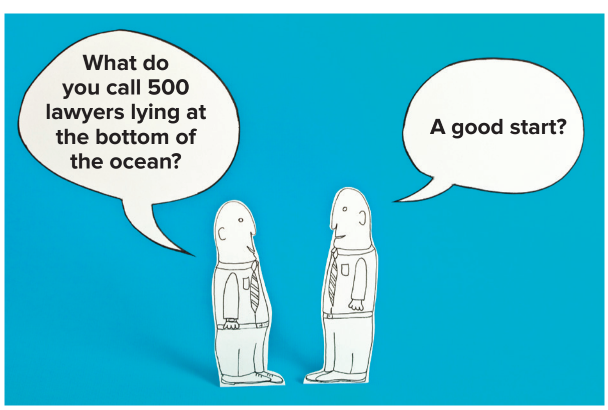
Think 500 lawyers at the bottom of the ocean is a good start? Then the beneficiary designation gift is for you.

After the "death and taxes" objection, a common concern from donors in planned giving discussions is the involvement of an attorney. Many donors are interested in giving but are hesitant about the cost of hiring a lawyer to facilitate their gift plan. Or they're concerned about the time and effort a change in their legal estate plans might entail.

Enter the beneficiary designation.

In many cases, retirement accounts, bank accounts, CDs, and life insurance policies have a one-page beneficiary designation form that requires only a few minutes to fill out and send to the proper holding company.

The gift process can be as simple as adding a pay-on-death (P.O.D.) or a transfer-on-death (T.O.D.) provision. Your donor can ask their financial advisor or bank manager for the forms. Your donor retains control of the funds during his or her lifetime, and your charitable organization receives what is left in the account when your donor passes.



But you knew that already, didn't you?

So what are you waiting for? Start telling your donors and prospects about the simple, quick, lawyer-less gift plan. ●

Meredith Sossman is an estate tax and real estate attorney. She is the Associate Executive Director at the West Chester University Foundation, where she has made multiple bundled asks that have succeeded in multi-million dollar gifts in a combination of planned gifts and cash. msossman@wcufoundation.org