

# ACCOMPLISHING CHARITABLE GOALS

Using Life Insurance



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# Charitable Gifts of Life Insurance<sup>1</sup>

## The Situation

Many individuals have a history of giving to their favorite charities. They may want to make sure that these gifts continue should they die prematurely.

Life insurance might be a way for these donors to complete their expected lifetime gifts should they die before life expectancy.

The two main ways of making a charitable gift with life insurance are:

- Naming the donor as owner and the charity as beneficiary; or
- The donor transfers an existing policy to charity.

Any tax benefits to the donor will vary depending on how the gift to the charity is structured.

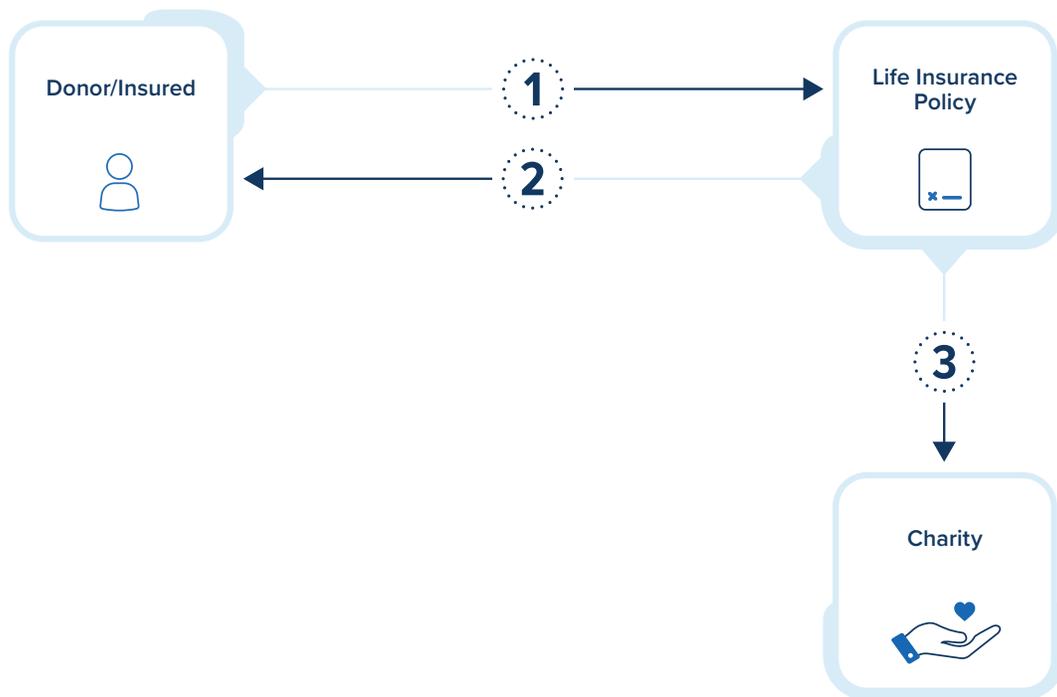


<sup>1</sup>As with all uses of life insurance, the amount of life insurance coverage asked for in conjunction with this concept may be limited by Pacific Life Insurance Company's financial underwriting guidelines. Financial underwriting is an assessment of whether the proposed death benefit is a reasonable replacement for the financial loss caused by the death of the insured. Life insurance is subject to underwriting and approval of the application and will incur monthly policy charges.

# 1. Donor as Owner and Charity as Beneficiary of the Life Insurance Policy

If the donor wishes to retain control over the life insurance policy, the donor may own the policy and name a charity as a beneficiary of the life insurance policy on his or her life. This strategy does not provide the donor with a charitable income tax deduction.

Upon the donor's death, the life insurance policy will be includible in the donor's estate for estate tax purposes.<sup>2</sup> However, any portion of the death benefits paid to the charity at the donor's death should qualify for a dollar-for-dollar charitable estate tax deduction. Any portion of the death benefit going to a non-charity (such as heirs) may be subject to estate taxes.<sup>2</sup> This technique may be an appropriate option for a donor who wishes to own the life insurance policy in order to access the policy's cash surrender value for personal needs, but wants his or her favorite charity to receive the death benefit. In addition, this option may be attractive to donors who desire to have the flexibility to utilize any riders attached to the policy, such as terminal illness, chronic illness or long-term care. The donor will also preserve the flexibility to change the beneficiary at any time.



<b>1</b>	<b>Donor/Insured</b>	Donor owns, and pays premiums on, a life insurance policy on his or her life. Donor names the charity as a beneficiary. Donor does not receive an income tax deduction for premium payments.
<b>2</b>	<b>Access</b>	Donor is able to take withdrawals and loans from the life insurance policy. These withdrawals and loans may be income tax-free. <sup>3</sup>
<b>3</b>	<b>Death Benefit Proceeds</b>	Upon the death of the donor, the life insurance death benefit proceeds are distributed to the beneficiaries of the policy. The death benefit proceeds are includible in the donor's estate for estate tax purposes. <sup>2</sup> The estate receives a corresponding charitable estate tax deduction for any portion of the death benefit passing to charity.

<sup>2</sup>According to the One Big Beautiful Bill Act of 2025, the federal estate, gift, and generation-skipping transfer (GST) tax exemption amounts are all \$15,000,000 per person (indexed for inflation effective for tax years after 2025); the maximum estate, gift, and GST tax rates are 40%.

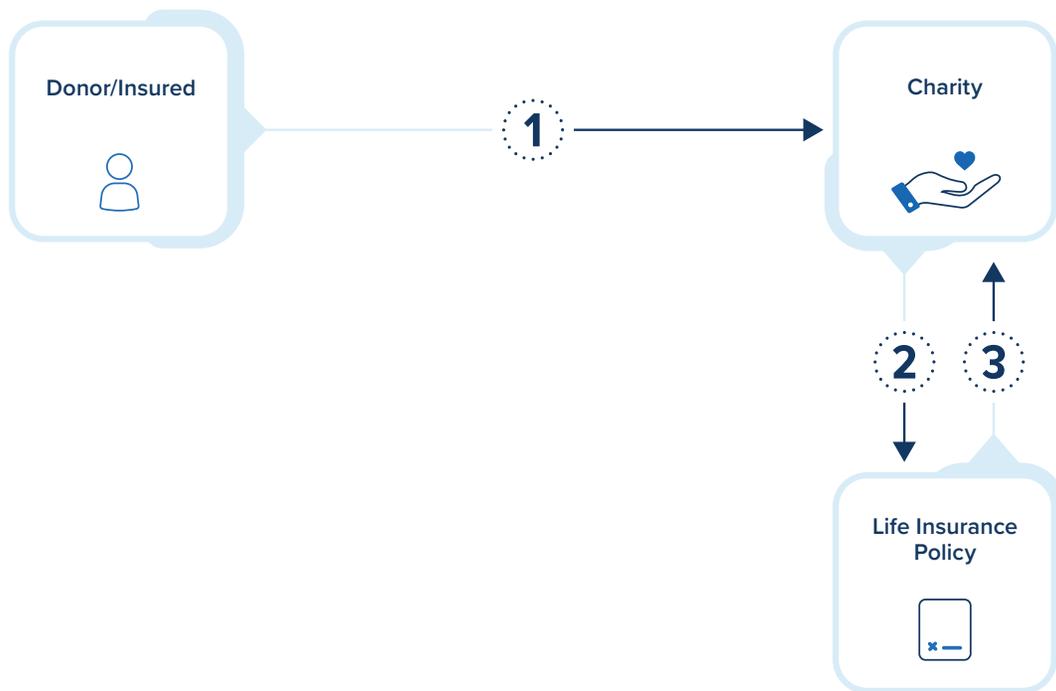
<sup>3</sup>For federal income tax purposes, tax-free income assumes, among other things: (1) withdrawals do not exceed tax basis (generally, premiums paid less prior withdrawals); (2) policy remains in force until death (any outstanding policy debt at time of lapse or surrender that exceeds the tax basis will be subject to tax); (3) withdrawals taken during the first 15 policy years do not cause, occur at the time of, or during the two years prior to, any reduction in benefits; and (4) the policy does not become a modified endowment contract. See IRC §§ 72, 7702(f)(7)(B), 7702A. Any policy withdrawals, loans and loan interest will reduce policy values and may reduce benefits.

## 2. Donor Transfers Existing Life Insurance Policy To Charity

If the donor has an existing life insurance policy, and would like to donate it to a charity and receive an income tax deduction, he or she may transfer ownership of the life insurance policy to a charity. The charitable deduction will be limited to the lesser of the donor's cost basis in the policy or the fair market value (FMV) of the policy.<sup>4</sup>

The donor's cost basis in the policy is generally premiums paid less withdrawals. The FMV of the policy depends on the nature of the policy. If the policy is a single premium or paid up policy, then the value of the life insurance policy is the amount the company would charge for a single premium contract of the same amount on the life of the insured as of the date of the gift.

If the life insurance policy requires additional premiums, the FMV is typically the interpolated terminal reserve plus the proportional value of the last unearned premium.<sup>5</sup> If the life insurance policy is newly issued, the value of the life insurance is the premium paid to bring the life insurance policy into force. Donors should consult with their tax and legal advisors for help in determining the FMV of the policy as various valuation methods have changed over time.



<b>1</b>	<b>Gifts of Policy and/or Cash</b>	Donor gifts existing life insurance policy to charity. Donor receives income tax deduction. If further premiums are owed, donor may continue to make annual gifts to charity for the additional premium payments. These additional gifts may be income tax-deductible.
<b>2</b>	<b>Premiums</b>	Charity continues to pay any additional premiums on the life insurance policy by using either the additional gifts from the donor or other funds.
<b>3</b>	<b>Death Benefit Proceeds</b>	Upon the death of donor, the charity receives the life insurance death benefit proceeds.

<sup>4</sup>Generally, the maximum charitable income tax deduction for gifts of life insurance allowed in one year is either 50% of adjusted gross income (AGI) to public charities or 30% of AGI to private charities. IRC Sec. 170(b)(1)(A); 170(b)(1)(B). An income tax deduction may be unavailable if there is an existing loan on the policy at the time of transfer. Consult your tax advisor to determine the deductibility for charitable planning purposes.

<sup>5</sup>Treas. Reg. Sec. 25.2512-6(a), Example 4.

# Fact Finder

This fact finder is provided to help you and your life insurance producer better understand your goals and objectives. Please return the information to your life insurance producer and not to Pacific Life Insurance Company, as we cannot and do not provide financial, legal or tax advice.

## Vital Information

Insured: \_\_\_\_\_ Date of Birth: \_\_\_\_\_

Spouse: \_\_\_\_\_ Date of Birth: \_\_\_\_\_

Client Risk Status:  Select  NS  S

Spouse Risk Status:  Select  NS  S

Address: \_\_\_\_\_ State: \_\_\_\_\_

Name of Charity: \_\_\_\_\_

Average Annual Gift to Charity Over Last 5 Years: \_\_\_\_\_

Death Benefit:

Base: \_\_\_\_\_ Term: \_\_\_\_\_

Death Benefit Option: Increasing: \_\_\_\_\_ Level: \_\_\_\_\_

Change Year/Age: \_\_\_\_\_

Premium Mode: Annual \_\_\_\_\_ Semi-Annual \_\_\_\_\_ Quarterly \_\_\_\_\_ Monthly \_\_\_\_\_

Lump Sum Pour In Amount: \_\_\_\_\_

Riders/Amounts:

Guaranteed No Lapse Premium: \_\_\_\_\_

Waiver of Charges/Duration (yrs): \_\_\_\_\_

Accidental Death Benefit: \_\_\_\_\_

Guaranteed Insurability: \_\_\_\_\_

Disability Benefit/Duration (yrs): \_\_\_\_\_

Spouse Rider/Age: \_\_\_\_\_

Smoking Status: Smoker \_\_\_\_\_ NonSmoker \_\_\_\_\_

Life Insurance Producer's Name: \_\_\_\_\_ Date: \_\_\_\_\_

Pacific Life Insurance Company is licensed to issue insurance products in all states except New York.  
Product/material availability and features may vary by state.

Insurance products and their guarantees, including optional benefits and any crediting rates, are backed by the financial strength and claims-paying ability of the issuing insurance company. Look to the strength of the life insurance company with regard to such guarantees as these guarantees are not backed by the broker-dealer, insurance agency, or their affiliates from which products are purchased. Neither these entities nor their representatives make any representation or assurance regarding the claims-paying ability of the life insurance company. The home office for Pacific Life Insurance Company is located in Omaha, Nebraska.

