PG Calc — YOUR PARTNER IN PLANNED GIVING SUCCESS

Success with Life Insurance

Date: May 29, 2025
Time: 1:00 – 2:30 Eastern
Presenter: Craig Wruck
Senior Advisor, PG Calc

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Life Insurance Contract

Owner	Insurer	Insured	Beneficiary
Buys and pays for the policy, has right to name beneficiary or transfer ownership	Promises to pay an amount of money (death benefit) upon death of insured	Individual upon whose death the insurer will pay the death benefit	The one to whom the death benefit will be paid

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Cost of Insurance

1,000 insureds, with a $100,000 death benefit				
Age of Insured	Probability of Death in One Year	Number Dead in One Year	Total Death Benefit to be Paid in One Year	Cost of Insurance per Policy
30	0.001795	2	$200,000	$200
40	0.002580	3	$300,000	$300
50	0.004890	5	$500,000	$500
60	0.011452	11	$1,100,000	$1,100
70	0.022381	22	$2,200,000	$2,200

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Financing the Cost of Insurance

- **Term Life** – coverage for a fixed period of time, usually one year
  - Annually Renewable Term – renews each year with same death benefit but increased premium
  - Decreasing Term – renews each year with same premium but decreased death benefit
- **Whole Life** – premium and coverage are fixed for lifetime of the insured
- **Universal or Variable Life** – both premium and death benefit may be adjusted; cost of insurance, mortality assumptions, investment return and value of death benefit are not guaranteed
- **Limited Payment or "Vanishing Premium"** – a limited number of premiums are projected to pay cost of insurance for lifetime of the insured

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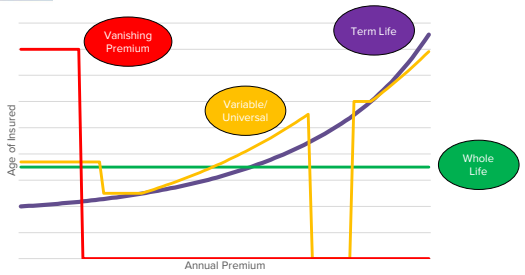
Financing the Cost of Insurance



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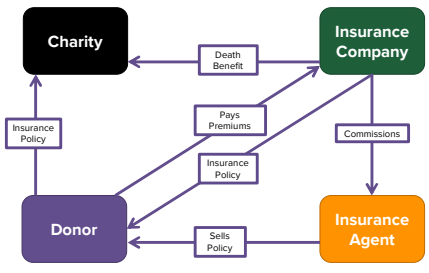
Life Insurance – Outright Gift



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Life Insurance – Outright Gift

- Charity must be named beneficiary in order to receive death benefit
- If donor transfers ownership to charity, income tax deductions for:
  - Appraised value of the policy
  - Future premium payments made on the policy
- Other considerations:
  - Charity is not obligated to make future premium payments
  - Outstanding policy loans may reduce value of death benefit
  - Polices are valuable assets and should periodically be reviewed and evaluated – cash in the policy, accept paid-up policy with lower death benefit, sell the policy

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Three Scenarios

1. The Good – Outright Gift
2. The Not Bad – Wealth Replacement
3. The Ugly – Newly Purchased

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Scenarios: The Good – Outright Gift

Donor owns a whole life policy with a $100,000 death benefit; $950 annual premiums are paid and current; cash value is $40,000

- Donor names charity as death benefit beneficiary
- If donor also transfers ownership to charity:
  1. Current charitable deduction for appraised value
  2. Additional deduction for annual premium payments
- Charity advises donor it will evaluate the policy annually and may:
  1. Retain and wait for death benefit
  2. Cash in the policy
  3. Accept paid up policy with lower death benefit

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Scenarios: The Not Bad – Wealth Replacement

Donor has committed to a $1 million charitable bequest; now considering a charitable reminder unitrust funded with highly appreciated assets

- CRUT benefits for donor:
  1. Avoid capital gains tax on transfer to CRUT
  2. Opportunity to convert to higher yielding investments
  3. Significant income tax deduction
- CRUT benefits for charity:
  1. Gift is irrevocable
  2. Opportunity to deepen relationship

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Summary of Benefits Projection		
	CRUT 5%	Sold and Reinvested
Property Value	$ 1,000,000	$ 1,000,000
Cost Basis	$ 100,000	$ 100,000
Capital Gains Tax		$ 135,000
Reinvested Principal		$ 865,000
Charitable Deduction	$ 531,970	$ 0
Income Tax Savings	$ 127,673	$ 0
Investment Assumptions:		
Annual Income	3%	3%
Annual Appreciation	4%	4%
Sell Asset in First Year	Yes	Yes
Annual Amount to Spend	5.0%	5.0%
Total Benefit To Payment Recipient	$ 1,142,028	$ 987,854
Benefit to Remainder Beneficiary	$ 1,456,811	$ 1,260,142
	(Charity)	(Donor)
Total Benefit	$ 2,365,865	$ 2,088,506

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Scenarios: The Not Bad – Wealth Replacement

- Objections:
  - Isn't this really a gift of nearly $1.5 million? I'd planned to give your organization $1 million.
  - And, aren't my heirs really making a contribution of more than $250,000? They may not want to do that.
- Solution:
  - Donor purchases a $250,000 policy, naming his heirs as the death benefit beneficiary.
  - Projected tax savings of about $127,673 can be used to pay for policy

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Scenarios: The Ugly – Newly Purchased

A younger donor, age 30, is motivated to make a large contribution and has been convinced that a life insurance policy will "leverage" his contribution

- If he purchases a $100,000 death benefit policy for $950 per year and transfers ownership to the charity:
  1. Minimal charitable deduction now
  2. Annual deduction as he makes premium payments
  3. Charity receives $100,000 when donor dies (~62 years)
- Consider contributing $950 annually to a special fund agreement invested in the endowment portfolio
  1. Fund could grow to $100,000 in ~36 years (72% of life expectancy)
  2. Or $411,000 at projected life expectancy

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Scenarios: The Ugly – Newly Purchased

				If invested at 5% instead			
	Life Expectancy						
Age Now	Years	Year	Assumed Annual Premium	Total at End of Life Expectancy	Year Value Reaches $100,000	Year Before Life Expectancy	Percent of Life Expectancy
30	62	2087	$950	$411,000	2061	26	72%
40	52	2077	$1,400	$361,000	2056	21	77%
50	41	2066	$2,150	$305,000	2049	17	81%
60	31	2056	$3,550	$281,000	2042	14	85%
70	22	2047	$6,100	$247,000	2036	11	88%

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"Charitable Life Insurance"

… or more like "waking nightmares"

- Lots of Money for Free (aka Premium Financed Insurance)
- Beat 'em at Their Own Game (aka Premium Arbitrage Plans)

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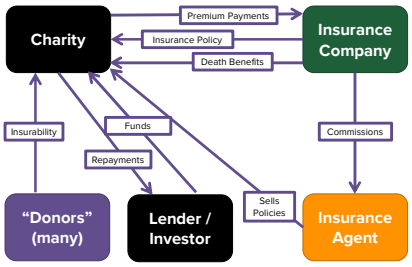
Premium Financed Insurance



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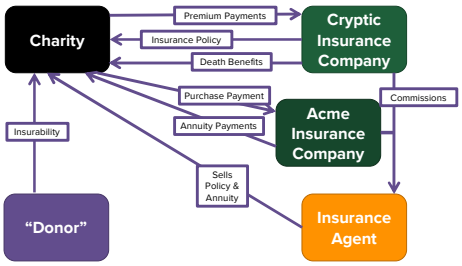
Life Insurance – Premium Arbitrage



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Evaluation Guidelines

- **Complete Analysis** – Review both subjective and objective factors; more than just funds, program should enhance donor relationships
- **Value and Values** – Guard both economic value and values of the charitable organization; consider reputational risk and investment of staff and resources
- **Nothing is Free** – Understand all costs of the program and the sources of funds to pay these costs
- **Charitable Interest** – program must respect and serve the mission and reputation of the charity and the charitable interests of the donor
- **Obligations and Commitments** – understand obligations, especially if program does not unfold as planned; interest rates, mortality assumptions, and the cost of insurance may increase or decrease the charity's cost

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Questions?

To ask a question click the Q&A button at the bottom

Craig Wruck
PG Calc, Senior Advisor
(617) 497-4992
cwruck@pgcalc.com

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Still Have a Question?

Contact: Craig Wruck
Senior Advisor
PG Calc

E-mail: cwruck@pgcalc.com

Phone: 888-497-4970

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