

Unlock Lifetime Payments and Support Wharton by Contributing a Life Insurance Policy

Like many individuals, you may own one or more life insurance policies that are no longer needed for family protection, estate expenses, or tax shelter purposes and are paid up or have accumulated significant cash value. Convert these “latent” assets into support for Wharton and a stream of payments for yourself or others: A life insurance policy can either be transferred to Wharton or surrendered with the cash proceeds donated as a charitable gift for a gift annuity. The gift annuity will benefit Wharton and provide you with guaranteed payments for life.

When a person *transfers* a life insurance policy as a charitable gift, the amount of his or her tax deductible contribution is generally the lesser of (1) the value of the policy or (2) the donor’s basis (i.e., the net premiums paid) in the policy. In addition, the owner/donor may *surrender* the policy and then contribute the cash proceeds.

For example, John Smith, age 72, would like to contribute paid-up life insurance policy that he owns in exchange for a charitable gift annuity. The face value of the policy is \$250,000, the cash value is \$90,000, and the cost basis is \$50,000. The gift is made on July 1, 2012.

Example 1

Mr. Smith *transfers* ownership of the policy to Penn:

- Annual full-year payments to him for life (*5.4% x \$90,000) \$4,860
- Income tax deduction \$19,349

- Taxation of payments during life expectancy:
 - Ordinary income (including taxable gain of \$90,000 - \$50,000 reported ratably) \$2,746
 - Tax-free return of capital \$2,114

- Taxable gain at the time of the transfer - 0 -

Example 2

Mr. Smith *surrenders* the policy, and then contributes the cash to Penn:

- Annual full-year payments to him for life (*5.4% x \$90,000) \$4,860
- Income tax deduction \$34,828

- Taxation of payments during life expectancy:
 - Ordinary income \$1,055
 - Tax-free return of capital \$3,805

- Taxable gain (taxable as ordinary income) from surrender of the policy (\$90,000 - \$50,000) \$40,000

**5.4% is the annuity rate for a 72 year old individual, fixed for life*

Note that Example 1 avoids recognition of the taxable gain in the policy in the year of the gift; however, a larger portion of the annuity payments are made up of ordinary income in Example 1 than in Example 2.

In certain cases, if some level of insurance is still desired, a lower face amount policy or term policy could be purchased using a portion of the annuity payment for the premium.

The article and examples have been simplified for illustration purposes. For further information or a custom illustration based on your age please contact Greg Johnson, Director of Gift Planning, at **(215) 746-6962; email: grege@upenn.edu** or link to the Wharton gift planning website at <http://wharton.upenn.planyourlegacy.org/>. On the topic menu on the left side of the page click on “Gift Calculator” that enables you to run a gift annuity illustration, including the charitable deduction and annuity rate, based on your age(s) and gift amounts.

The article and examples are for information and illustration purposes only and are not intended as legal, financial or tax advice. We encourage you to consult your own advisor.
