Deferred Giving Through Life Insurance

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During this past decade most philanthropic organizations have suffered a decline in real giving because of the insidious effects of inflation. The dollar value of annual receipts from current giving may be up but in many cases these donations produced fewer "goods and services" in 1983 than were produced by the donations received in 1973. Charitable organizations are very much aware that although there has been a reduction in the rate of inflation this past year, even the present reduced rate can create real problems.

This fall in real givings has naturally put increased emphasis on current givings in order to "keep the organization alive". But the more sophisticated development officers of philanthropic organizations see the danger of putting all their emphasis in this area. They have become aware of the support that many organizations receive through deferred givings (gifts that come into effect on the donor's death). They see that they are paying the price for the failure of their predecessors to institute a deferred givings program. If they are concerned for the future of their organizations they will rectify this omission as quickly as possible.

The significance of deferred giving can be appreciated if we study United States data on charitable givings in 1982. They show that bequests (a major component of deferred giving) to all intents and purposes matched the total amount of current corporate and foundation donations in that year. What is more, although bequests are the best known deferred gifts, other forms of deferred giving are also making a significant contribution. Gift annuities and various types of trusts are becoming more and more significant and I would suggest that one of the simplest, and often overlooked, ways of benefiting from deferred gifts is through establishment of a life insurance program.

Advantages to the Donor

Donors will find a number of advantages in a deferred gift of life insurance:

1. Donors can make a gift of a substantial size, one that provides a real glow of satisfaction, for relatively small annual or monthly expenditures.
2. Life insurance is not subject to capital gains tax, probate costs, or other expenses but is paid, intact, by the insuring company directly to the philanthropic organization.
3. There is no fluctuation in value as there might be if the bequest were dependent on the value of stocks, bonds and real estate.
4. There is no need to set up a trust fund and constant supervision is not needed. The entire transaction is uncomplicated.
5. It is flexible. The donor can select the number of instalments in the payment. For example, with dividends accruing, a life insurance policy can become paid up in approximately 12 years. Such an arrangement is often more

attractive to donors than a lifetime commitment. Alternately, if a donor is not attracted by an instalment plan, a single, lump-sum, premium payment can be arranged.

6. It can provide tax advantages not always present in other deferred gifts.
7. It provides a charitable bequest that will not force executors to liquidate estate assets at an inopportune time.
8. Premiums qualify as charitable contributions and are therefore income-tax deductible to the limit allowed by law.

These advantages can all be obtained through the purchase of a new policy or by the assignment of a policy already in force. In the latter case, a charitable receipt for the cash surrender value of the policy can be obtained for the year in which the gift was made in addition to charitable receipts for any premiums that may continue to be paid.

Advantages to the Charitable Organization

As recipients of deferred gifts of life insurance we in the United Church have found these advantages:

1. There are no delays before receipt of a gift of life insurance. Monies are paid quickly. The gross amount is the net amount. There are no reductions because of taxes, probate, or other administrative costs. It is neat, clean, speedy.
2. It is more certain than a bequest where there is always the possibility that the donor may change his or her mind.
3. Even during economic downturns donors tend to honour a commitment made through regular billing.
4. Studies show that a life insurance gift does not reduce regular giving—it becomes a supplement to regular support and often establishes a concern for the future of the organization that opens the door to other forms of deferred support.
5. It provides increasing cash values which the organization can use as collateral.
6. Accrual of dividends provides yearly increases in the face value of the policy which do much to offset inflation.

In view of these advantages, both to donors and recipients, it is difficult to understand why every charity in Canada is not conducting a successful program of deferred giving through life insurance. Unfortunately mutual appreciation of advantages is not enough to ensure such a successful program.

Life Insurance Is Sold by People

Life insurance is not sold by articles in magazines or by advertisements no matter how honest, logical, and motivating they may be. Life insurance is sold when a personal call stimulates a donor's desire to support a charitable endeavour and demonstrates that life insurance can be the best and simplest way of providing that support.

In fact, people do not buy life insurance. They buy security—traditionally for family or business. Why, if a donor has demonstrated concern for the work of a charitable organization, should he or she not translate that concern into providing it with the same sort of security? Yet even those who care are unlikely actually to make a gift unless a knowledgeable insurance representative can persuade them of the advantages through a personal call.

Obviously, then, if you are to achieve any success in developing life insurance as a way of providing future funds for your organization you must get qualified life insurance people to call on the people who have already shown their care and concern for your organization. This is the key: "care and concern for your organization". People will not make a deferred gift of any kind to an organization which they regard only as "a good cause". Deferred gifts come from those who feel strongly about your work and care very much that it continue in the years ahead.

Finding Good Prospects

A life underwriter can only help you if he or she is made aware of who these caring people are. How do you identify them?

A starting point, of course, would be your present board of directors and your present staff. A close second would be former members of the board and staff, particularly those who are still offering some form of support which indicates they do care. Consistent donors are also good prospects. Find out and list all who have given consistently for five or 10 years.

Choosing Your Underwriter

This list of prospects gives the life underwriter a starting point. But it is important for you to know that your underwriter will be able to turn these "prospects" into "donors". Questions should be asked. Does your life underwriter feel emotional about your organization? Is he or she aware of some of the actual financial problems with which you are, or will be, faced? Does he or she feel the urgency of ensuring that the work of your organization will continue? The sincerity and conviction of your life underwriter are crucial to your success. He or she must be convinced that, given the circumstances, life insurance is indeed the best way for the donor to satisfy a desire to help your organization.

One evidence of this conviction is the willingness of the underwriters to make a personal deferred gift to your organization through life insurance. A personal commitment of this kind will make them doubly convincing when they tell prospects what they have done.

Another evidence of conviction would be the underwriters' willingness to spend the necessary time with donors who wish to assign existing policies to your organization. This procedure has many advantages for donors who will receive charitable receipts for both the cash surrender value of the policy at the time the gift is made and receipts for the amount of the premiums each year. The tax advantages of this type of gift are often much greater than those from a straight bequest and those who are informed of the possibilities and take advantage of them can become enthusiastic persuaders of other supporters. Arranging an assignment does, however, require some altruism on the part of the life underwriter who receives no direct remuneration for making the arrangements to put this type of gift into effect. (Often, however, the underwriter gains the gratitude and respect of someone who could become a client when other needs have to be considered in the years ahead.)

Summary

Development of a successful deferred giving program based on life insurance requires:

1. A qualified life underwriter who will make a direct approach to prospective donors.
2. Identification for this underwriter of good "prospects" who are likely to be interested in helping your organization.
3. An underwriter who will take the time to become aware of the importance of your work and your present and future financial needs and problems.
4. An underwriter who is emotionally involved and feels strongly that your organization deserves support. Ideally, he or she should demonstrate a personal commitment by purchasing or assigning a policy in your favour.
5. An underwriter who puts the welfare of your organization and service to your donors ahead of personal gain and is willing to forego present commissions if an assigned policy seems the most appropriate gift.

Finally, a word of advice. A deferred giving program based on life insurance will have small chance of success if your board and management team are not strongly in favour. If, on the other hand, they give you full support and set an example by themselves purchasing a new life insurance policy or assigning an existing one and if that support is given to a committed and enthusiastic underwriter, I believe you'll have a winner!