How To Donate Your Life Insurance To Charity

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The primary purpose of life insurance is to provide a safety net for those who depend on you financially. The death benefit that is paid to your beneficiaries can help them cover daily expenses and even future costs such as college tuition.

A life insurance policy also can allow you to leave a legacy—not just for the people you love but for organizations and causes that are important to you. That's because a charity can receive the payout from a life insurance policy.

In fact, more than a quarter of Americans who own life insurance say that one of the reasons they bought a policy was to provide a charitable gift, according to a survey by LIMRA, a financial services research and consulting organization. And it can be a smart way to give.

Types of Life Insurance Policies That Can Be Donated

You can donate a term life or permanent life insurance policy. But a term life insurance policy isn't ideal for charitable giving because the policy is in force for only a certain number of years.

Donating a permanent policy can make more sense. Your gift will make it to the charity even if you live a long life. That's because a permanent life insurance policy stays in force throughout your life, as long as you continue to pay premiums. Plus, the organization will have the option of surrendering the policy for cash if you transfer policy ownership before your death.

The Benefit of Donating an Insurance Policy vs. Cash

Donating a life insurance policy is a simple way to leverage your charitable giving. "For the recipient, the benefit is receiving a much larger donation than they would otherwise," Abrams says.

For example, a 50-year-old man could donate $100,000 to his favorite charity. Or he could put that same $100,000 into a single premium whole life insurance policy and name the charity the beneficiary. When he dies, that charity will receive a check for $253,661 from the insurance company, Abrams says. (The example is based on projections for a 50-year-old man in average health making a one-time premium payment for an Assurity Life Insurance whole life policy.)

If you can't afford a large lump-sum payment, you can make smaller monthly or annual premium payments for a life insurance policy. Those amounts you're paying might not make a big impact if you paid them directly to a charity. But by putting that money toward an insurance policy with a sizeable death benefit, your generosity will be multiplied.

How to Donate a Life Insurance Policy

There are a few ways you can donate a life insurance policy to a charity. Be aware that the tax consequences vary depending on the method you use. Plus, the insurance company might require that you have a history of giving to a particular charity in order to donate your life insurance policy to it.

Before getting into the ways a policy can be donated, it's important to understand four key components of an insurance contract.

1. **Insured:** The person whose life is covered by the insurance contract.
2. **Owner:** The person who owns and controls the contract. The owner can make material changes to the contract such as changing beneficiaries.
3. **Payor:** The person, company or trust that pays for the life insurance policy.
4. **Beneficiary:** The recipient of the death benefit, which is paid out when the insured dies.

Knowing how these roles work can help prevent confusion about how the donation process works.

Naming the Charity as the Beneficiary of a Policy

your loved ones and a charity. The percentage of the payout the charity gets is up to you.

If you have an existing policy, it's easy to change the beneficiary to a charity. You'll likely need to provide the Tax ID number of the organization. Also, let the charity know that it is a beneficiary so it will know to contact the insurance company to collect its payout when you die.

If you're applying for a new policy and want to name a non-profit the beneficiary, the process can be a little more complicated. There may be an "insurable interest" question, which asks the applicant to justify the financial loss the beneficiary would have if the insured died, says Jon Voegele, chair of insurance education resource Life Happens.

Since some companies can be restrictive about allowing a charity to be a beneficiary, it could impact your ability to get the policy, he says.

Pro for the owner: You still own the policy. This gives you access to any cash value accumulation while you're living and gives you the option to change the beneficiary if you want.

Pro for the charity: The charity receives a lump sum payment from the death benefit.

Con to the owner: You must continue paying premiums to keep the policy in force. Because you still maintain control of the contract, you can't get a tax deduction for naming a charity the beneficiary of your policy, Voegele says. And the policy could be counted in the owner's estate for when it comes to paying estate taxes.

Con for the charity: The owner maintains the right to change beneficiary at any time, so Voegele says the charity shouldn't rely on receiving the payout.

Transfer Ownership of a Policy to a Charity

Rather than name a non-profit the beneficiary of your policy, you could transfer ownership of an existing policy to give the organization immediate control of the contract. It could name itself the beneficiary and receive a tax-free payout when you die.

If it's a permanent life insurance policy with cash value, the nonprofit wouldn't have to wait until your death to get a payout. It could surrender the policy for the cash value immediately.

Pro to owner: You can take an immediate charitable contribution tax deduction for transferring ownership to a charity, says Voegele. If premiums are still owed on the policy, you can take tax deductions if you remain the payor—in other words, continue paying premiums for the charity. Plus, the policy is removed from your estate for estate tax purposes.

Con to the owner: The decision is irrevocable, and the charity now maintains control of the contract. "There is no 'changing my mind' on this one," Voegele says.

Pro to the charity: It now controls the contract, which means it can name itself the beneficiary or cash out the policy.

burden if the insured has been diagnosed with a terminal illness.

Gift Dividends From a Life Insurance Policy

You have another option if you want to get a charitable contribution tax deduction but don't want to transfer ownership of your life insurance policy. If you have a permanent life insurance policy, you might be receiving dividends from the insurance company. You can have the current year dividend directed to a charity.

"If there is a pool of prior dividends built up in the contract, the owner can gift those as well to a charity and get a tax deduction for that amount—up to tax income limits," Voegele says. "In both cases, current dividend or pool of dividends, the base life contract stays in place."

Pro to the owner: You can take a tax deduction for donating life insurance dividends. You also maintain ownership of your policy.

Con to the owner: The dividend pool is usually tied to the death benefit. If the pool is donated, the death benefit is reduced, Voegele says.

Pro to the charity: It gets a cash contribution without waiting for the death of the insured or having to potentially pay premiums for a transferred policy.

Con to the charity: Insurance policy dividends aren't guaranteed and can vary from year to year. Your ability to give might be limited if you don't get a policy dividend, and the charity might not be able to count on your contribution each year.

Before making any of these moves, talk with a tax professional or financial planner to ensure you're choosing the right donation strategy for your situation. Most importantly, reach out to the organization you want to support to find out how it likes to handle gifts of life insurance. You want to ensure that it will be able to benefit from your generosity.