



## Creating a Charitable Legacy: How Life Insurance Can Help Your Contributions Do More

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When most of us purchase life insurance, we're thinking about one thing: making sure our loved ones are taken care of after we're gone. But life insurance can also provide a way to create a lasting impact on a charity or cause that has special meaning for you. That's because life insurance allows you to make a much larger gift to charity than you might otherwise be able to give. At the same time, it can also provide certain tax benefits.

### Making Every Dollar Count

To understand how life insurance can boost your charitable efforts, consider this hypothetical example. Imagine Ellen contributes \$5,000 each year to an organization that creates educational opportunities for young girls in developing countries. Her donations are earmarked to buy textbooks. If Ellen donates this amount over the next 20 years, her total charitable gift would total \$100,000.

What if Ellen wanted to do more for this charity? She learns that it would take a pledge of \$500,000 to build a library, which is more than Ellen can afford to give right now. Fortunately, there's a solution that would enable Ellen to meet her giving goal without having to come up with a lot of cash up front. Ellen could use her annual contributions to pay the premiums on a life insurance policy with a \$500,000 death benefit and name the charity as beneficiary of the policy. In doing so, Ellen would be able to leverage her annual contributions, thus creating what could potentially become a much larger legacy over time.

### Naming a Charity as a Beneficiary

The simplest way to use life insurance as a tool for charitable giving is to name a favorite charity as a beneficiary of a new or existing life insurance policy on your life. This approach enables you to retain control over the policy, which means you can change your beneficiary at any time and access any cash value.

Naming a charity as your policy's beneficiary will not provide a federal income tax charitable deduction. However, your estate will receive an estate tax charitable deduction for the amount of the benefit the charity receives upon your death. Maintaining ownership of your policy provides another important benefit: the ability to transfer your policy's ownership to the charity of your choice in the future, when you may no longer require the life insurance for your own needs. At that time, you may be able to take an income tax charitable deduction.

### Purchase a New or Donate an Existing Policy

A second option would be to either purchase a new policy or donate an existing one to a favorite charity and name that organization as the beneficiary and "owner." To do this, you must assign all rights in the policy to the charity, which means you give up all control of the policy forever. In exchange, you may be able to take an income tax charitable deduction. The policy would not be included in your gross estate, unless you die within three years of the transfer. Then, your estate would be eligible for an offsetting estate tax charitable deduction.

When you transfer an existing life insurance policy to charity, that organization has the option to take advantage of any accumulated cash value to meet current funding requirements, preserve the full death benefit to meet future needs or a combination of the two.

### Using a Life Insurance Policy with a Charitable Remainder Trust (CRT)

A third choice is to use a life insurance policy in conjunction with a charitable remainder trust (CRT). A CRT lets you convert a highly appreciated asset, like stock or real estate, and use it to create a lifetime

stream of income to meet your current needs. Upon your death, the remaining trust assets go to the charity you chose. With the income from the CRT, you could then purchase a life insurance policy on your life, usually inside an irrevocable life insurance trust (ILIT), and name one or more heirs as the policy beneficiaries. At your death, the proceeds from your ILIT would pass income tax free to your loved ones, thereby "replacing" the assets that went to the charity.

### The Benefit of a Professional Perspective

These are just some of the options that make life insurance a powerful financial tool for leveraging your donations and accomplishing your charitable goals. By either gifting a policy outright or naming a charity as beneficiary, you can provide the organizations and/or causes that matter most to you with a lasting legacy while keeping the inheritance of your loved ones intact.

Financial security is the confidence that comes from taking action today to provide for tomorrow. It's an ongoing process during which you should be disciplined but flexible to adapt to changes over time. Working with a qualified financial professional can help as you make sound decisions about your life insurance.

*Article prepared by Northwestern Mutual with the cooperation of DJM Financial Wealth Management & Insurance Services. The members of DJM Financial are Private Wealth Advisors with Northwestern Mutual, the marketing name for The Northwestern Mutual Life Insurance Company (NM), Milwaukee, Wisconsin, and its subsidiaries. DJM Financial is based in Irvine, California. To contact DJM Financial, please call Joel Staples at (949) 622-7298, e-mail at joel.staples@nm.com, or visit djmfinancial.nm.com.*

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