Shared benefits for the donor and the charity

Charitable Gifts of Life Insurance

THE PRUDENTIAL INSURANCE COMPANY OF AMERICA

ESTATE PLANNING

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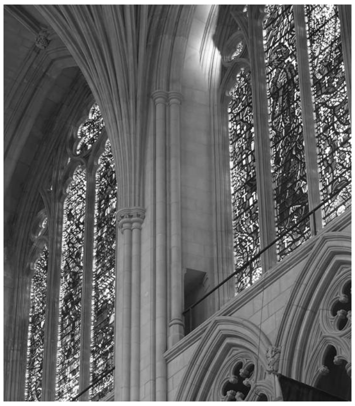
Prudential

Making a gift of life insurance to a favorite charity is an appealing planning strategy because it is flexible, cost effective, and, in many cases, is a tax-efficient way of leaving a legacy that will benefit the charity after your death. For a comparatively smaller premium contribution, the ultimate gift (the death benefit) can be many times larger than the total payments.[1] Life insurance can allow you, the donor, to make a significant gift without reducing your estate and depriving your surviving spouse or family of an inheritance. What better way is there to touch the future of a favorite charity?

A GIFT OF LIFE INSURANCE CAN PROVIDE SUBSTANTIAL BENEFITS TO BOTH YOU, THE DONOR, AND YOUR FAVORITE CHARITIES.

Benefits to you:



- Life insurance death benefits may provide you the opportunity to make a substantial contribution that may exceed the amount you might have otherwise been able to donate through normal periodic contributions.
- You are able to make a large endowment to charity without depleting your current capital.
- You can avoid the costs, delays, publicity or other complications of estate settlement since the gift is "self-completing."
- Life insurance can serve as a tool to replace the gifts you made to charity by providing a benefit to your heirs equal to the charitable gift.
- The charitable gift of life insurance, if structured properly, can result in an income, gift, and/or estate tax deduction.

[1] This concept does not take into account the time value of money and may not be appropriate in all cases. The concept depends on the amount of premiums an insured must pay and the number of years such premiums are paid.

Benefits for the charity:

- Life insurance can provide substantial deferred endowment funds helping to ensure the charity's future.
- Life insurance can provide security because the charity can anticipate receiving the death benefit in the future.
- Life insurance helps to provide prompt payment of needed funds at the death of a major donor.
- Many life insurance policies can potentially build cash value that can be accessed for the charity's immediate cash needs.[2]

FOUR WAYS TO SUPPORT A CHARITY USING LIFE INSURANCE

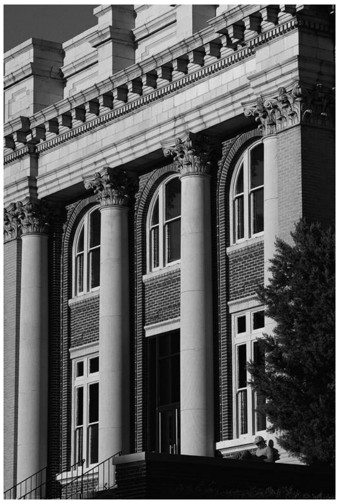
One: Make a gift of an existing policy.

You may choose to make an outright gift of an existing policy to charity. To gain a current income tax charitable deduction, you must be certain to transfer all rights of ownership in the policy to the charity (i.e., the charity is made the owner and policy beneficiary).

In general, the value of the deductible gift you make, subject to the general limitations placed on charitable contributions, is equal to the fair market value of the policy at the time of transfer. If the value of the policy exceeds the premiums paid to the date of transfer, a donor may only deduct his or her cost basis in the policy.

More specifically, where a policy does not contractually require additional premiums to remain in force at the time of the gift, the charitable deduction is the lesser of the policy replacement cost or your cost basis. On the other hand, if the policy still requires additional premiums at the time of the gift, the charitable deduction is the lesser of the policy's adjusted interpolated terminal reserve value (which is generally fairly close to the policy's cash surrender value) or your cost basis in the policy.

[2] Donors and charitable organizations should be aware that loans and withdrawals from cash value life insurance policies will reduce cash values and death benefits, may affect any guarantees against policy lapse, and may have tax consequences.



Your advisors, working with your insurance company, can help you obtain the proper values. For estate tax purposes, once a completed gift of an existing policy is made to a charity, the policy proceeds will not be included in your estate at your death unless you die within three years of the transfer. However, should death occur during this three-year period, the policy proceeds will be included in your estate, but this inclusion is offset by an estate tax charitable deduction for the amount of the death benefit going to the charity.

The pro and cons of this approach: As the donor, you lose control of the policy but gain a current charitable deduction. In addition, where future premiums are required, your payments can be structured to qualify as charitable deductions for income tax purposes.

In turn, the charity benefits since it has control of cash values, dividend rights, etc., and receives the death benefit free of federal income, gift and estate taxes. Probate and other administrative costs and delays are also avoided.

Two: Make the charity the beneficiary of an existing policy.

As a donor, you can maintain ownership of an existing policy and simply change the beneficiary designation to favor a charity. The charity can be named a sole beneficiary, a beneficiary of a portion of the policy proceeds, or can be listed as a contingent beneficiary.

The pro and cons of this approach: While a beneficiary designation is simple, private and requires little documentation, it is important to understand that because you retain control of the policy you will not be able to take any income tax deductions during your life. The policy proceeds, while includible in your estate at your death, will qualify for the estate tax charitable deduction to the extent the policy proceeds are paid to a charity.

Three: Help the charity purchase a new policy.

Under this approach, the charity purchases the policy, naming itself as owner and beneficiary, and is responsible for making the premium payments. Of course, you can assist them in the process by making annual cash contributions equal to or greater than the needed premium dollars.

The majority of states now have laws in place that give charitable organizations an insurable interest in your life as a donor. However, the laws vary according to the applicable state statutes. As a donor, you should consult your personal tax and legal counsel as to the particular statutes that apply to your planning situation.

The pro and cons of this approach: If structured properly, an annual charitable deduction should be available, subject to the general limitations placed on charitable contributions. However, it is important to understand that the charity is not obligated to maintain the policy nor are you obligated to continue premium contributions. Of course, where the policy is intended to serve as a future endowment, both parties must understand their roles if the plan is to be successfully brought to completion.

Four: Gift assets to the charity and replace family wealth through a wealth replacement trust.

Sometimes life insurance is not the gift but becomes the solution to a problem.

As a potential donor, you may be inclined to make a substantial gift to your favorite charity, but you are hesitating, wondering if you will deprive family members of assets they might need in the future. By directing the tax savings generated by your charitable gift to the purchase of a life insurance policy, you can donate your assets to charity and still provide a benefit to your heirs.

The life insurance should be owned by your heirs or by an irrevocable life insurance trust (ILIT) to ensure that the policy proceeds will not be included in your estate at your death and that your heirs will receive the entire death benefit without losing some of it to estate taxes.

IN SUMMARY

Charitable giving using life insurance can work for you and for your favored charities.

A financial professional can help guide you in choosing the right life insurance strategy – one that allows you to achieve your personal goals while helping you to support your favorite charity.

This material is designed to provide general information in regard to the subject matter covered. It should be used with the understanding that it does not constitute legal, accounting or tax advice. Such services should be provided by the client's own legal, accounting and tax advisors. Accordingly, information in this document cannot be used for purposes of avoiding penalties under the Internal Revenue Code.

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Securities and Insurance Products:
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