

## **A Revolutionary Fundraising Opportunity - Life Settlements**

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**First Secured Life**

Amid fundraisers' growing concerns about the current charitable giving climate, dampened by the erratic stock market and shaky economy, a new fundraising opportunity has emerged – Life Settlements.

What is a Life Settlement? A Life Settlement is the sale of an existing life insurance policy for a lump sum of cash that is more than the cash surrender value. A life insurance policy is property, like a car, house, stocks and bonds that can be legally sold in accordance with applicable laws. Through a Life Settlement, a policy owner can realize value today from an asset that is generally thought to only have a benefit when the insured passes away.

How can Life Settlements be used in Fundraising? There are many variations and complex estate and tax planning strategies that can be employed when utilizing Life Settlements in a planned giving program. However, in its simplest terms, a Donor who owns a life insurance policy gives the policy to the philanthropic organization that in turn immediately sells the policy for a lump sum of cash through a Life Settlement.

In order for a policy to be eligible for a life settlement, it must meet the following criteria:

- Insuring an individual over age sixty-five (65) or with a serious illness
- With a face value of at least \$100,000
- Issued over two (2) years ago

### Donor Benefits:

1. Making a donation to his/her favorite philanthropic organization without depleting cash reserves or losing income-producing assets;
2. Getting a tax deduction for the fair market value (selling price) of the life insurance policy instead of only the cash surrender value;
3. Being able to see their donation put to use during their lifetime rather than after their death if the organization did not utilize a Life Settlement;
4. Eliminating the requirement of continued premium payments on the policy;
5. Removing a taxable asset from their estate if the policy was individually held.

### Organization Benefits:

1. Receive a donation from a Donor who may not have otherwise been in a position to contribute at all;
2. Collect a lump sum of cash today instead of having to wait for the insured's death to collect the proceeds;
3. Not having the financial burden of paying premium payments to keep the policy in force;
4. Providing a valuable option to the Donor that furthers their tax and estate planning objectives and invites the opportunity for future/additional gifts.
5. Improved annual budget forecasting ability

### How Does a Life Settlement Work?

Once the Donor is considering gifting a life insurance policy to the organization, the life insurance policy should be appraised. Typically, a Life Settlement Broker can determine its eligibility for a

life settlement and will undertake it to obtain the highest offer for the policy.

The value of a life insurance policy is determined by a number of factors, including, but not limited to, the age and medical condition of the insured, type of insurance policy, rating of the issuing insurance company and amount of premium payments to keep the life insurance policy in force. Most types of insurance policies can qualify, including universal, whole life, and converted term. When a mutually agreed upon price is determined for the life insurance policy, the organization that now owns the policy is paid a lump sum in cash, the ownership and beneficiary rights are transferred to the purchaser. All future premium payments are the responsibility of the purchaser and upon the death of the insured, the death benefit is payable to the purchaser. The cash proceeds from the Life Settlement may be used by the organization in any way – there are no restrictions regarding the use of the funds. The money may be invested or spent on current projects. Because some Life Settlement Brokers offer fundraising support, it makes sense for organizations to partner with them for their expertise.

### **Life Settlement Regulations**

As of June, 2003, eighteen (18) states have enacted statutes addressing the sale of life insurance policies insuring non-terminally or chronically ill individuals and an additional seventeen (17) states have laws that only regulate the sale of life insurance policies insuring terminally or chronically ill individuals. Fifteen (15) states do not regulate the transaction at all.

### Donated Life Insurance Policies

In addition, most philanthropic organizations currently own life insurance policies that have been donated in the past. If there is a need for funds sooner rather than later or if the premium payments are becoming burdensome, the organization can utilize Life Settlement transactions to sell those policies for lump sums of cash and put the money to work right away.

Life Settlements are powerful arrows in the quivers of professional fundraisers –

1. Generating money for their organizations by encouraging current gifting of life insurance policies
2. Turning already donated life insurance policies into cash