

# Charitable Contributions — leaving a legacy with life insurance

Charitable contributions allow individuals to support causes that are important to them, while leaving a lasting legacy. Life insurance can be an important vehicle for those looking to maximize their charitable gifts once personal insurance needs have been met. Since each individual's connection to charity is unique, the amount of life insurance will vary based on the type and depth of the connection and the individual's financial picture.

## CHARITABLE CONTRIBUTIONS — UNDERWRITING APPROACH

Generally, there is a two-step approach in determining the amount of insurance coverage available for charitable contributions.



### *Step 1: Assess the insurable interest/insurable loss*

This involves our underwriters looking at:

- The connection of the proposed insured to the charity and how long that connection has existed. (**The connection to the charity is key — see side-bar.**)
- The requested amount of coverage — is it reasonable in light of the connection? Are personal life insurance needs covered?



### *Step 2: Determine the maximum death benefit*

Determining the appropriate death benefit amount is contingent upon which of the following scenarios applies:

- **If the proposed insured has a historical pattern of monetary gifts to the charity**, then the maximum death benefit considered will be:
  - 25x any regular, recurring annual historical charitable gifts (i.e., a demonstrated pattern of giving)
  - Up to a maximum of 40% of existing personal coverage — an extension of the donor's personal insurance planning
- **If the proposed insured does not have a historical pattern of gifting to the charity**, the maximum death benefit considered will be:
  - Individual consideration based on the strength of the connection to charity
  - Up to a maximum of 40% of existing personal coverage

In each scenario, the premium should be reasonable based on the insured's financial profile. Generally, 1) annual premiums should not exceed 10% of reported income, and 2) total charitable insurance should not exceed 40% of overall net worth.

### *SHOW THE CONNECTION!*

Charitably inclined individuals create connections with charities in many different ways. Some give monetary gifts annually to causes that are important to them. Others donate time, services or serve on boards. Still others have a connection to a specific charity based on a life event or experience of the donor or their loved ones. All of these connections can be used to support charitable life insurance. Help your clients get the charitable coverage they want:

- ✓ Does the individual have an established pattern of monetary gifts to the charity?
- ✓ If not, what is the basis of the individual's connection?
  - Bringing on donors
  - Strong affiliation, e.g., alumnus, board member
  - Providing other forms of ongoing support and/or professional services
  - A long-standing connection with the charity (length of time, in what manner)
  - Another connection to the charity (due to a life event)

## CHARITABLE CONNECTIONS — CASE STUDIES

As discussed on the previous page, the amount of coverage your clients can get to support their charitable causes is based on the strength of the connection to the charity and the individual's financial picture. The three case studies below illustrate various types of charitable connections.

### 1. The annual donor

Karin has always supported her favorite charity through annual gifts. In recent years, she has accelerated her giving, as her connection to the charity and its work has deepened. Over the past five years, she has given annual gifts of \$50,000. She has already provided \$5M of insurance protection for her family, and she would like to set aside some additional coverage for the benefit of the charity. Specifically, she wants to purchase a \$1M policy to be owned by the charity. Based on Karin's strong connection to the charity as evidenced by her annual gifts, John Hancock was able to provide coverage for the requested amount.

### 2. The fundraiser

Marty has been deeply involved with his favorite charity for many years. Ten years ago, he took over many of the fundraising functions of the charity, from coordinating the annual golf tournament to being the emcee at the charity's annual fundraising gala. Marty's efforts can be directly tied to annual contributions of over \$300,000 based on his various activities, in addition to his own contributions. As the "face of the charity," Marty is extremely important to the organization. Therefore, it wishes to purchase \$1.5M of life insurance coverage on Marty, to offset any loss in fundraising if Marty were to pass away prematurely. Based on Marty's strong connection to the charity — and the documented impact in case of his untimely death — John Hancock was able to support this request.

### 3. The recent supporter

Ron hadn't given much thought to charitable contributions in the past, outside of occasional donations to a number of charities without any real pattern. However, after a health scare in his family last year, he saw the work of a specific charity first hand. He is now an ardent supporter and wishes to set aside an amount of insurance to allow the charity to continue its important work. He has already provided insurance coverage for his family, and can dedicate an annual premium of \$10,000 to the charity. Based on his age and health, the \$10,000 contribution will provide a death benefit of \$1.25M. Even though Ron's support of the charity began recently, due to his strong connection as the result of a recent life event, John Hancock was pleased to issue the requested coverage.

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