

## Managing Donated Life Insurance Policies

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## Questions & Answers

- Please ask your questions  
Now – during the Conference – or by email
- You may download the slides and the Annual Review spreadsheet here:  
[www.pgcoach.org/Downloads.htm](http://www.pgcoach.org/Downloads.htm)

## Our Goal Today

Provide you with a model for analyzing and managing your donated life insurance policies

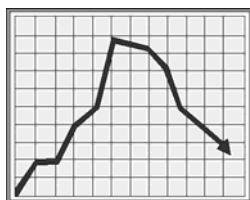
## The Problem

Unattended policies can cause serious problems for the charity.

Almost all of these problems can be prevented with a simple management process.

## 3 Areas of Concern

1. Preserving Policy Value
2. Meeting Donor Expectations
3. Fulfilling Fiduciary Duties



## The Case of the Vanishing Cash Value

in 1996, Henry Smith, a very loyal donor to Memorial Hospital, agreed to fund a new \$250,000 universal variable policy with \$12,000 annual premiums that the agent says will vanish after 7 years.

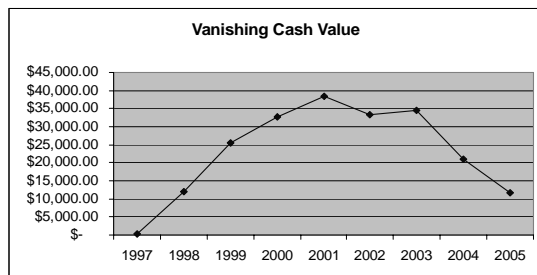
## Mr. Smith's Point of View

- He is grateful to the hospital and wants to help out.
- This insurance plan was suggested by a board member
- Mr. Smith expected that his \$84,000 donation over 7 years would result in a \$250,000 gift at his death.

## What Happened?

- Henry Smith paid \$12,000 a year for seven years, then stopped after 2002 premium payment.
- In 2005, the new PGO notices that something may be amiss.

## We Have a Problem



## What Went Wrong?

- Unfounded sales projections
- Donor relied on those projections
- Charity failed to review or monitor this policy

## Consequences

1. Policy has lost considerable value (\$27,000) and is still in free-fall.
2. Donor is disgruntled and may be gone
3. Charity failed in its fiduciary duty

## Who Benefited from this Gift?

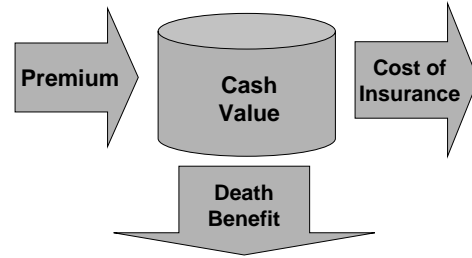
Only the insurance company and the agent.

Not the hospital and not the donor.

## A Quick Primer on Life Insurance

- Term Life
- Permanent Life
  - Whole Life -- Guaranteed
  - Universal -- Flexible
  - Variable – Separate Accounts

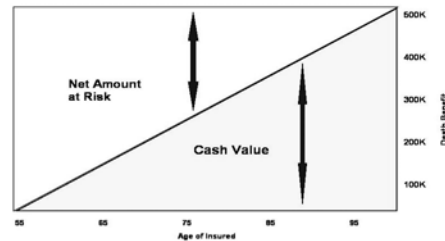
## How a Policy Works



## Some Basic Concepts

- Death Benefit or *face value*
- Cash Value
- Premium
- Cost of Insurance
- Interest & Dividends
- Net Amount at Risk
- Guaranteed vs. Projected

## How a Policy Stays Alive



## OK, So How Do We Manage These Things?

Our goals:

1. Protect Cash Value
2. Maintain Donor Satisfaction
3. Detect Problems Early
4. Take Action When Needed

## Your Primary Tool: The Annual Review

Collect and Monitor:

1. Contact Information
2. Policy Characteristics
3. Policy Economics
4. In-force Illustration



## Annual Review Spreadsheet

Life Insurance Policy Review

Date of This Review:

Date of Last Review:

INFORMATION ABOUT THE INSURED		INSURANCE COMPANY INFORMATION	
Name of Insured: <input type="text"/>	State of Birth: <input type="text"/>	Insurance Company: <input type="text"/>	Company Contact: <input type="text"/>
Address: <input type="text"/>	City, State, Zip: <input type="text"/>	Company Address: <input type="text"/>	City, State, Zip: <input type="text"/>
Phone: <input type="text"/>		Company Phone: <input type="text"/>	

INFORMATION ABOUT THE POLICY			
Policy Number: <input type="text"/>	Date Issued: <input type="text"/>	Date Donated: <input type="text"/>	
Policy Type: <input type="text"/>	City Last Year: <input type="text"/>	Death Benefit: <input type="text"/>	
Current GR: <input type="text"/>	Annual Premium: <input type="text"/>	% Change in GR: <input type="text"/>	
Net Amount at Risk: <input type="text"/>	Date Last Premium: <input type="text"/>	Premium Pmt. Frequency: <input type="text"/>	
Total Premium Paid: <input type="text"/>	Next Premium Due: <input type="text"/>		
Current Company Ratings: A.M. Best: <input type="text"/>	Standard & Poor's: <input type="text"/>	Moodie's: <input type="text"/>	
Current Interest Rate: <input type="text"/>	Guaranteed Rate: <input type="text"/>	Date of Last In-Force Illustration: <input type="text"/>	

## Danger Signs

- Declining cash value
- Donor stops paying premium
- Policy needs more premium
- In-force illustration shows declining cash value
- Financial strength of company drops

## Paying Premiums

- Policies that require premium present an administrative challenge
- You need a good tracking system
- Charity should generally not fund the premium

## Variable Policies

- Variable policies provide an additional level of complexity
- The cash value investment accounts must be managed

## Solutions for Problem Policies

1. Maintain the current policy
  - Ask the donor for additional premium
  - This depends on how well you have managed donor expectations

## Look for Ways to Economize

2. Make changes under the current contract:
  - Drop unnecessary riders (Term, accelerated benefits, accidental death, guaranteed insurability, etc.)
  - Reduce death benefit

### Cash Out

3. Surrender the policy
  - For the cash surrender value
  - For paid-up insurance
4. Sell the policy
  - Life settlement
  - Insured is age 75+ with poor health
  - Insured must sign medical release

### Replacement

5. Exchange the current policy for a new policy
  - Lower mortality costs
  - More favorable underwriting
  - More suitable policy
  - Low company rating
  - Requires new application, underwriting

### Get Professional Advice

Recruit a volunteer to help you. Find a senior life insurance professional who can answer your questions.

### Suggestions for Your Gift Acceptance Policy

- Review each policy before accepting it
- Obtain a current in-force illustration
- Discuss possibilities with donor
- Obtain a pledge for expected premium payments