FIRST YORK

Subject: <u>A Most Unusual Charitable Opportunity</u>

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This will be of interest to clients with charitable intentions, professional advisors on behalf of their clients and anyone with an older Universal Life or Term to 100 policy they are thinking of cancelling.

From time to time, I come across something that I feel should be shared with clients and advisors. This instance was more personal than most.

Recently, I had a call from a long time client who was thinking of cancelling $500,000 of joint (last to die) coverage on he and his wife. He is 82, she is 76 and both are in reasonable health; the insurance was purchased 16 years ago. There is a small cash value ($6,000) and the premiums are $6,700 / year, level for life. He explained that his kids were grown and well provided for and the coverage was no longer required.

Before cancelling the coverage I thought we should check on the "actuarial value" as calculated by our consulting actuary. In less than a day he got back to me with an estimate of $225,000. In other words, even though there was negligible cash value, the policy had "commercial/actuarial" value of $225,000.

In essence, the actuary calculates the present value of the future death benefit, backwards from life expectancy at today's interest rate. From that figure, he deducts the present value of premiums to be paid until life expectancy and the result is the actuarial value of the policy – in this case $225,000.

I called Malcolm Burrows at Aqueduct Foundation to ask if they would be interested in a donation of the policy. He confirmed they would be and could issue a receipt for $225,000; in fact, they would pay the actuary's fee from the charity (approximately $2,000) permitting the client to donate that amount and get a further deduction. So our client who was going to net out $6,000 CSV, will instead get a tax deduction worth approximately $105,000 and if he wishes, he can even pull out the CSV before he donates the policy as it does not enhance the actuarial value.

The only catch to this was that Aqueduct requests up to 6 months to find a "replacement donor" ie. someone who will continue the premiums after the donor makes the donation – unless, of course, the donor wishes to continue the premiums himself/herself. Our client did not.

I thought about this for about 3 minutes and realized that perhaps I could be the "replacement donor", if the client is comfortable, for this policy and somewhere down the road – many years hopefully – the insurance proceeds of $500,000 could be put to good charitable purposes. My wife, Carolyn, and I have a plan to create a pool of charitable capital, both during our lifetime and in our wills, and this would be an excellent long term way to add to it.

Malcolm Burrows has prepared IRR estimates on the eventual gift to the charity; assuming the policy proceeds are paid in 18 years (ages 100 and 94) the annual IRR compounded is 15.16% based on the $6,700 annual premium.

The choice here for the client was very simple – a windfall gain of $105,000 from the tax savings. For the replacement donor, it is an opportunity to create charitable capital that would otherwise not exist. My wife and I are able to enhance our giving and the client is gratified to know that the proceeds will be used for charitable purposes rather than be lost.

I would be pleased for you to share this story and the information with others. I believe there are many, many people who have older policies they no longer wish to keep, but are unaware of the option of valuing and donating them for value. Importantly, Aqueduct is interested in growing its list of individuals who are willing to consider continuing premiums on such policies.

Normally, everything is done anonymously so that the donor and replacement donor do not know each other's identity.

Our consulting actuary can be quite helpful in estimating value before any serious discussions take place. He charges only for reports certifying value. I am happy to provide my assistance without charge.