



A Revolutionary Fundraising Opportunity

Life Settlements



Looking for a Big Chunk of Cash you can use any way you want? Here is the answer.

by Jolene D. Fullerton

Amid fundraisers' concerns about the 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 have a benefit only when the insured passes away.

How Can Life Settlements Be Used in Fundraising?

You can incorporate life settlements into your planned giving program in a variety of ways, using many estate and tax planning strategies. In its simplest terms, the process works like this: A donor who owns a life insurance policy gives it to your organization, and you, in turn, immediately sell the policy for a lump sum of cash.

To be eligible for a life settlement, a policy must meet the following criteria:

- **The insured individual** must be over 65 or have a serious illness.
- **The life insurance policy** must have a face value of at least \$100,000.

You can sell already-donated policies for cash and put the money to work right away.

- **The policy** must have been issued over two years ago.

What Are the Benefits to Donors?

- **People can make a donation** to their favorite charity without depleting their cash reserves or losing income-producing assets.
 - **Donors receive a tax deduction** for the fair market value (selling price) of the life insurance policy instead of only the cash surrender value.
 - **People can see their donation** put to use during their lifetime.
 - **Donors no longer need to pay premiums** on the policy.
- **A taxable asset is removed** from the donors' estate if the policy was individually held.

What Are the Benefits to Your Organization?

- **You receive a donation** from someone who otherwise might not have been in a position to contribute at all.
 - **Your organization collects a lump sum of cash** today instead of waiting for the insured's death to collect the proceeds.
 - **You don't have the financial burden** of paying premium payments to keep the policy in force.
 - **The life settlement process provides a valuable option** to donors, encouraging them to make future gifts to your organization.
 - **Your organization's annual budget forecasting ability** is improved.

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CREATIVE FUNDRAISING IDEAS

Team Up with Restaurants

The San Francisco Institute on Aging holds an annual event in which they ask restaurants to donate a certain number of dinners or to donate a free dinner for every dinner purchased at a discounted price. It then groups the restaurants into price categories. The event is held on the Tuesday before Valentine's Day. (Tuesday is traditionally a slow day for restaurants.) On that evening, the organization's supporters have dinner at the restaurant of their choice and pay full price. The difference is donated to the charity. For more fundraising ideas, see *Hank Rosso's Achieving Excellence in Fund Raising* (Jossey-Bass, www.josseybass.com).

Seek Out Second Homes

Identify people on your mailing list who own a second residence. They may be helpful in many ways. For example:

- They may be willing to donate a free week or weekend stay at their residence as an auction item or door prize for your special event.
- They might host a reception on your organization's behalf at their residence.
- The residence could serve as a retreat location for your board, staff, or planning committee.

Arranging for someone to loan you their residence is also a great way to involve them in your organization with little work on their part. For more creative fundraising ideas, see www.stevensoninc.com.

Hold a House Party

One way to overcome the fear of asking for money is to hold a fundraising house party. Invite people to come to the home of someone who supports your organization. Make it clear the evening will be a fundraising event. When people arrive, serve them refreshments, and give a brief presentation. Then have a peer—someone articulate, enthusiastic, and respected—ask everyone to make a contribution. For tips on holding such an event, see *The Fundraising House Party*, www.warshawski.com.

How Does a Life Settlement Work?

Once the donor is considering gifting a life insurance policy to your organization, the policy should be appraised. A life settlement broker can determine the policy's eligibility for a life settlement and will seek to obtain the highest possible 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 needed to keep the policy in force. Most types of insurance policies — including universal, whole life, and converted term — can qualify.

When a mutually agreed-upon price is determined, you are paid a lump sum in cash, and the ownership and beneficiary rights are transferred from your organization to the purchaser. All future premium payments are the responsibility of the purchaser, and upon the death

of the insured, the death benefit is paid to the purchaser.

Your organization can use the cash proceeds from the life settlement in any way. There are no restrictions regarding the use of the funds. You can invest the money or spend it on current projects. Because some life settlement brokers offer fundraising support, it makes sense to partner with them for their expertise.

What Laws Regulate Life Settlements?

Eighteen states have enacted statutes addressing the sale of life insurance policies insuring people who aren't terminally or chronically ill. An additional 17 states have laws that regulate the sale of life insurance policies only to those insuring terminally or chronically ill individuals. Fifteen states don't regulate the transaction at all.

What about Policies Donated in the Past?

Like many nonprofit organizations, you may currently own life insurance policies that have been donated in the past. If there is an immediate need for funds, or if the

premium payments are becoming burdensome, you can use life settlement transactions to sell those policies for lump sums of cash and put the money to work right away. ■

Resources

Alford, Jimmie, *Resource Development Videotape*.

Clough, Leonard, "Why Planned Giving?," *Nonprofit World*, Vol. 12, No. 2.

Staecker, Delmar, "Insure Your Fundraising Future," *Nonprofit World*, Vol. 13, No. 2.

These resources are available from the Society's Resource Center, www.snpo.org.

Jolene D. Fullerton, practicing attorney for 18 years and former director and vice president of the Viatical and Life Settlement Association of America, the industry's trade association, is general counsel for a leading life settlement broker company, First Secured Life, www.firstsecuredlife.com/nonprofit.html.