

STRATEGIES FOR CHARITABLE ENTITIES

# Permanent Life Insurance Living Benefits for Non-Profits

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## Overview

The need for cash in any successful organization, including non-profit organizations, has always been strong. A lack of cash can add risk to the non-profit organization because it can become even more dependent on charitable donors or cause the organization to fail to meet its charitable purpose.

Although a portion of any non-profit organization's cash reserve is likely to fluctuate in a normal economic cycle, most non-profit organizations have a threshold of cash that they seek to constantly maintain. These funds are the amount that provides the organization's directors with operational security, in order to keep donations flowing. For example, a non-profit organization may keep \$50,000 in reserves to support advertising costs for its fundraising drives.

## Common concerns

Many non-profit organization's directors and officers have concerns regarding options for cash in the organization. Some want to have access, if needed, but do not anticipate that they would access these funds, except for emergencies. In today's economic environment, concerns include low interest rates, taxation of that interest, and lack of alternatives for their cash reserves. Typically, this money is kept in a bank money market account or bank certificate of deposit (CD), which are FDIC insured up to \$250,000 per depositor. Money market accounts usually can be accessed without penalties. The term of a CD ranges from a few months to a few years. Withdrawals prior to maturity are generally subject to penalties. There may be another alternative that's been overlooked.

## Making your cash more efficient

Non-profit organizations have a need for and recognize the value of life insurance to provide a death benefit for operational needs, for example, to replace a key public face or a fundraiser. If the non-profit organization has such needs, then consideration ought to be given to permanent life insurance for death benefit protection as a vehicle for accumulating cash value for cash reserve needs.

### **Permanent life insurance offers:**

- Income tax-free death benefits provided premiums are paid when due.
- Tax-deferred growth on cash value.<sup>1</sup>
- Tax-free access to cash values through policy withdrawals and loans.<sup>2</sup>

### **Some of the uses of that death benefit include:**

- Fundraising drives.
- Organizational debt repayment.
- Key person retention – to help the non-profit continue its charitable purposes, even if donations decline or expenses increase.
- Cash – to protect the non-profit organization against other contingencies.

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<sup>1</sup> If the policy is surrendered or lapses, income taxes will be due on any gain.

<sup>2</sup> Policy loans accrue interest at the current rate. Loans and withdrawals will decrease the policy cash value and death benefit.

Permanent life insurance can also be used for executive benefits, providing key employees with assistance in funding their personal life insurance needs. Many choose to purchase term life insurance to meet some of these needs, but many have discovered that they can get the death benefit protection they need through a permanent life insurance policy that also gives them the cash value growth they want.

With a proper, cash reserves can be diversified in such a way that protects the non-profit organization's integrity to meet its charitable purpose, regardless of whether a prominent donor dies.

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