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LIFE & Health Advisor

LIFE & Health Advisor, P.O. Box 613, Walpole, MA 02081 The Journal for the Financial Services Industry

Emerging Markets

Planned Giving For The Middle-Market

When charitable giving enters the retirement planning conversation, it takes on the role of leaving a legacy

by chris Campbell

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The economic downturn and recession resulted in three financially lean years for charitable institutions in the U.S. However, the Giving USA Foundation's annual survey released this past June has good news to share: charitable giving rose nearly four percent in 2010 after declining steadily since 2007.

Donations may have not yet returned to pre-recession levels, but Americans' commitment to charity is still impressive: contributions in 2010 were an estimated $290 billion. Individuals donated three-fourths of that amount ($211 billion).

Philanthropy as Legacy
Advisors addressing middle-income clients with retirement strategy should consider the main components of retirement financial security:

- Health: how to pay for care and guard against unexpected medical expenses
- Savings: how to create a lasting retirement income and reduce tax exposure
- Legacy: how to be remembered and provide for loved ones

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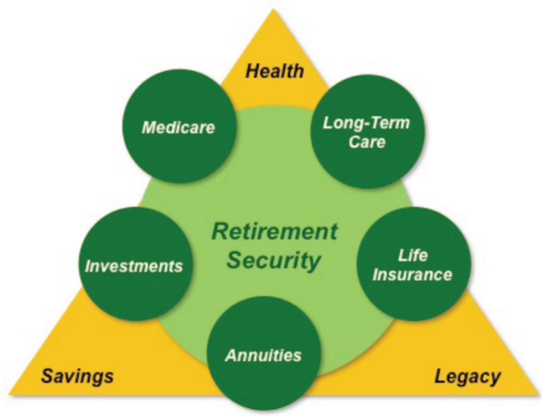


it takes on the role of leaving a legacy. A planned gift carries greater significance than simply writing a donation check; it is how the giver intends to be remembered after they pass away.

Living individuals are the largest source of revenue for non-profits. However, bequests accounted for $22 billion in charitable giving in 2010. In 2009, the IRS reported that one in five estates claimed a charitable deduction, according to Giving USA.

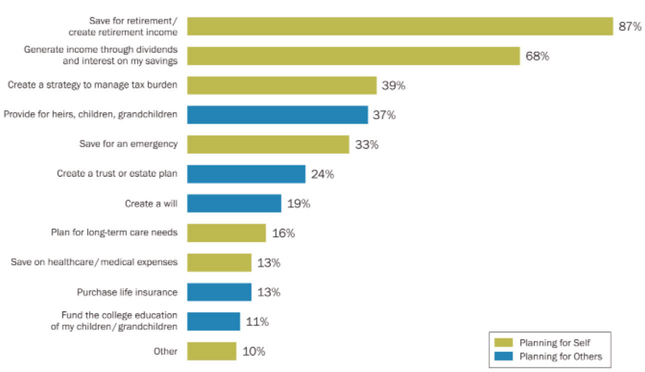
Middle-Income Giving
So who is donating these billions of dollars? Surprisingly, it is not driven solely by the affluent. Giving USA reported that only around half (53%) of individual givers have household incomes over $200,000.

These findings may appear counterintuitive. The common assumption would be people with lower incomes would have less to give away. But philanthropy has strong roots in American society and people of all income levels have important ties to their religious institutions, communities and beloved causes.

The giving landscape changes slightly when looking specifically at planned giving versus individual contributions. LIMRA found that 32 percent of affluent households include charitable giving as part of a financial plan; whereas only 14 percent of middle market households said that a charitable bequest was important to them.

Taking into account the size of the middle market (estimated at over 52 million households by LIMRA in 2009), the fact that one in seven households has interest in planned giving should not be discounted by the industry or by advisors. Definitions of the middle market vary, but annual household incomes of $25,000 to $100,000 are generally considered middle-income.

Reasons for First Consulting a Professional Advisor



Source: Bankers Life and Casualty Company Center for a Secure Retirement, *Middle-Income Retirement Preparedness Study*, 2011.

A recent study from the Bankers Life and Casualty Company Center for a Secure Retirement asked middle-income retirees and pre-retirees their reasons for first consulting a professional advisor. Legacy issues and planning for others, although secondary to the immediacy of retirement saving and income needs, were still important drivers for the middle market to seek out professional retirement advice, even though these clients' assets may be considered limited compared to people in higher-income brackets.

From what we know about the giving habits of Americans, people of all income levels engage in philanthropic giving, so it pays to acknowledge that clients do not need $1 million to be interested in and benefit from products and services that can facilitate planned giving as part of an overall retirement strategy.

The Case for Life Insurance
Life insurance is well-suited to the middle market as a vehicle for planned giving. It is commonly approached in two ways: the client names the charity as the insurance policy beneficiary; or he or she gifts the policy to the charity, which irrevocably transfers ownership of the policy outright to the non-profit. The second is a more complex approach and should be vetted with the charity before assignment to ensure they accept this type of arrangement.

The upside of either scenario is that the charity receives the policy's death benefit as cash without the delay of probate and, in most cases, the estate will receive a charitable estate tax deduction.

Single premium whole life insurance products are one avenue advisors should consider when working with middle-income clients. These products, with their simplicity and low-risk growth, can significantly increase the amount of a client's charitable gift.

The death benefit of the insurance policy will be larger than the premium paid, so immediately the insurance contract increases the amount of money the charity will receive compared to the client willing the sum. This is critical for less affluent givers with limited financial resources. Furthermore, the growth is achieved for the client and charity with lower risk than the alternatives, such as investing funds directly into the stock market.

The single premium whole life policies also have the simplicity of a one-time premium payment. Retirees, more so than younger clients, are apt to receive a lump sum of money after the loss of a spouse, a maturing CD or other account that can be transitioned easily into a single premium whole life policy.

Policies with minimum lump-sum premium amounts under $10,000 broaden the range of client incomes that can be considered good prospects for planned giving and legacy maximization through life insurance. Some insurers even offer whole life insurance with single premiums as low as the $2,000 to $3,000 range.

Reaching Out to the Middle Market
Once in the household, LIMRA says that agents and brokers rarely talk to clients about using life insurance for charitable giving. The affluence of the client did not influence this trend.

Sales representatives discussed life insurance for planned giving in only three percent of households with investable assets of between $25,000 and $99,000 and in only three percent of households with investable assets between $100,000 and $499,000. This percentage increased in households with assets over $500,000, but to a mere seven percent of client conversations.

Advisors may want to proactively ask middle market clients about their intentions and interest in planned giving. However, they need to be more proactive in their outreach to middle-income retirees and pre-retirees in general.

The Middle-Income Retirement Preparedness Study released by the Bankers Life and Casualty Company Center for a Secure Retirement found that the majority of middle-income Americans (54 percent) do not receive professional retirement advice of any kind and most had not been contacted by a professional advisor in the past 12 months

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(51 percent). The study also uncovered that almost all (84 percent) middle-income clients that currently work with a retirement professional had to contact their advisor first, not the other way around.

Financial firms, banks and insurers actively court wealthy consumers to provide them with financial management and retirement planning advice. Our country's middle-income retirees are underserved and in need of the products and services that retirement professionals can offer to help preserve their retirement financial security and create a lasting legacy. ❖