Accepting Life Insurance Gifts	
Responsible Official: Vice President for University Advancement	Responsible Office: University Advancement

Policy Purpose

This policy is established to provide for an orderly, coordinated, and informed practice of accepting gifts of Life Insurance. It is also designed to provide transparency for transactions between the ETSU Foundation, insurance companies, agents, and our donors.

Policy Statement

Planned Giving is a critically important element to securing ongoing philanthropic gifts for the University. This policy lists areas of responsibility and provides guidance and procedures for the coordinated acceptance and tracking of gifts of life insurance.

History

Effective Date: 2/24/2020
Revision Date:

Revision Notes: N/A

Attachments:
1. Sample/Template Life Insurance Agreement
2. Life Insurance Agent Agreement Profile

1. Responsibilities:
   a. The Executive Director of Planned Giving shall be responsible for the maintenance, review, and monitoring of insurance policies. Policies which have a decline in their cash values in their current year from the previous year will be reviewed for viability of success to the standards held within this Life Insurance Gift Acceptance Policy. If it is determined the policy will not be successful the following action(s) can be taken:
      1) The agent of record of the policy will be notified by the Executive Director of Planned Giving to meet with the donor/premium payor to offer the option of increasing their premium payment for the time specified by a new illustration which will be in compliance with the standards contained within this policy.

2) If there is not an agent of record, the Executive Director of Planned Giving will contact the donor/premium payor with the new illustration.
3) If the donor/premium payor does not increase the premium payments, options for the continuation of the policy or the cancellation of the policy will be generated by the Executive Director of Planned Giving and a meeting with the Dean and the development officer of the school or college where the death benefit was to be directed to discuss the options. The final decision on which option or options to use will be determined by the Dean. The following are some options; but the Executive Director of Planned Giving is not limited to only these options for consideration:
   a) If there are cash values available from other policies which have also been directed to the same school or college as the troubled policy these can be used to make extra premium payments.
   b) Surrender the policy for any cash values available.
   c) Reduce the death benefit for compliance with the approved policies contained herein.

2. The Foundation shall be responsible for the pledge reminders and/or the notification of premiums due to the donor(s) and the collection of said payment. If the donor chooses to pay the premiums directly to the insurance carrier then it will be the responsibility of the Foundation office to work with the insurance agent and the insurer to establish, receive, and book the documentation that said premium payments have been made.

3. Commercial Insurance and Annuity Arbitrage:
   a. The utilization of commercial insurance and annuity arbitrage (CIAA) will not be an accepted marketing strategy unless approved by the Foundation Board of Directors.
   b. CIAA is the simultaneous purchase of a life insurance policy and a single premium immediate annuity policy (SPIA) on the same person (or persons) but from different insurance companies. The company issuing the insurance takes the risk that the insured will die before the donor's current life expectancy. The company issuing the SPIA takes the opposite risk that the annuitant will live beyond her/his life expectancy.
   c. The donor/premium payor initiates the application as the applicant on both the insurance policy and the annuity policy.
   d. The insured does not have to be the donor/premium payor.
   e. Foundation is named as the owner and beneficiary of both policies.

Procedure (s)

1. Criteria for Acceptance. East Tennessee State University (ETSU) Foundation will accept—without the necessity of review and approval by the Foundation Board of Directors — gifts of life insurance policies, which meet the following criteria:
   a. The University has an insurable interest in the donor's life. Insurable interest can be a concern for insurance companies due to the number of questionable practices by insurance professionals. As a result of these questionable practices, when insurance applications have been submitted to insurance companies, the Foundation office has received requests to verify that ETSU Foundation has an insurable interest in the insured

and donor. The Foundation office standard practice on these requests is to provide the insurance company with confirmation that the insured and/or donor have or have not been financial contributors to ETSU Foundation and if so the length of time. Foundation office will not provide a dollar amount or any additional information on the insured and/or the donor.

b. Due to this concern by insurance companies the Foundation has integrated information regarding insurable interest in general and insurable interest in specific as it relates to charitable organizations within the gift acceptance policy. Most, if not all, states have created provisions within their statutes for allowing charitable organizations to have an insurable interest in their donors. It is the responsibility of the licensed insurance professional to determine if the state in which the donor resides has made such a provision.

c. Special provisions by almost all states have determined that a charitable organization has an insurable interest in the life of each proposed insured that joins with the charitable organization in applying for a life insurance policy naming the charitable organization as owner and irrevocable beneficiary. Currently we are not aware of any states which have not made provisions for charitable insurable interests, but it is the responsibility of the licensed insurance agent to verify with the state in which the agent, the charity, and the donor are domiciled to verify this statement.

d. The Foundation will not accept a new life policy that is less than $50,000 in death benefit.

e. All insureds must be 18 (eighteen) years or older.

2. Existing Insurance Plans:
   a. Policies which are currently in force and are considered paid-up policies and which the donor(s) names Foundation as both the beneficiary and owner of the policy.
   b. The charitable deduction for these types of policies will be equal to the lesser of:
      1) the cost basis; or
      2) the fair market value of the contract. The fair market value is defined as the replacement value of the contract. The replacement value is equal to what the donor would have to pay for a new single premium policy with the same death benefit for his/her current age (the issuing insurance company will provide the replacement cost for the policy).
      3) If the value of the policy is $5,000 or more, an appraisal of the policy will be required. This is a cost incurred by the donor and must come from a qualified appraiser.
   c. Policies which are currently in force, self-paying or that the donor continues to pay the premiums, and the donor(s) names the Foundation as the owner and beneficiary. The charitable deduction for these types of policies will be equal to the lesser of:
      1) The cost basis; or
      2) Fair market value of the contract. The fair market value is defined as the interpolated terminal reserve plus unearned premium. The interpolated terminal reserve plus unearned premium is roughly equal to the cash surrender value (the issuing insurance company will provide the interpolated terminal reserve plus unearned premium).

d. For insurance policies with a value of less than $5,000 the issuing insurance company will provide a Form 712 for this value or the cash surrender value of the policy. The cash surrender value is the net value of the policy, (which is its gross cash value minus any loans, interest, and/or other terminal costs) if it were surrendered for its cash value.
e. If the existing policy is compliant within the parameters of new plans as identified and explained, then no additional processing or record keeping is required.
f. If the existing policy does not comply with any one of the following required parameters of which all new policies must comply, then, the Executive Director of Planned Giving will be responsible for the annual review of this policy. The required parameters are as follows:
   1) The illustration must run to age 100 and show a positive cash value through that age.
   2) If a guaranteed death benefit rider is attached to a UL policy, the policy will be accepted even if the cash value drops to zero before age 100. However, verification will be required to determine the policy conforms to all of the guaranteed death benefit rider conditions. Additionally, if there are premium payments yet to be made, a discussion with the premium payer by the Executive Director of Planned Giving will take place to communicate the conditional requirements for compliance with this rider.
g. For all policies other than Variable Universal Life (VUL) policies, the policy cannot have been issued for greater than a 6% value.
h. On Variable Universal Life Policies a gross 8% may be used which will allow the illustration to be run at a higher than 6% net rate. This variation is due to the investment quality of VUL, which is a feature attractive to donors and for which the policy is designed to provide through its investment options a higher return than the portfolio rate of non-VUL policies. These illustrations should also be run to endow at age 100 or contain the no lapse guarantee as part of the contract.
i. The company must be ranked in one of the top 2 tiers of rating companies, (i.e. A.M. Best, Moody's, Standard and Poor's, Fitch's).
j. Equity Indexed Universal Life Insurance policies will be accepted with the following compliance:
   1) The illustration must not exceed 5% for the projected rate of return on the cash value.
   2) The illustration must carry to age 100 or 120 whichever is highest based on the insurance carrier products.
   3) If a Guaranteed Death Benefit Rider is used, the illustration must show a positive cash value to age 100.
k. The annual review of these policies, which will exceed the normal reviews and record keeping, is designed to protect the gift value for both the donor and the university. Therefore, in keeping with this fiduciary responsibility the following applies:
   1) If it appears from all research that the quality of the company or the quality of the product is below the Foundation standards of acceptance, the Executive Director of Planned Giving will notify the agent and the donor that the policy does not comply with ETSU Foundation standards and that should the policy's cash values drop in any

year the policy will be surrendered for its cash value or placed on a reduced paid-up status. This is a standard practice for all life insurance policies held by ETSU Foundation as an accepted gift. Though this may seem harsh, it is the same standard as for a new policy, which has passed the analysis of the Executive Director of Planned Giving. The only variation is that a letter will be sent from the Executive Director of Planned Giving to communicate the way the policy will be treated.

2) Should the illustration demonstrate that the policy will not be in force to age 100, then the Executive Director of Planned Giving will request of the agent or the commercial insurance carrier an in force illustration. The purpose for this request is that even though there may be an increase in the policy's cash values from year to year, the policy may still not be in force to age 100 and as a result not be in force when needed to fulfill the donor's wish and the ETSU Foundation need. Though the illustration may demonstrate less than age 100 in force compliance, this in itself is not sufficient reason to surrender the policy for its cash value. The triggering event for the surrender of the policy for its cash value, as is the case for all life insurance policies, is the drop in the current year's cash value from the previous year(s).
3) In all cases when the policy is no longer providing the values necessary for a successful completion, the Executive Director of Planned Giving will be responsible to contact the donor and the agent to discuss the surrender of the policy for its cash value and ask the donor where the remaining funds from the policy should be directed.

l. If the donor decides to retain ownership of the existing policy but names ETSU Foundation as the beneficiary (either revocable or irrevocable) the donor will not receive any charitable contribution deduction for the gift due to the fact the donor has retained the right of ownership. Therefore, it is recommended that the Executive Director of Planned Giving provide the donor with written notification regarding the outcome of this type of gift and encourage the donor to complete this gift by having ETSU Foundation named as the owner and the beneficiary.

3. New Insurance Plans:
   a. The ETSU Foundation will not endorse insurance products or insurance companies.
   b. In no event shall ETSU Foundation or its employees become involved in furnishing names of its constituents to others for the purpose of marketing life insurance products to those constituents.
   c. Though no products or insurance companies will be endorsed by ETSU Foundation there are products within the marketplace which are more appropriate for the benefit of the University and it is those products which have received approval from the ETSU Foundation Board of Directors to accept without further review. Those products, at this time, are:
      1) Whole life
      2) Adjustable life
      3) Universal life
      4) Variable Universal life
      5) Equity Indexed Universal Life Policies

d. Though these products are more acceptable to ETSU Foundation in order for them to be accepted without further review by the ETSU Foundation Board of Directors they must comply with the following rules:
   1) All illustrations on Whole Life, Universal Life, and Adjustable Life shall show a current rate of return for the product presented, a company guaranteed rate of return, and if the current rate of return is higher than a 6% rate of return, then this (6%) rate must be included and filed with the recording of the gift. If the policy has a higher than 6% current rate of return then the policy must be sold at the 6% rate of return and the accompanying illustration must reflect this requirement.
   2) On Variable Universal Life Policies a gross 8% may be used which will allow the illustration to be run at a higher than 6% net rate. This variation is due to the investment quality of VUL, which is a feature attractive to donors and for which the policy is designed to provide, through its investment options, a higher return than the portfolio rate of non-VUL policies.
   3) All Universal Life Policy illustrations will provide coverage to age 100 and will do so at the illustrated current rate and the 6% rate. If the policy has a lower than 6% current rate of return then the illustration will demonstrate coverage to age 100 at the lower current rate of return. If a guaranteed death benefit rider is attached to a UL policy the policy will be accepted even if the cash value drops to zero before age 100.
   4) All Variable Life Policy illustrations will provide coverage to age 110 with a cash value equal to the face value of the policy when showing an 8% gross return. The endowed requirement will be waived if there is a guaranteed death benefit rider attached to the policy.
   5) Due diligence on the part of the Executive Director of Planned Giving must accompany each life insurance policy prior to acceptance. Part of this due diligence, but not exclusive of other components, is an historical review of the underwriting insurance company's portfolio rate and return for the previous 10 years; the claim's paying capability; the rating by the independent rating companies of A.M. Best, Moody's, Standard and Poors; and any others deemed appropriate by the Executive Director of Planned Giving. This report must accompany the completion of the gift and become part of the recorded documentation held in either a paper or electronic file.

4. Equity Indexed Universal Life policies. These will be accepted with the following criteria:
   a. The illustration must not exceed 5% for the projected rate of return on the cash value.
   b. The illustration must carry to age 100 or 120 whichever is highest based on the insurance carrier products.
   c. If a Guaranteed Death Benefit Rider is used, the illustration must show a death benefit to age 100.
5. The minimum ratings ETSU Foundation will accept regarding the rankings of insurance companies for acceptance of policies which are submitted as a gift are as follows:
   a. A.M. Best – A++, A+
   b. Moody's Insurance Financial Strength – AAA, AA
   c. Standard and Poor's – AAA, AA

    d. Fitch – AAA, AA
6. The charitable deduction is equal to the lesser of the value of the premiums paid by the donor or the cash value. This is also known as the cost basis of the policy.
7. We encourage all donors to make gifts of the premiums directly to the Foundation. If the donor chooses to pay the premium directly to the insurance company then we will require from the insurance company some form of documentation that this premium payment has been made. This documentation can either be mailed or emailed to the Office of ETSU Foundation in order to verify that the premium has been paid.
8. The U.S. Supreme Court has ruled that the meaning "for the use of," will now qualify for the 50%-of-AGI ceiling. Therefore the donor has the option of choosing to either pay the premiums directly to the insurer or the donor can pay the amount of the premiums to the charitable organization in cash or other property each year to make the payment. [Rockefeller v. Comm'r., 82-1 USTC ¶9319 (CA-2)] and [Davis v. U.S., SCt 90-1 USTC ¶50,270 (5-21-90)]
9. In the case of an automatic premium payment through the donor's bank or financial institution the Foundation office will request from the writing insurance agent some form of notification from either the insurance company or from the writing agent that the premium payment has been made.
10. ETSU Foundation must be designated as both the owner and the beneficiary policies.
11. Approval and Acceptance Process:
    a. All other life insurance gifts must comply with the Approval and Acceptance Process as applicable to this life insurance section and as stated herein.
    b. No insurance company, product of one or more specified insurance companies, or insurance agent or agents of one or more insurance companies shall be granted exclusive rights to the marketing of insurance products through ETSU Foundation. Though exclusive rights to the marketing of insurance products through ETSU Foundation will not be granted, when a marketing idea or product is presented by a vendor (agent, broker, etc.) to a Development Officer, department person, officer of the Foundation the idea shall be submitted to the Executive Director of Planned Giving who will determine the merit of presenting it to the President of the ETSU Foundation Board for consideration.
    c. The process of submission of a new idea or concept is that the Executive Director of Planned Giving or his/her representative will meet with the vendor. The Executive Director of Planned Giving or the representative will consider the merit of the proposal subject to this gift acceptance policy to determine the value of further pursuit of the idea or concept. Should the Executive Director of Planned Giving or representative find merit in the idea or concept, a written summary will be presented to the President of the ETSU Foundation Board. The President of the Board will determine if the idea or concept has merit to proceed. If the idea or concept is deemed to have merit the President of the Board will make a formal presentation to the Foundation Board. This presentation can be either to the Executive Committee of the Board or to the full Board as determined by the President of the Board. This summary shall include, but not be limited to, the following information:

1) Description of the type of life insurance policy, face value, premium payment schedule, interest rates (guaranteed, current, and projected), age of the insured(s) and other relevant policy information;
2) Purpose of the gift (fund an endowed chair, deferred gift, unrestricted gift, scholarship) and the school or college, which will benefit from this gift.
3) The ETSU Foundation Board will review the material presented by the President of the Board and make a determination to accept, impose any terms (premiums to carry the policy to a self-paying status) as a condition of approval, or reject the proposed gift.
4) The final determination of the Foundation Board shall be communicated to the Executive Director of Planned Giving who in turn will advise the vendor of the board's decision.
5) If a proposed gift of life insurance is approved by the Foundation Board, the Foundation will acknowledge receipt of the gift on behalf of the ETSU Foundation.
6) The gift will be completed upon the execution and delivery of the life insurance policy to the Foundation on behalf of ETSU Foundation. If the policy is an existing plan, an assignment of the policy will be sufficient for documentation.

Related Form(s)

N/A

Scope and Applicability

	Governance	
	Academic	
	Students	
	Employment	
	Information Technology	
	Health and Safety	
	Business and Finance	
	Operations and Facilities	
	Communications & Marketing	
X	Advancement	

Attachment 1 – Life Insurance Agreement

The Agent, as signed below, agrees to abide by this agreement and will make every good faith effort in complying with the conditions as set forth within this agreement. By signing this agreement, the Agent has read and understands the reasoning behind this Agreement is to provide qualified donors with an opportunity to help *ETSU Foundation* to build an endowment fund through the use of the life insurance products. This program is a benefit to both *ETSU* and to the Agent and any lessening of the integrity of this agreement will reflect impairment on this integrity to both the *ETSU Foundation* and the Agent.

AGREED
(Please provide your signature and print your name)

________________________________ ____________________
AGENT SIGNATURE DATE

____
Company or Agency Representing

___________________________________ ________________________

AGENT PRINTED NAME DATE

Attachment 2 – Life Insurance Agent Agreement Profile

Name____ Date of Birth_______________

Agency____

Physical Address____

Mailing Address____

City______________________________State______________________Zip________________

Work Phone______________________________Fax___________________________________

Email Address____________________________ Cell Phone____________________________

States Licensed in: ____

Comments____

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