

Is your life insurance paid up?

Demutualization of Life Insurance Companies (Shares of Stock)

Many of the nation's insurance companies are mutual companies which are owned by policy owners. These companies raise capital by selling policies, thus creating additional cash flow. Many have "demutualized" or are in the process of doing so in order to raise capital through the sale of shares of stock. These companies are giving the policy owners shares of stock based on the value of their policies. Many people find themselves in a position of owning paid-up life insurance they no longer need. In the case of demutualized insurance, the stock they were given has a zero cost basis and if the shares were redeemed, the entire proceeds of the sale are taxable. However, if one donates the shares of stock to a qualified non-profit organization, like the RMS, the individual receives a charitable tax deduction for the full market value of the shares on the date of the donation. Some limits may apply. Qualified non-profit organizations are not subject to taxation upon the sale.