
Survivorship Life Insurance

Second-to-Die

The Problem—Deferred Estate Tax Buildup

For married couples, current federal estate tax law¹ allows postponement of estate taxes – through the “unlimited marital deduction” – until the death of the second spouse to die. While this provides couples with increased flexibility during lifetime, it can sometimes place a substantial tax burden on the combined estate when the surviving spouse dies.



The Survivorship Life Solution

One possible way to solve this problem is through use of a “survivorship” life insurance policy. Unlike traditional life insurance, which provides protection on the life of a *single* insured, survivorship life covers *two* lives, with the proceeds payable at the second death.

Advantages Over Individual Coverage

- **Lower premiums:** can be more cost effective than two policies.
- Medical underwriting standards may be eased with respect to one of the insureds due to second death payouts.

Ownership Arrangements

Third party ownership (adult children or an irrevocable life insurance trust) is often desirable for persons with potential estate tax problems. The policy may sometimes be transferred out of the estate after the first insured dies. If the survivor lives three years after the gift, the full face amount should generally be out of his or her estate. Questions of ownership should be discussed with an attorney.

Other Uses for Survivorship Life

- **Key person insurance:** Useful when the employer can self insure or absorb the loss of one key individual but not two.
- **Business buyout:** Facilitates purchase of family business from aging parents. Child working in the business owns policy on parents.
- **Charitable gift asset replacement:** Provides heirs with replacement cash when assets are used to fund a charitable remainder trust.

¹ The discussion here concerns federal law; state or local law may differ.