Survivorship Life Insurance

Second-to-Die

The Problem–Deferred Estate Tax Buildup

For married couples, current federal estate tax law[1] 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:** These 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.

Disclosure Notice

The information that follows is intended to serve as a basis for further discussion with your financial, legal, tax and/or accounting advisors. It is not a substitute for competent advice from these advisors. The actual application of some of these concepts may be the practice of law and is the proper responsibility of your attorney. The application of other concepts may require the guidance of a tax or accounting advisor. The company or companies listed below are not authorized to practice law or to provide legal, tax, or accounting advice.

Although great effort has been taken to provide accurate data and explanations, and while the sources are deemed reliable, the information that follows should not be relied upon for preparing tax returns or making investment decisions. This information has neither been audited by nor verified by the company, or companies, listed below and is therefore not guaranteed by them as to its accuracy.

If a numerical analysis is shown, the results are neither guarantees nor projections, and actual results may differ significantly. Any assumptions as to interest rates, rates of return, inflation, or other values are hypothetical and for illustrative purposes only. Rates of return shown are not indicative of any particular investment, and will vary over time. Any reference to past performance is not indicative of future results and should not be taken as a guaranteed projection of actual returns from any recommended investment.

Presented by Chris Swenson