Insurance and Annuities

SURVIVORSHIP LIFE INSURANCE

Presented for

Valued Client

Presented by

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SURVIVORSHIP LIFE INSURANCE

The Concept…

- A survivorship life insurance policy covers the lives of two people—typically spouses. (Technically, the policy can be written for more people, paying a death benefit only when the last person dies, but coverage for two people is most common.)
- The policy is also called a second-to-die policy because no benefit is paid when the first insured dies. The death benefit is paid only after the second insured dies.
- As with all types of cash value life insurance, poor policy performance, distributions (through loans or withdrawals) and underfunding can cause the policy to lapse.

The Purpose…

- A survivorship life policy is most often used to provide funds for final expenses and estate taxes that become payable when the second insured dies.
- Estate taxes often aren't a problem at the first death since, by law, assets can pass to the surviving spouse free of tax under the unlimited marital deduction.
- At the second death, estate taxes are payable when the survivor's estate exceeds the estate tax exemption, making the second-to-die policy an ideal source of funds.
- Even when estate taxes are not an issue, a survivorship policy can provide funds when financial problems are likely to arise only after the second death. An example would be providing ongoing care for a surviving special needs child or another dependent relative.

Other Uses…

- A survivorship policy is useful for business partners when the death of the second or last partner generates expenses associated with a business dissolution or sale.
- A business owner may be able to weather the financial impact when one key person dies, but would need additional funds if a second key person were to die.
- In a family business, the surviving children may need money to buy the business when the second parent dies.
- Surviving dependents may need family income when the second breadwinner dies.

The Process…

- Survivorship policies may be written as whole life, term, universal life or variable life insurance.
- Premiums are lower than for two individual policies.
- Statistically, both insureds are unlikely to die within a short period of time, and payment of premiums must continue after the first death.
- Underwriting may be more lenient, since an insured in marginal health may be approved for a survivorship policy when there is a healthy spouse or other co-insured.

The Bottom Line…

Survivorship life insurance can be an effective and economical way to insure the lives of two (or more) people whose relationship is one that can create tax consequences or other needs at the last death.

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SUMMARY

What Is Survivorship Life Insurance?

Survivorship policies, also known as second-to-die policies, insure the lives of two or more people, but the death benefit is payable only after the second—or last—death.

What Are Its Uses?

A common use for a survivorship policy is to provide needed cash to pay estate taxes when the second spouse dies. When the first spouse dies, estate assets pass tax-free to the surviving spouse under the unlimited marital deduction. However, when the second spouse dies, estate taxes are due on any amount exceeding the exemption amount.

Potential estate tax liability isn't the only reason to consider a survivorship policy. Other uses include:

- Providing continuing income for people who are dependent on the insured couple, such as minor children, adult children with special needs or elderly relatives.
- Providing children with funds to buy a family business from the last parent to die.
- Insuring two key employees when the employer can handle the financial impact of one death, but not two.
- Insuring two or more business partners, providing funds to cover expenses when the last partner dies and the business must be dissolved or sold.

How Does It Work?

Typically, the policy is written with two—sometimes more—individuals as insureds, with the death benefit paid when the last insured dies. Coverage is less expensive than for a single life policy because the death benefit isn't paid until the second death. Many insurance companies will insure a person whose health is marginal as long as the other insured is healthy.

Survivorship policies may be written as whole life insurance, term insurance, universal life insurance or variable life insurance.

Survivorship life insurance can be an effective and economical way to insure people whose relationship will produce tax consequences or create other financial needs when the second or last insured dies.

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