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Survivorship Life Insurance

Introduction Survivorship Life Insurance or second-to-die insurance pays a death benefit at the death of the survivor of two individuals, usually husband and wife. The proceeds of the policy become available at the second death when estate tax and estate settlement costs may cause an excessive financial burden.

Since estate taxes are based upon the total current value of all assets (liquid or not), Survivorship Life Insurance can protect family estates such as real estate, property, family farms and other hard assets from liquidation. Survivorship Life Insurance is designed to protect larger estates, generally \$5 Million or greater.

Benefits Insurance policy premiums (or rates) are based upon the risk involved in the insurer having a monetary loss as a result of paying out claims. This risk is based upon statistics. For example, a person with known medical problems (such as high blood pressure) is statistically more likely to suffer death earlier than a healthy person without such a condition. Therefore the insurance companies cost to provide life insurance coverage for the medically impaired person is higher. There are two major benefits that derive from this for last-to-die life insurance policies.

1. Because there is less of a risk involved for the insurer when the death benefit is paid after the death of two people, the cost of the policy (the premium) is less.
2. Because there is less financial risk for the insurer, those with medical or other impairments that would normally be rated (or possibly declined) can get approved depending upon the health of the other applicant.

Essentially the mortality risk is spread over two lives resulting in lower policy costs. Survivorship life insurance can be less costly and easier to qualify for than other types of life insurance.

Estate Planning and Survivorship Life Insurance Survivorship policies are typically designed to offset the monetary costs of estate taxes. Estate taxes can reach levels as high as 55 percent. Survivorship life insurance policies are effectively used to offset the financial burden of estate taxes after the death of the final spouse. They do so because of a bill enacted in the early 1980's that allowed the postponement of estate taxes until the death of the second spouse. To safely create a last to die policy, the policy should be owned by a third party (typically a trustee).

The ultimate goal of estate planning is to acquire and preserve someone's assets past death. This is goal is to be pursued after several major factors are decided:

- *Who are the beneficiaries?*
- *How can you reduce or eliminate administration costs?*
- *How can taxes be reduced or eliminated?*

There are two major common ways to start the estate planning process. Either the creation of a will or the creation of a trust. Both are designed to determine who is the beneficiary of specific assets. But the similarities end there. For more information of trusts or wills, contact a lawyer or certified accountant.

Taxes Imposed on the Transfer of Assets

There are three taxes imposed on the assets of the deceased: estate tax, gift tax, and generation skipping transfer tax.

Gift tax is a tax that is imposed during the lifetime of the giver. Unlimited gifts may be given to a spouse or to charity without tax. And gifts of less than \$10,000 per year may be given without taxation. The tax rate on gift taxes ranges from 37% to 60%. But an applicable exclusion is satisfied before taxes are required. The applicable exclusion is a specific amount of money depending upon the year. Currently in the year 2000, the excludable amount is approximately \$675,000. This amount will rise each year until it reaches \$1 million in 2006.



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Estate tax is one that is imposed upon death, but in the event of a married couple it is not imposed until the death of both parties. The estate taxes are based upon the total current value of all assets (liquid or not) after all appropriate expenses and appropriate asset transfers.

The Generation-Skipping Transfer Tax is imposed both at death and during the lifetime of an individual. This tax is at 55%. A decedent (the person transferring assets) has a lifetime excludable gift amount of \$1,010,000. This tax and exclusion is applied to gifts that are for grandchildren or relatives further down the family tree (i.e.. great grandchildren). Transferring assets to the skip generation that are greater than the allocated amount may also be subjected to an estate tax if the gift is at death.