SURVIVORSHIP LIFE INSURANCE

Benjamin Franklin wrote "in this world, nothing can be said to be certain, except death and taxes." Unfortunately, in the area of estate planning, both of these factors must be considered for couples with larger than average estates. One useful financial planning tool to cope with this eventuality is survivorship life insurance.

Survivorship life insurance is frequently known as dual life or second-to-die insurance. This type of policy pays a death benefit upon the death of the insured who lives longest. Likewise, with proper estate planning, estate taxes are postponed until the death of the surviving spouse. Thus, it is a handy tool to help provide heirs with necessary funds to meet sizable estate tax bills.

Coverage premiums for survivorship life policies are based on joint life expectancies. Therefore, it is frequently possible for this premium to be less than the total of two policies on the same individual lives. Of course, such premiums would vary based on the ages and health of the insured. There must be an insurable interest present in survivorship policies such as a husband-wife, parent-child, or business relationship. These policies can also take the form of a variety of traditional or interest-sensitive products to be tailored to the individual situation.

Survivorship life can be very effective to provide much-needed liquidity for a couple with a combined estate in excess of $4,000,000 in 2006 who take full advantage of the unlimited marital deduction. This is especially true when the spouse most likely to die first will leave behind a large illiquid estate problem, such as the presence of a family-owned business. Without another method of providing liquidity, the family business might have to be sold off to pay estate taxes.

Other scenarios prime for survivorship life insurance might be where both spouses are over 65 or where one is uninsurable and the other is a reasonably good risk. Without such a policy, individual policies may make insurance in these cases cost prohibitive. Another common application for survivorship life is for younger professional couples with children. In the event that one parent should die, the family is still left with one parent for financial support.

Of course, these policies are not "one-size-fits-all" and should be compared carefully with the advantages and aggregate death benefit provided by two separate life policies. This comparison and eventual policy choice should be made with the aid of a financial planning and/or life insurance expert.

Arthur Rottenstein, is a Registered Securities Principal with Raymond James Financial Services, Inc. in Boca Raton. He has been managing the financial affairs of a number of select families in South Florida since 1982. Please feel free to call for an appointment at (561) 391-6961 or email him at arthur.rottenstein@raymondjames.com. Please feel free to visit his website at bocaratonfinancialplanner.com.