



"Giving" Advice



**TOLEDO COMMUNITY
FOUNDATION**
608 MADISON AVE
SUITE 1540
TOLEDO, OHIO 43604-
1151

419-241-5049
[TCF "GIVING" ADVICE
NEWSLETTER](#)

ABOUT YOUR FOUNDATION

Since 1973, the **Toledo Community Foundation** has provided individuals, families and businesses interested in the well-being of our community with an *efficient, effective, low-cost, professionally managed* mechanism to achieve their charitable goals.

For philanthropists wishing to maximize the impact and life of their charitable gifts, the Foundation provides *resources for thoughtful giving*. Using its expertise and personalized services, **Toledo Community Foundation** helps donors

[<Back to Front Page](#)

[Forward this Article>](#)

[Print This Article](#)

Survivorship Life Insurance Back in Favor

Copyright 2008 Penton Business Media, Inc.
All Rights Reserved
Registered Rep.
April 1, 2008

By Alan Lavine

Despite current laws that reduce the estate-tax bite, survivorship life insurance is making a comeback as an estate-planning tool among some advisors. With Democrats in control of Congress, and a good chance that a Democrat will take the White House next year, sales of survivorship life insurance are inching higher following two years of declines. The assumption is that the Democrats won't let the estate tax sunset in 2011, as Republicans might have done, and could even raise estate tax rates or lower the exemption level. That means there will be more estate to protect.

Also known as "second-to-die" insurance, survivorship life pays out a death benefit to designated beneficiaries when a surviving spouse dies. The policy proceeds can be used to pay taxes—including estate taxes, gift taxes, and generation-skipping transfer taxes—or to replace wealth lost in the transfer of assets. It's particularly useful for protecting a family's estate when it includes hard assets, such as real estate and family businesses, which may be difficult to liquidate, say planners.

During the first three quarters of 2007, sales of survivorship life insurance rose 10 percent versus the previous year, according to LIMRA International, a Windsor, Conn.-based research and consulting firm. (The firm declined to disclose actual premium sales numbers.) By comparison, sales dropped 16 percent in 2005 and 3 percent in 2006.

The growth in sales is due to increases in both the number and size of survivorship life policies, says Elaine Tumicki, vice president of product research at LIMRA. Average coverage sold per policy was \$2.9 million

transform their philanthropic impulse to measurable community impact. Beyond the gifting of assets, the Foundation helps donors identify issues of importance to them and *inspires engagement* with community organizations addressing these issues, thereby maximizing the impact of charitable gifts and creating a greater sense of fulfillment.

last year, up 13 percent from \$2.5 million in 2006. Meanwhile, the average policy cost \$13.54 per \$1,000 of coverage in 2007.

"The average policy size is going up," says Tumicki. "Now there is a bigger potential liability. Something is going to happen with estate taxes in 2009. If the Democrats gain the White House, it will have a big impact on sales."

Financial advisors say they are directing more affluent clients with at least \$2 million in net worth toward survivorship life because they expect Congress will either raise the estate tax or lower estate-tax exemptions after 2010.

"We have a Democratic Congress, and there will be an estate tax," says Ben Jacoby, a Morristown, N.J.-based financial planner, with a CFP. Jacoby says he's planning for clients based on the assumption that there will be a \$2 to \$3 million exemption and tax rates ranging from 25 percent to 40 percent.

Under current tax laws, an estate can be transferred to a spouse estate-tax free. Taxes, however, may be due when the second spouse dies. Over the past four years, estate tax rates ranged from 45 percent to 48 percent of the total value of all assets above the excluded amounts.

The Economic Growth and Tax Relief Reconciliation Act of 2001 increased the estate-tax exemption from \$1 million in 2001 to \$3.5 million in 2009. Then in 2010, the estate tax is slated to disappear. But it will automatically return in 2011, with a 55 percent tax on estates over \$1 million, unless Congress changes the law.

The Good, the Bad, and the Ugly

For survivorship life to work, based on IRS rules, the insurance policy must be placed into an irrevocable life insurance trust, and the beneficiary of the policy must be the trust. The trust must also be set up at least three years prior to the death of the first spouse, otherwise the insurance proceeds will be considered part of the taxable estate.

The individual that sets up the trust for estate-planning purposes then gifts money into the trust to pay the insurance premiums. The person who gifts the money to the trust will owe gift taxes on amounts over \$12,000 per person per year for 2007 and 2008, but these gift taxes won't be owed until death. Again, there also is a lifetime \$1 million gift tax exemption.

There are pros and cons to purchasing survivorship life insurance, of course. On the plus side, premiums on survivorship life are 50 percent lower than premiums to insure one person. And if the proper financial analysis is conducted, the policy proceeds should cover the estimated estate taxes due. You might be best off getting an estate-tax lawyer to help you structure irrevocable trust arrangements.

And although some clients express concern about paying annual five-figure insurance premiums, Lance Wallach, a Plainview, N.Y.–based insurance advisor, says that this kind of life insurance works especially well for people with real estate holdings, rollover IRAs, and substantial investments in municipal bonds or annuities. Large IRA rollovers can be particularly hard hit by taxes. They are subject to both estate taxes and federal income taxes, he says. Someone who has to liquidate a \$1 million IRA could pay about 70 cents on the dollar to the IRS. Meanwhile, business owners like it because it is not subject to creditors' claims.

Still, the product has its critics. Most financial planners say all types of estate-planning options should be considered before using survivorship life to pay estate taxes. "It is not the solution it once was," said Craig Carnick, a Colorado Springs–based CFP. "It can be part of an overall estate-tax plan. It is a method of default if you can't come up with other methods to reduce the estate tax."

Jacoby, the Morristown, N.J.–based planner, says further that it can be very difficult to estimate how much coverage will be needed to pay off the estate tax, in part because you have to predict the longevity of two individuals. "Survivorship life insurance will work for someone that has a family-held business and does not want to be forced to sell to pay the estate taxes. But (in most cases) survivorship life is too long a crap shoot."

"I would use survivorship life in limited circumstances," says Carnick. "Today, you must take a comprehensive planning approach to estate planning, rather than just buying a life insurance policy," he continues. "In some cases it might be better to pay the estate tax bill today, rather than when the value of someone's assets has increased dramatically." The bottom line: Those with highly liquid estates should consider other options to cut the estate-tax bill first.

[Copyright](#) © 2007 LexisNexis, a division of Reed Elsevier Inc. All rights reserved.

[<Back to Front Page](#)

[Unsubscribe to this e-newsletter.](#)

This email was sent to you by a community foundation affiliated with the Council on Foundations (COF) or Community Foundations of America (CFA) . If you are not an intended recipient of this e-mail, please notify the sender and then delete it. COF & CFA policy bars the use of bulk mail lists. If you believe you received this email outside of these policies, please let us know at privacy@nmatpublisher.com. [Technical support](#) is available if you are having problems with this email. This information is provided as a service to you. Product references are not intended as a solicitation, but rather, to provide information and address issues raised. Unless otherwise indicated, all service marks are the property of COF & CFA. Copyright 2008 Council on Foundations & Community Foundations of America. All rights reserved.

POWERED BY **hnw**