

# SURVIVORSHIP LIFE INSURANCE CAN PROTECT ASSETS FOR THE NEXT GENERATION

Life insurance can serve a number of purposes in addition to providing a death benefit for a dependent spouse or children. Some policies, especially a specific type known as survivorship or second-to-die insurance, can also be an effective asset preservation technique for estates of various sizes.

Survivorship insurance is a single life insurance policy that covers two individuals, generally husband and wife. These policies compliment the marital estate tax deduction, which defers estate taxes until both spouses pass on. The survivorship policy does not pay out until the second spouse dies. The premiums are relatively low when compared to purchasing individual life insurance policies.



There are numerous estate transfer scenarios in which applying survivorship insurance is extremely advantageous, including:

## **Preserving Qualified Plan Money**

If you are hoping to pass on untapped IRA or 401(k) retirement accounts to the next generation, you will be disappointed to learn those hard-earned

assets could be reduced by as much as fifty percent once all taxes are applied. By purchasing a survivorship policy of a value equal to the estimated taxes, the policy, rather than your qualified plan accounts, can fulfill the tax burden. This same approach can be used for other assets of your estate that are subject to hefty taxes.

## **Charitable Contributions**

The same approach can be used for transferring assets to a charity upon your passing. This ensures that the qualified not-for-profit organization will receive your donation dollar-for-dollar. You can deduct the cost of life insurance premiums from your taxes if you name the charity as both beneficiary and owner of the policy.

## **Non-liquid Assets**

A survivorship policy is also well suited for assets that are not liquid and which the heirs will not want to sell in order to fund the estate taxes. This approach is commonly applied to real estate and family businesses. In cases where not all of the children are interested in running or being invested in the family business, a child could use their share of the survivorship insurance benefit to purchase their siblings' share of the business.

## **Caring for Special Needs Children**

When a family has a child with special needs, the child will likely need financial support their entire life. Who will pay for that individual's care once both parents have passed on? A survivorship policy can provide a large death benefit at a discounted cost. The policy can be structured in conjunction with a special needs trust to ensure that funds will be properly managed and to preserve other government funds that the child may be qualified to receive.

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## **Insurance for a Spouse in Poor Health**

A survivorship policy can be a solution for a spouse who is in relatively poor health and cannot obtain a life insurance policy on their own. As long as one spouse is in good health, they generally can obtain a joint survivorship life insurance policy.

To achieve the desired estate planning intent of the survivorship policy, the insurance benefits need to be excluded from the couple's estate. You should consult with an estate-planning lawyer to structure the estate so that neither spouse has ownership rights to the policy. There are several options, including setting up a trust or assigning the rights of the policy to another individual such as an adult child of the insured.

## **CONTACT US**

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