Last-Survivor Life Insurance

Last-survivor life insurance has been a popular estate conservation tool for couples who want to help -protect their legacy from estate taxes. Because this type of policy pays a benefit after the death of the last-surviving insured individual, it can provide heirs with much-needed cash to help cover final expenses, probate costs, and estate taxes.

Of course, fewer households will be subject to the federal estate tax as a result of the American Taxpayer Relief Act of 2012. The Economic Growth and Tax Relief Reconciliation Act of 2001 gradually increased the federal estate tax exemption, until finally repealing the federal estate tax altogether for the 2010 tax year only. The Tax Relief Act of 2010 reinstated the federal estate tax with a $5 million exemption, indexing the exemption for inflation after 2011. The provisions of the Tax Relief Act of 2010 expired on December 31, 2012.

The American Taxpayer Relief Act of 2012 increased the federal estate tax rate from 35 percent to 40 percent, but left in place the higher exemption level ($5.43 million in 2015); both provisions are now permanent. It also left in place the “portability” of any unused exemption between spouses.

As history shows, estate tax rates are subject to change. Also, many states have their own estate taxes, most with exemptions of $1 million or less, and only one state (Hawaii) currently has a portability provision. Because of this, many financial experts agree that it is important to have an estate conservation plan in place.

As a result of the unlimited marital deduction, when one spouse dies, his or her entire estate passes to the surviving spouse without becoming subject to estate taxes. (The surviving spouse must be a U.S. citizen.) When the second spouse dies, federal estate taxes come due on whatever portion of the estate exceeds the prevailing exemption amount.

Because estate taxes are typically due within nine months of the surviving spouse’s death, heirs could be forced to sell property, liquidate other assets, or take out a loan in order to make the payment on time. The benefit from a survivorship life insurance policy can help provide funds so the heirs can pay the bill rather than dipping into their inheritance.

The cost and availability of life insurance depend on factors such as age, health, and the type and amount of insurance purchased. Before implementing a strategy involving life insurance, it would be prudent to make sure that you are insurable. As with most financial decisions, there are expenses associated with the purchase of life insurance. Policies commonly have contract limitations, fees, and charges, which can include mortality and expense charges.

Many people work and save throughout their lives to leave a legacy to their loved ones. Survivorship life insurance can help safeguard the assets they've worked hard to build.