Survivorship life insurance

A planning tool to help heirs pay estate taxes

All of your life, you've worked hard to create an estate you can be proud of and pass down to your children. But will your estate pass to them intact, or will it be eroded by sizable estate taxes? To minimize the tax burden that will eventually fall to your heirs, plan ahead with survivorship life insurance, which covers two spouses under one plan.

Survivorship life insurance works via a legal provision known as the "unlimited marital deduction," which lets an estate pass tax-free to the surviving spouse. Usually, no estate tax is due until the death of the surviving spouse. During the time between the first and second death, the value of the estate is likely to increase, leaving the heirs with a larger estate-tax bill. Survivorship life provides funds to pay estate taxes when they become due and eliminates the uncertainty about estate liquidity, relieving the financial burden on an estate and its heirs.

Your heirs will need cash to pay estate taxes

Example: $6 million estate

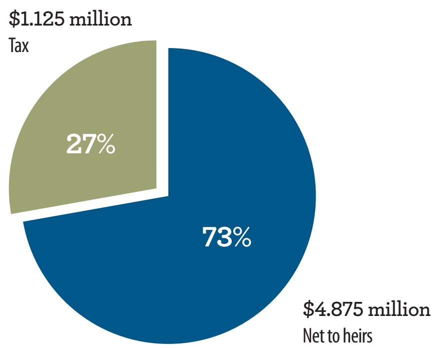


Chart assumes 2009 estate-tax rates and that decedent did not have a credit shelter trust.

Facts about federal estate taxes

Estate taxes are due nine months after the death of the second spouse and must be paid in cash. In 2009, assets in excess of $3.5 million left to heirs are subject to a 45% federal-estate-tax rate.* The heirs of an estate must be prepared to meet this heavy tax burden. For example, the estate taxes due on a $6 million estate in 2009 are $1.125 million (see chart). And as the value of the estate increases over the years, the estate-tax bill facing the heirs also increases at a proportional rate.

**Check with your tax advisor about your situation.*

Ways to pay estate taxes

1. **Sell or liquidate assets from the estate.** Forced sales of assets from an estate almost always cause a loss because the assets' full value is rarely realized. On a $6 million estate, for example, the heirs may need to liquidate approximately $2 million in taxable assets to pay the estate taxes. That same $2 million could create income of $100,000 per year, assuming a 5% interest rate. Over a period of 40 years, the heirs would lose $4 million in income, plus the original $2 million.*

2. **Borrow the funds.** If the heirs borrow $2 million to pay estate taxes, the interest (assuming a 15-year loan at 8%) adds more than $1.5 million to the cost.

3. **Utilize gifting.** Individuals could gift money to their heirs that can then be set aside to pay estate taxes. But, you run the risk that the gifting program will not be completed in time to pay the full amount of the estate taxes. For instance, if the heirs need to meet a $2 million estate tax bill, the estate owners must gift $92,684 per year for 15 years for these annual gifts to earn 5% per year.

4. **Purchase life insurance.** A life insurance policy on the lives of the estate owners can ensure that cash will be available to pay estate taxes and expenses. Life insurance proceeds are received free of any income tax. And, if the estate owners' children or an irrevocable trust owns the policy, the insurance proceeds are also free of estate taxes.

Using tax-free gifts to pay life insurance premiums

Under current law, every taxpayer may give $13,000 per year to anyone without incurring gift taxes. A married couple can gift up to $26,000 per year, per individual. For example, a couple with two children and an estate valued at $6 million can together gift a total of $52,000 per year ($26,000 to each child). The children can pay the $22,500 annual premium on a survivorship life policy from the proceeds of the $52,000 annual gift. The $29,500 balance can then be used for other investing. In addition, the gift amount is removed from the estate, thus lowering the eventual estate-tax bill. Often, an irrevocable life insurance trust is established to own the policy.

Survivorship life reduces premium costs

Survivorship life is much more cost-effective than purchasing two individual life-insurance policies. The premiums are lower than if policies were purchased for either life alone. Here's an example. Suppose a couple, ages 65 and 60, needs $2 million of insurance to cover the estate taxes on their estate. To obtain this amount of insurance, the couple could purchase a $2 million individual policy on the spouse who would qualify for the lowest cost of the insurance (in this case, the 60-year-old woman) or a $2 million survivorship policy.

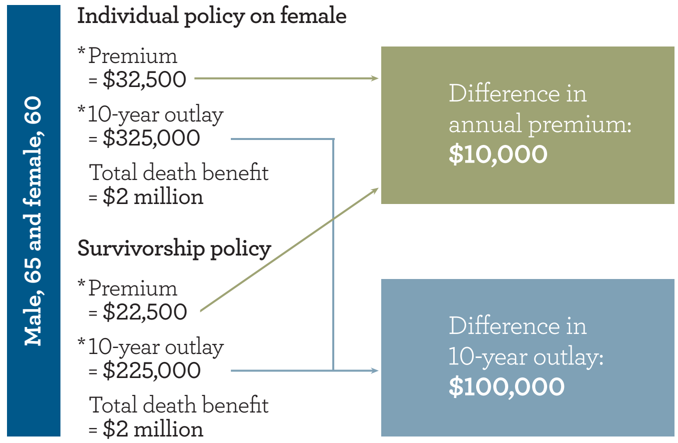
In this example, survivorship life provides the same death benefit at a fraction of the cost. The insurance company can afford to offer these policies because it won't have to pay the death benefit until the second death, which may occur years after the first. The result is a significant savings for the survivorship policyholder.

**Rate of return is hypothetical and not representative of any specific product.*

You can count on us

For more information about how survivorship life could benefit you and your family, contact your Financial Advisor. He or she can assess your insurance needs and discuss strategies to help you achieve your goals.

Survivorship life reduces premium costs



*This chart is for illustrative purposes only and assumes both people are nonsmokers. Rates will vary with age and other factors.

Summary of survivorship life features and benefits

A survivorship life policy lets you:

- Insure two lives at a lower premium than insuring either life individually
- Provide proceeds that can be used to pay estate taxes due at the second death
- Pass the death benefit free of income taxes to beneficiaries
- Protect the family business, farm or ranch
- Avoid forced sales of assets
- Provide money for the estate

Learn more about survivorship life

Survivorship life insurance helps a married couple leave a larger estate to their heirs while providing tax-free cash that their heirs can use to pay estate taxes. As always, investment decisions should be based on investment merit, not solely on tax considerations. However, the effects of taxes are a critical factor in achieving a desired after-tax return on your investment. The information presented in this report is based on internal and external sources that are considered reliable, although the accuracy of this information is not guaranteed. Specific questions on taxes as they relate to your individual situation should be directed to your tax advisor.

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