Second-To-Die Insurance

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What is Second-To-Die Insurance?

Second-to-die insurance is a type of life insurance on two people (usually married) that provides benefits to the beneficiaries only after the last surviving person on the policy dies. This differs from regular life insurance in that the surviving partner doesn't receive any benefits after the spouse dies. With regular life insurance, typically a spouse has named their husband or wife a beneficiary, and he or she receives the death benefit after the policyholder dies.

Second-to-die insurance is often used for estate planning or to pass along death benefits to children or grandchildren.

How Second-To-Die Insurance Works

Parents who take out this type of insurance are usually thinking of their children. For example, a second-to-die insurance policy could be designed to pay estate taxes or support any surviving children. It is also called "dual-life insurance" and "survivorship insurance".

Key Takeaways

- Second-to-die insurance, also called survivorship policies, might be less expensive for couples to purchase than individual plans.
- The death benefit for a second-to-die insurance policy may be used to offset estate-settlement costs.
- Qualifications for survivorship policies may be less stringent than those used for an individual term or whole life insurance.
- Second-to-die insurance may be put into place to ensure beneficiaries can afford estate transfers of assets, like a family vacation home, rather than have it sold to pay taxes.

Generally, second-to-die insurance is used for estate planning, and usually, they cover two or more people for less money than individual policies would cost. The death benefit from a survivorship life insurance policy is typically calculated to pay federal estate taxes and other estate-settlement costs owed after both spouses pass away.

Joint-life insurance also called second-to-die life insurance is often more affordable than purchasing term life insurance or whole life insurance policies for each spouse.

The second-to-die life insurance product was developed in the 1980s when a new law enabled married couples to delay federal estate taxes until both spouses passed away. This law helped surviving spouses avoid depleting their finances to pay big tax bills, which put additional financial pressure on other remaining heirs.

A second-to-die life insurance policy starts off with an annual premium that covers the death benefit. The excess grows tax-deferred, building cash value that is supposed to cover some or all of higher premiums as you age.

Reasons to Purchase Second-to-Die Insurance

More economical

The premium is based on the joint life expectancy of a couple, and because it pays nothing until both spouses die, the premium is significantly less expensive than buying separate policies for both people with the same total dollar amount in benefits.

Easier qualification

If one person isn't in great health, it doesn't matter as much because both policyholders must die before benefits are paid. Otherwise, the person in bad health may be denied life insurance if applying for a single policy.

Estate planning

In some cases, second-to-die life insurance can actually help build an estate, not just protect it from taxes. Like traditional life insurance, the death benefit of a second-to-die policy can ensure your beneficiaries receive a minimum amount of money, even if all the savings of the insured were depleted during their lives.

Maintains an estate

Many people buy second-to-die life insurance policies in order to ensure their estate transfers to their beneficiaries intact. For example, they may want to know the family cabin will remain in use for generations, rather than be sold to pay death taxes.