FIRST YORK

<u>Joint Life (last survivor) or Single Life?</u>

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Often, we are asked whether Joint Life (last death payout) is the best product to use for planning purposes. Of course, it depends on the goals and strategies of the client, but it isn't always so simple to answer. Without trying to make experts out of everyone, I thought it might be useful to have a brief look at the relative merits and some misunderstandings about the joint life product.

First, joint life, while less premium per dollar of coverage (assuming two healthy life insureds) is actuarially (approximately) the same cost when the delayed death benefit is factored in to the calculation. For example – for a male 65 and female 63 – there will be an assumed deferral in the death benefit equal to the difference in years to normal life expectancy. If we simply present value the premiums for the two product options – joint life versus single life on the male or female – using a reasonable interest rate, we will get very close to the same present value cost.

So, why not consider the pros and cons of both before making a decision?

Here are some planning issues that should be considered:

1. Joint Life assumes "everything" goes to the surviving spouse, which means kids (and other bequests such as charities) may have to wait until the surviving spouse dies many years later.

2. After the first death, depending on the planning, there may be continued growth in the estate, resulting in a shortfall of coverage for tax.

3. Most "joint life" plans require continuing premiums after the first death; but the income earner has died so the source of premiums may have to change. (It is possible to pay a little more for the joint life coverage and have premiums stop on the first death.)

4. For underwriting purposes, the full amount of the joint coverage counts <u>against both lives</u> for total coverage in force which could make it more difficult to acquire coverage for other needs.

5. Once initiated, it is difficult to unwind a joint life policy; for example, in a marriage break-up. It should be considered a permanent decision.

6. If there is any uncertainty, it is now possible to underwrite and issue insurance on a single life but switch to a joint life contract later. We underwrite the potential additional life now but don't include him/her in the contract until instructions are given. There will be a considerable premium reduction when/if the switch is made.

Certainly, joint life will work especially well where one life insured is highly rated or uninsurable or where a freeze or inter vivos distribution has been completed. In most planning cases, it will coincide precisely with the tax due on the second death, but it is worth considering the alternatives.

I believe we are thoughtful about the advice we give and treat each client as an unique individual with different goals, circumstances and requirements. What works for one may not work for others. So we consider the alternatives to get the best fit.