Owning Life Insurance!

By Corry Collins CLU CHFC CHS

As a financial advisor, if we had a magic wand we could wave it over a family to provide the answer of how much life insurance a family should own, when to buy it, and what type of coverage is the best. In reality, we don't have such a wand, but we do have the answers to many questions.

Life insurance is not as subjective as we think. We do know the answers to many of the questions already. We don't know when we are going to die, but we do know eventually we will all pass away. In fact this is what makes us different (in part) from the rest of the animal kingdom… humans know we are all going to die someday, monkeys don't. Given this simple advantage, we have the opportunity to plan for the future.

Most people don't know how they are going to die. Yet we do have the choice how we are going to live. Good advice might be to live life every day and keep an eye out for the future… and plan not only for your future, but also for the future of those you love.

Insuring your life style (and income) is how we protect what is important to you. I have met only a few people in my 28 year career that don't care about how they plan for the future. I'm happy to say that these cases are not the norm. Most people who have a dollar to their name would like to make good use of that dollar. This is likely why they have a dollar in the first place. If someone has a decent quality of life, they almost always want to continue the same standard for the family who will live after the breadwinner is gone.

Making another person rich has never been the objective in people's heart of planning. Not making them suffer is most often the objective.

So how do you achieve this? In life we know that we need to save. Save the extra money for tomorrow, or in the case of premature death, spend a little on insurance which will in turn create the lump sum that you would have saved, if only you had enough time.

So let's look at the very basics of life insurance. You expect to work until a specific age. How many years are you from that age? Say you are 35 now, and you expected to work until you are age 65. That is 30 years in the difference. To keep it simple (and not to include tax and inflation), let's say you earn $40,000 per year. You expect then to earn $1,200,000 over those 30 years. This is the income method to determine your human capital value. You are in fact a machine which is expected to earn $1,200,000 for your family. If you die, your family will not receive this money. So here is the question, how much of that potential income would you like your family to receive if you died tonight?

Add up all your insurance and savings and see how much they would receive. What is the shortfall?

Another way to look at things is a combination of debt and income. Let's say that you own a home and you have a mortgage of $200,000 on that home. Would you want to pay this mortgage off in the event you die?

Would you like to leave a lump sum for education of your children? Is charity important to you?

Maybe the answer is a combination of several calculations.

Say you wanted to replace your income for 10 years, and also pay the mortgage in full. This case would suggest you might want $600,000 in life insurance. This would pay off the mortgage and your spouse would be given $400,000 to provide 10 years of income.

There are so many solutions in terms of selecting the right amount of life coverage. Some are simple and some are complicated yet the questions must be asked.

Inflation should be considered, we might anticipate that your income will increase due to promotions and experience. You should assume your life style expands with age and disposable income, and tax strategies might also be considered. Getting some advice along the way is always a good measure.

Speaking to a professional planner can help you answer some tough questions about your own requirements. The questions are not hard. They are just hard to ask yourself.

Corry Collins, CLU CHFC CHS, is a financial planner and Partner with Maritime Wealth Management based in Halifax NS, Canada. Collins is also a life and qualifying member of the Million Dollar Round Table.

2579 Windsor St. Halifax NS B3K 5C4
902-444-7000
corry@maritimewealth.com