HOW MUCH LIFE INSURANCE DO I NEED?

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"How much life insurance do I really need?" Financial planning clients at Vantage Financial Partners Limited usually ask this question during the planning process. They are often skeptical about the answer given by insurance agents and look to us to provide an objective opinion.

Why should I consider life insurance?

The main purpose of life insurance is to protect the income stream provided by the insured in the case of a premature death. More life insurance is usually needed by a young family when the loss of earnings can not be replaced by savings. As parents grow older and their children leave home, insurance needs decrease because the parents have a shorter earnings future and usually a larger asset base that could be used to replace earnings loss.

How are insurance needs calculated?

Your Insurance Needs Analysis will be based on the amount of income you and your Relationship Manager determine is needed if one or both spouses are deceased. We take into consideration the initial needs (funeral expenses, probate), ongoing needs (living expenses and debt repayment), and future needs (college, weddings, etc). Your financial requirements are measured against your financial assets. If needs exceed assets, the difference can be made up with life insurance.

In general, younger clients underestimate the amount of insurance needed, while older clients typically have not reduced insurance coverage to reflect their decreasing requirements. During the analysis process we frequently note that clients lack sufficient disability insurance. Since disability is much more likely than death this can be a more serious deficiency.

How often should insurance needs be reviewed?

Your insurance needs are reviewed at every annual review meeting. Changes like newborn children, employment benefits, medical conditions, college graduations, etc. can affect insurance needs. In general, even if no major change has occurred, you should review your insurance every 5 years or so.

What type of life insurance should I consider?

Relationship Managers at Vantage frequently recommend level premium term insurance as the most cost effective way to buy life insurance.

The premium for level premium term insurance does not change for the entire life of the policy. Terms range from 10-20 years and can extend as long as 30 years.

Should I buy company sponsored life insurance?

Typically the supplemental insurance offered to employees does not offer a level premium. Costs can increase as often as every year. In addition, the rates are usually based on the "standard" health rating. If you are in good health, Vantage may be able to find you a less expensive policy with a highly rated company which offers level premiums. Moreover, your individual policy is not contingent upon continued employment so if you leave the company there is no need to replace the insurance (with the risk of more stringent medical requirements).

But if your health does not let you qualify for a "standard" insurance rate, company sponsored life insurance may be your most economical option. You and your Relationship Manager will discuss these options.

What do I do with my whole life policies?

Many clients purchased permanent life polices (Whole Life, Universal Life , etc) in their younger years and are continuing to pay premiums each year. Once the proper amount of insurance is determined, the client can request an "in force illustration" of each policy to determine its unique characteristics.

When evaluating these policies, it's important to keep in mind that Life insurance is subject to substantial fees and charges. Benefits also cannot be fully guaranteed, since they are subject to the financial ability of the life insurance company to pay on the policy at the time of your claim. Loans on a policy, if available, will also have a significant impact on the policy's death benefit and may have tax consequences if the policy lapses.

Once your Relationship Manager has evaluated your policy, he/she will recommend a strategy based on your needs.

Your Relationship Manager may recommend:

- Replacing the whole life policies with term insurance.
- If the policy is efficient, let dividends pay the premiums to reduce the cash flow burden,
- Reduce the face amount of the policy and stop premiums altogether.
- If your policy is mature, leave the policy in place because the tax-deferred returns are attractive, or cash-in the policy and pay off a mortgage or other high interest debt.

Based on a new law change, there is even the possibility of making a tax free exchange of the cash value of the life insurance policy into a long term care insurance policy.

If you would like to discuss your insurance situation please contact your Vantage Relationship Manager