Life Insurance: Do I Really Need it?

This is a question I've been asked hundreds of times over the years and the answer is: It depends! Everyone's situation is unique and the only way to really know if you need life insurance is to complete a Comprehensive Life Insurance Needs Analysis with a licensed insurance professional or a Certified Financial Planner. A proper analysis for personal insurance should take into account the following details:

Financial Liabilities

- Mortgage, loans or other debts
- Funeral expenses
- Legal & accounting fees
- Taxes
- Education fund
- Emergency fund

Need for Income Replacement

- Amount
- Length of time required
- CPP benefits

Assets

- Savings
- Investments
- Real estate
- Life insurance (personal, group, mortgage, credit)
- Business/farm assets
- Government benefits
- Other assets (vehicles, coin collections, etc.)

In addition to personal protection, some people purchase life insurance to accumulate wealth or to create or enhance their wealth for their family. As an example, Sue and Gord, both age 55, plan to leave $200,000 of their current wealth to their family. If they were to allocate their current savings into a life insurance plan, they could potentially increase the inheritance to their children from $500,000 at death to more than $775,000, assuming they both live to age 90. Others use life insurance to provide a significant donation to their favourite charity.

In addition to personal insurance needs, business owners have other areas of concern for which life insurance may provide the best solution. While insuring debts is important, businesses often use life insurance to fund shareholder or buy/sell agreements to ensure that funds are available when they are needed without having to leverage the business at a time when it's lost a key stakeholder. It also protects the remaining business owner(s) from being forced into a partnership with the heirs of their recently deceased partner and provides guaranteed funds to the family to ensure a fair and timely settlement after the loss of their loved one.

Imagine that Jen and Berry enter into a business deal, starting with nothing more than a sweet idea and a few start up dollars, then become successful beyond either of their imaginations! They have each developed a different expertise in the management of their business and have agreed to reinvest the bulk of their profits back into their enterprise to continually expand their growing empire. Jen has become the product developer and professional tester, creating products craved by millions, while Berry is the consummate marketer, getting their product on the shelves of thousands of retailers. Each partner knows that they would not be as successful without the expertise and hard work of the other and that neither would be easy to replace. Jen and Berry work with their accountant to determine a formula for calculating the fair value of their business, should either partner predecease the other. They agree that the remaining partner will pay the deceased partner's family a fair value for the business and do so in a timely manner at the same time that both agree that their estates will be bound to sell the deceased shareholder's interest in the business to the surviving shareholder at a fair price. Neither partner relishes the idea of selling their creation to fund the buyout of the deceased partner's shares and are not sure about borrowing the funds, given that there may be a great deal of upheaval at the loss of either critical partner. Jen and Berry meet with their Certified Financial Planner and discuss their concerns. Their planner connects them with an insurance professional who works with them and their team of professionals to find a life insurance contract that works best in their situation. Now Jen and Berry can get back to what they enjoy doing most and not have to worry about the future of their business or family.

For some businesses it might be important to insure a key person. As an example, I was once referred to a client to insure the owner of the business, only to find out in discussion with the owner that he was really not the key person. He had a salesperson who was responsible for 80% of the business revenue and in our discussion, the owner recognized the significant loss of revenue if he lost this key person due to disability or death. Some business owners use life insurance to shelter capital being held in the business owner's holding company to protect the hard earned money from significant income tax on the growth and providing a tax-preferred method for the eventual distribution of the proceeds out of the holding company to the beneficiaries. An insurance contract can also cover the cost of capital gains tax or, similar to how it might be used personally, it could be used to enhance the value of the estate for the next generation or as a tax-preferred retirement fund.

Not every person, family or business needs life insurance, but if you think you might, talk to an insurance professional. If you don't have an Insurance Advisor, speak with your other trusted Advisors, such as your Certified Financial Planner, Accountant or Lawyer and ask for a referral to someone they trust. Interview the person and only agree to hire them if you're comfortable with their competency in dealing with your unique situation. Only agree to engage them as your trusted Insurance Professional if they agree to work with the other members of your Professional Advisory Team.

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