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## LIFE INSURANCE: DON'T LEAVE EARTH WITHOUT IT

As we enter the New Year, it may be a good time to consider a serious financial matter – life insurance. For a moment, ponder what life would be like for your loved ones if you were not here. Are you the sole or joint wage earner? Are you the primary caregiver at home? What would become of those you love?

After 21 years of offering financial services I realize that sound financial planning and implementation helps survivors to cope better emotionally. This process helps them avoid financial devastation. Life insurance can provide the financial safety net they need while it sends a final loving message to survivors that says, "I cared for you. Don't worry about money."

Consider a hypothetical but practical example: Sam, a breadwinner earning \$150,000 per year in medical sales, while Sally, his wife and homemaker, raises their three young children.

They have agreed that should Sam die prematurely, funds will be desired to eliminate the \$250,000 mortgage. They also want an additional \$150,000 to contribute to their college plans for their children. Thus, \$400,000 is the initial amount needed.

With the mortgage paid and college costs covered, Sally feels she would still need \$80,000 per year to maintain the family's current lifestyle, in addition to any social security benefits. An income pool totaling \$1,600,000 earning a hypothetical 5 percent annually would generate the \$80,000 annual supplement needed.

Adding it up, Sam needs to be insured for \$2,000,000. Sound excessive? Perhaps, but rather than concentrating on the total amount, reflect instead on the three key goals it achieves: Paying the mortgage, covering college, and providing income. The peace of mind this brings will enable Sally to deal more effectively with feelings of loss, and she will be a source of strength for her children.

From another vantage point, Sam needs to be covered for roughly 13 times his annual income. This is a good rule of thumb. Certainly, the total amount of life insurance needed could be reduced by current savings and investment accounts.

Lest we also forget, Sally needs insurance too. Sam believes he would still

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Earn \$150,000 in the event of Sally's demise, but he would need to cover childcare expenses and many other services Sally provides. Life insurance proceeds in the amount of \$500,000, if invested at a hypothetical rate of 5 percent, would generate a \$25,000 per year income supplement for Sam.

Life insurance on a single parent may be even more vital. Suppose Mom is the primary or even sole caregiver for her children. What if she unexpectedly dies? Will Dad be around? Is he or would he be fiscally responsible and dependable? Mom may be well advised to establish a trust account that would be funded with life insurance proceeds at her death. This will secure her children's needs and relieve the guardian(s) of the children from undue financial pressure.

I am not an ardent proponent of insuring children, but if Dad and Mom have sufficient coverage, then cash flow permitting, individual policies on children could be purchased, with future purchase options to guarantee their insurability.

Alternatively, a children's rider on a parent's policy may be an economically feasible option to insure all children of a family under the age of 21. Typically, this arrangement could provide insurance to a maximum of \$10,000 for each child, for one price.

We have pursued the logical reasons for life insurance and the emotional support it also provides and have even considered recommended amounts for a sample case. We have not delved into the various types of life insurance available. We have also not considered ownership or beneficiary designations.

We will discuss these important topics in a future issue of *SF & Neighbors*.

What's important now is to review your present life insurance portfolio or lack thereof, preferably with a qualified professional, and determine if your plan will deliver a sufficient amount to your loved ones, to meet their initial lump sum and income generation needs.

As a recent commercial so eloquently stated, life insurance is purchased not for the dead, but for the living.

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