

# The CHARTIERS VALLEY Source™

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## professional portfolios

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### The Ultimate "I Love You"

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, financially?

After counseling many families regarding their overall financial planning needs, I realize that sound advance planning and financial security are intended to help survivors to cope better emotionally. Life insurance not only provides a financial safety net, it also sends a final, loving message to survivors: "I cared for you. Don't worry about money."

Consider a hypothetical but practical example: John is a breadwinner earning \$150,000 per year. His wife Jane is a homemaker, raising their three young children. They have agreed that should John die prematurely, they'll need funds 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, Jane believes she would still need \$90,000 per year to maintain the family's current lifestyle, in addition to any social security benefits. An income pool totaling \$1,800,000 earning a hypothetical 5 percent per year would generate the \$90,000 income needed annually.

Adding the "initial" and "income" needs, John needs to be insured for \$2,200,000. Sound excessive? Perhaps, but rather than concentrating on the total amount, reflect instead on the three key goals it achieves: mortgage payoff, college, and \$90,000 per year income. Stated another way, John needs to

be insured for roughly 15 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, John may need some financial help should Jane predecease him. Sam believes he would still earn \$150,000 in the event of Jane's demise, but he would need to cover childcare expenses and then pay for many of the other services that Jane provides. Life insurance proceeds in the amount of \$500,000, if invested at the same hypothetical 5 percent, would generate a \$25,000 per year income supplement for John.

In future editions of The Chartiers Valley Source, we will delve into the various types of life insurance and consider the benefits of outright ownership versus having a trust as the policy owner and beneficiary.

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

A recent commercial eloquently stated that "Life insurance is purchased not for the dead, but for the living". I echo that, saying it is the final and lasting, "I love you".

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