

Life Insurance: Love or Torture?

By Jim Conaway

Woody Allen often portrayed torture as being stuck in a confined space with a life insurance agent. In fact, he once said "There are worse things in life than death. Have you ever spent an evening with an insurance salesman?"*Allen certainly verbalizes the animosity that most people feel towards an insurance salesman. So how could this possibly be love?

Simple. It is important to look beyond the preconceived ideas of a pushy life insurance salesman and realize the importance of buying life insurance. People buy life insurance because they love someone. While love is the ultimate factor, what should drive the basic economic value of an individual? Income replacement, skill replacement, final expenses, buy-out expenses and estate tax are the primary motivators that should be measured. Of course, final expenses can vary widely depending on the beliefs and the desire of the individual purchasing the life insurance, as well as the person being insured. However, this is usually the smallest financial driver.

Let's take a look at a simple equation, which would be $\$15,000 + 3 \text{ months personal expenses}$. So if your family lives on $\$10,000$ a month, that would be $\$45,000$ ($\$10,000 \times 3 + \$15,000$). It is not very often that savings can handle this income replacement for your family or your business (key employees or producing partners). The equation represent the net present value that is needed to earn the same gross income as the person earned over the same period of time they hope to work. This adjusts for a sustainable interest rate and inflation, less the passing income. (I bet Woody Allen disliked algebra too!)

Skill Replacement How much will it cost to replace the insured skill? In business, it may be the amount of time and resources it will take to recruit and train a replacement. In the family setting, hopefully the issue is different. It is how much it will cost to replace the childcare, the household duties and other skills the person contributed until the kids are 18. This is usually $\$250,000$ to $\$500,000$, depending on how young and how many kids you have.

Buy-Out Expenses: Figure out how much you and your partners would sale for, or what would be a fair market value for your business. Make sure the spouses are in agreement as well. The perfect answer will be a measurable formula (this will also help for anybody on retirement or disability). The idea here is to have an agreement that assures surviving spouses that their interest (the inherited amount) will be bought out.

Estate tax: This is usually simple to figure and difficult to fund. The taxable estate times the tax rate equals the need! Now comes the issue of funding it (that's another article!) If you own this

policy, double it! If you have an ILIT or someone else owns it, cover the tax, and also create tax cushion.

After reading this article, do you still feel that buying insurance is akin to torture? I think life insurance agents have done much to contribute to that stereotype, but hopefully you now you understand that in actuality, life insurance can be an expression of true love for your partners, your spouse or your heirs.

For our complimentary consultation to see what value we may bring to you, visit www.conawayandconaway.com or give us a call at 888-266-2929.

Securities offered through J.P. Turner & Company, LLC (Member SIPC). Financial planning and investment advisory services offered through J.P. Turner & Company Capital Management, LLC (a registered investment advisor). J. P. Turner & Company, LLC and J.P. Turner & Company Capital Management, LLC are not affiliated with Conaway & Conaway or Complete Controller.

151 Yorba Street Suite 200, Tustin, CA 92780: JPT051414-869

**<http://www.brainyquote.com/quotes/quotes/w/woodyallen128374.html>*