

## The Three ECs of Life Insurance

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Life insurance is initially purchased for any of a number of reasons. As time goes by, many people question why they are still carrying their policies as the original purpose no longer applies.

Here are the three uses of life insurance:

**Estate Creation** - When Ralph and Alice bought their first life insurance policies, they arrived at the amount of coverage with the help of their insurance advisor. The advisor used what is known as a Capital Needs Analysis (CNA) to arrive at the proper amount of insurance. A CNA measures how much of an estate needs to be created in the event of the death of either Ralph or Alice so the survivor can maintain their standard of living.

The CNA has three parts:

1. Cash needs at death - This includes final expenses (funeral & burial, legal & probate, taxes); mortgages and other debts; child or home care costs; education funding; emergency fund; and special bequests and charitable funding.
2. Income needs at death - A calculation is made to determine how much income the survivor needs for their standard of living. Existing sources of income are deducted from this amount to arrive at capital needed to replace the income shortfall.
3. Cash available at death - There are some plans in place already that can contribute to Ralph and Alice's estate to offset their needs. They used life insurance to create the rest of their estate.

**Estate Conversion** - Ralph is a part owner in a business. He has built up substantial value in his shares and wants them to contribute to his estate value on death. However, Alice does not want to be a part owner of the business nor does Ralph's partner, Ed, want her as a partner. Ralph and Ed each bought life insurance to allow them to convert the value of their shares to cash for a surviving widow. Let's say Ralph died. There would be enough life insurance proceeds available for Ed to buy Ralph's shares from Alice.

**Estate Conservation** - Ralph and Alice want all of their estate to go to their children on death. As they grow their estate, they also increase the amount owing their silent partner - the taxman. In their case, they have deferred tax liabilities growing in their registered retirement plans, Ralph's business and their lake cottage. Some estate assets can pass to a surviving spouse without a tax bill, delaying the final expense until the second person dies. They can't forget the funeral and legal bills. Ralph and Alice can use the life insurance policies they originally bought to create an estate to conserve their estate. The tax bill will still have to be paid, but their children can use the proceeds from the life insurance, dollars that were paid for with pennies.

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## Time to review your life insurance plans?

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