Life Insurance Simplified

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Life insurance, including mortgage or creditor insurance, is a key tool in your financial arsenal. This article will provide a high-level overview to help you better understand your choices when considering life insurance as part of your overall financial strategy.

Life insurance, at its core, protects the standard of living of loved ones left behind after someone passes away. While you pay for it (similar to car insurance), the benefit goes to other people.

You must qualify for life insurance with a review of your health and occupation. Your “application” for life insurance is “underwritten” (examined and reviewed), by the insurance company to see if you qualify for a standard policy contract and pricing.

There are only four basic reasons to own life insurance. The first is to cover **final expenses** on death such as funeral, burial, and other related costs.

The second use is for **income replacement**. This means that if you die before your children are grown, or your family need financial support, the capital from a life insurance policy can help fulfill your lifestyle wishes for those you have left behind.

The third use is for **debt elimination**. Debts such as mortgages, car loans, credit lines and so on, can be paid off with life insurance proceeds. Many Wills begin with an opening provision that the Executor pay off all debts, taxes, assigns etc. of the deceased individual before any distributions are made to the heirs.

The fourth reason is for the payment of taxes and for **Estate Planning** reasons. This is where the liquidly (cash) needs of private corporations, real estate investors, or Trusts, can be met with the use of life insurance capital.

Life insurance is often also used for **advanced estate, tax and business planning** to meet a variety of needs and situations including corporate debt elimination, Key Person protection, asset stripping strategies, estate freezes, charitable gifting and Section 85 tax rollovers etc.

There are basically only two types of life insurance policies: temporary and permanent. All policies are thus a variation of one of these two broad categories.

Think of it in terms of Coca-Cola – there is regular, diet, cherry, New, Classic Coca-Cola etc. The same applies to life insurance. Life can be obtained for terms of 10, 20, 30, or 35 years or even customized terms. There is also permanent insurance, which means you pay the same premium for life which is often more cost effective over the long term compared to term insurance policies.

You can also own multiple policies at the same time, unlike car insurance where you only have one policy at a time.

Temporary insurance (coverage for a certain length of time) is often matched to the amortization of a debt (mortgage). Permanent insurance is most often used to cover needs that exists forever until you pass away when liquid capital is often needed for Estate Planning purposes.

This review has discussed the four main reasons to buy life insurance and the two main types of coverage. There are many other aspects of risk management that can affect your overall financial strategy.

If you have any questions about life insurance, **please call our office today** [1] for a review of your risk management strategies.

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