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# Life Insurance

When planning what to do each day, assessing their life insurance needs isn't something that most people put at the top of their list. *However* , it is truly an act of love that you can do for the people you hold most dear. If you really think about it, the goal of almost every thing you do each day is to provide for your loved ones. With that in mind, being sure your life insurance is up to the job if you aren't here should be your number one priority!

Take a look at the articles that follow, then call me to let me know how I can help you. I will be happy to review your life insurance for you, and help you determine if it will allow your loved ones to continue to meet their goals if you are not here.

Best regards,

J.P.

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# Why do I need life insurance?

## Question:

Why do I need life insurance?

## Answer:

Life insurance has several purposes. Its most important function is to replace the earnings that would cease at the death of the insured. For businesses, life insurance is a way to protect key employees and the business itself. A third purpose is to use life insurance to pay potential estate taxes.

If you die during your earning years, your family could suffer a severe economic loss as a result of losing your current and future income. Unfortunately, your family would still have to pay its regular bills, the mortgage, and outstanding debts, and perhaps even continue saving for college and retirement. Unless you're independently wealthy, achieving these goals may be virtually impossible for your family with the loss of your steady income. Life insurance offers a way for your family to continue living comfortably and without worry.

Employers often purchase life insurance policies on key employees to insure against the loss of services or income that might result after an employee's death. Here, the proceeds from the policy are paid to the company. Life insurance works for business partners too, where one business partner purchases a policy to insure against the financial loss that might result from the other partner's death or to buy out the partner's heirs.

Life insurance is also used to pay potential federal estate taxes. Since these taxes must be paid in cash, life insurance can be a good way to ensure the fulfillment of this obligation.

# Do I need life insurance if I'm single?

## Question:

Do I need life insurance if I'm single?

## Answer:

Single people with no children often don't need life insurance because no one is relying on their income. But there are some reasons why you might need life insurance if you're single.

If you died, who would pay for your funeral? Even a simple ceremony could be costly. If you don't have life insurance, someone else (e.g., your relatives) may have to foot these bills. Even if you have only a small policy, the death benefits could be used to cover these expenses.

Do you have debts in excess of your assets, or do you owe money together with someone else? Perhaps you're a joint debtor with your sister on her mortgage. If you died, she'd be responsible for the entire debt. Would she be able to make the monthly payments on her own? A life insurance policy naming her as your beneficiary could give her enough funds to cover your share of the mortgage, or perhaps to pay off the entire debt.

Finally, is it possible that your health will deteriorate? Maybe you have a family history of cancer or heart disease. If that's the case, you might have trouble buying life insurance later when you're older, especially if your health has begun to decline. Even if you're single now, you may be wise to buy life insurance now before it gets too expensive or you become uninsurable. After all, you may not stay single forever.

# Maximizing the Estate Planning Value of Life Insurance

## What is maximizing the estate planning value of life insurance?

Simply put, maximizing the estate planning value of life insurance means getting the most bang for your buck. That is, it involves keeping as much of the proceeds as possible away from the IRS and in the hands of your beneficiaries. When you die, all your worldly goods (e.g., your money, house, car, stocks, bonds, as well as your life insurance proceeds) become a pie. The pie is then cut into slices and served. One slice goes to your heirs and beneficiaries, one slice to the federal government, one slice to your creditors, and so on. The size of the slice that goes to the federal government can be as big as 40 percent (the rate for the estates of persons who die in 2013 and later years), and what goes to the federal government does not go to your heirs and beneficiaries. You need to plan now to make sure that the slice that goes to the federal government is as small as possible, leaving a bigger slice for your loved ones.

## How is it done?

### *Understand how life insurance is taxed*

If you want to reduce estate taxes, a good first step is to understand how the estate tax system works. Although this is a technical area best left to the experts, the basics can be grasped fairly easily and will give you some direction regarding how to make the wisest arrangements.

### *Arrange proper ownership of the policy*

Who owns the policy and for how long can affect how life insurance is taxed for estate tax purposes. If you own a life insurance policy on your own life when you die, the proceeds of the policy are includable in your gross estate for estate tax purposes, regardless of who your designated beneficiaries are. If you own a policy and transfer it to another owner within three years of your death, the transfer is not recognized for estate tax purposes and the proceeds are therefore includable in your gross estate. However, if you transfer ownership of the policy to someone else more than three years before your death, the transfer is recognized for estate tax purposes and the proceeds will therefore not be included in your estate. Since insurance that you own on your death (or within three years of your death) is included in your estate and therefore may be subject to estate tax, someone other than yourself (or your spouse in a community property state) should own the policy if you wish to avoid subjecting the proceeds to estate tax. The owner of the policy can be another individual or a trust such as an irrevocable life insurance trust (ILIT) .

### *Designate the right beneficiary*

Who your beneficiaries are can also affect how life insurance is taxed for estate tax purposes. For example, if the designated beneficiary of a policy on your life is your estate, the proceeds are generally includable in your gross estate for estate tax purposes even if you do not own the policy on your death (or did not own it within three years of your death). If the designated beneficiary is your executor or your estate, the proceeds may be includable in your gross estate.

The primary reason for not naming your estate or your executors as beneficiaries of policies on your life is that doing so subjects the proceeds to the expense of probate and claims of creditors. If you own the policy and name a third party as a beneficiary, the proceeds will be included in your estate for estate tax purposes but they will pass by operation of law outside of the probate process and will not be subject to the claims of creditors of your estate. Proceeds payable to your children are not subject to estate tax unless you own the policy on your death or within three years of your death. If you own the policy, the proceeds are includable in your estate (and therefore subject to the estate tax) regardless of who your beneficiaries are.

However, as noted above, if you name your children as beneficiaries they will receive a greater benefit from the policy than if you named your estate as the beneficiary and then directed that the proceeds be distributed from your estate to your children, because proceeds paid to your estate will be reduced by probate expenses and claims of creditors while proceeds paid directly to your children will not.

# Can I ever have too much life insurance?

## Question:

Can I ever have too much life insurance?

## Answer:

Yes, since the extra money that you spend on premiums could be used for other things, such as investments, saving for retirement or college, and so on. You should buy only as much coverage as you really need.

It's wise to periodically review your insurance coverage--especially if you undergo a significant life event (e.g., divorce, birth of a child, change in your financial situation)--to make sure that you have just the right amount of coverage and aren't overinsured or underinsured.

The amount of life insurance you should have depends on several factors, including your income, assets, debts, expenses, and financial goals. You may want to consult an insurance professional to determine your optimum level of coverage.

Janney Montgomery Scott LLC Financial Advisors are available to discuss the suitability and risks involved with various products and strategies presented. We will be happy to provide a prospectus, when available, and other information upon request. Please note that the information provided includes reference to concepts that have legal, accounting and tax implications. It is not to be construed as legal, accounting or tax advice, and is provided as general information to you to assist in understanding the issues discussed. Neither Janney Montgomery Scott LLC nor its Financial Advisors (in their capacity as Financial Advisors) give tax, legal, or accounting advice. We would urge you to consult with your own attorney and/or accountant regarding the application of the information contained in this letter to the facts and circumstances of your particular situation.

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