

# ➤ income replacement

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## Do you need more insurance, to replace two incomes?

Adequate life insurance is one of the cornerstones of a sound financial plan. Both you and your spouse need sufficient coverage to provide long-term financial security for each other and your children. Without it, all that you own today and your family's plans for the future can be at risk.

The challenge, of course, is determining the amount of insurance you need.

### Meeting immediate needs

The first step is to add up your family's immediate cash needs. These might include the following:

- Outstanding debts, such as the mortgage on the family home, a line of credit, and car loans
- Tax liabilities
- Estate settlement costs, including funeral expenses, probate fees, executor's charges, legal costs, and accounting expenses
- Contributions to the children's post-secondary education fund
- Special bequests to family, friends, or charity

Then, add up the total of your family's cash and liquid investment assets. This total represents the amount currently available to meet the cash protection needs listed above. If there's a shortfall, consider using life insurance to bridge the gap.

### Income needs

Your cash needs are only part of the life insurance equation, however. You and your spouse also need life insurance to replace the regular incomes you'll no longer be bringing home to your family.

Discuss with your spouse how much additional income would be needed to provide financial security and the lifestyle you want for your family.

Would the spouse want help in the home? Would that spouse want to work full-time or part-time? Or, would the spouse want to have the option of spending more time with young children as a full-time parent and homemaker?

In most instances, the spouse who earns the greater income should be insured for a higher amount to reflect the greater earning capacity. But don't underestimate the financial value contributed by a stay-at-home spouse.

Once you've determined how much income would be required, you need to know how much capital is necessary to

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produce it. To provide a margin of safety, assume the surviving spouse would live off the investment earnings alone, leaving the capital intact. For example, \$500,000 of capital would be required to provide a replacement income of \$30,000 a year, assuming a conservative investment return of 6%.

## Professional needs analysis

Every family has different needs. These guidelines are basic, and may be useful in helping you to assess your family's general life insurance needs. However, a complete financial needs analysis is the best way to ensure your family's future is secure. Let's spend some time reviewing your situation; to determine the insurance plan that will meet your family's needs and fit your budget. Give me a call.

At DundeeWealth, we believe that having a financial plan forms the foundation necessary to grow, protect and transfer wealth from one generation to the next. We are committed to provide information on a variety of financial planning topics so our clients are able to make informed decisions.

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