LIFE INSURANCE - PRACTICE OWNER

As an educated professional, we feel confident you understand you have a need for life insurance either for your family's or practice's protection. As a dentist practice owner, you may often need to provide an "assignment" of life insurance benefits to your financial institution to backup your loan. Since the bank gets paid first-this will leave less for your family. If you are in a practice partnership, you should always have a legal buy sell agreement prepared by an attorney. Life insurance is often used to provide the funds to exercise your agreement in the event of a partner's death. This is why it is important to have life insurance policies on each other for this type of situation. PAIS can help you determine what sort of coverage and amount that will meet your goals, your budget, protect your loved ones and practice partners.

While you probably know you need life insurance particularly for your loved ones benefit, you may not know what kind and amount of life insurance you actually need. Life insurance is offered in so many forms that it can be designed to accommodate your preferences and to accomplish a variety of purposes. For example, do you desire your policy to accumulate cash on a tax-deferred basis that could also be distributed tax free? Do you need your policy to allow you to withdraw or borrow against accumulated cash? Do you have flexibility in your budget?

So let's begin with a basic understanding of the different types of life insurance.

INDIVIDUAL TERM LIFE INSURANCE

If term life insurance is a solution, we highly recommend the purchase of Individual Term Life as opposed to association/group term life insurance. You control the destiny of your term life insurance...not your employer or association. Premium/rates are guaranteed and your membership or employment does not affect the continuation of the policy. We have access to a number of insurance companies that offer quality contracts and extremely competitive rates. In fact, we think we can compete with just about anyone so be sure to let us shop the markets for you.

This is the simplest type of life insurance. If your death occurs during the term policy period, your beneficiary will receive a death benefit. Normally, there is no cash equity (value) within the policy that you could access prior to death. Usually, the policy term period is 5-10-15-20 or 30 years. Quality term life provides affordable protection for a specific period of time at a scheduled guaranteed level premium. At the end of that period you can renew your coverage at a higher premium without having to provide evidence of good health. You normally can also convert it to a permanent life insurance policy. Permanent life insurance policies provide lifelong protection and build cash value and may earn dividends (see below).

Term Life Insurance can help you meet a number of personal and business needs and is often a good choice:

- when life insurance is essential but dollars are scarce
- for a well-defined period of time
- to protect your family (insurance benefits can help pay a mortgage or fund a child’s education)
- to protect your practice/business (benefits can ensure business continuity by helping to cover business expenses)

PERMANENT LIFE INSURANCE

Whole Life - This type of permanent life insurance is capable of protecting your family and assets for the duration of your life using a combination of pure life insurance coupled with the accumulation of cash value/dividends and fixed interest on a tax-deferred basis. Permanent life insurance, such as whole life, is ideally suited for estate and final expense planning.

Universal Life - This is another form of permanent life insurance that is capable of protecting your family and assets for the duration of your life. Generally less expensive than whole life insurance but more expensive than term insurance, universal life gives you the flexibility to choose the amount of protection that best suits your family or business, and it enables you to increase or decrease your coverage level as your business or personal insurance needs change.Universal life uses a combination of pure life insurance coupled with the accumulation of cash value and variable interest on a tax-deferred basis. Many modern universal life policies allow the holder to benefit from increased interest earnings during high interest rate environments while retaining the guarantee of an interest rate "floor" during low interest rate environments.Like whole life, universal life is ideally suited for estate and final expense planning.

HOW MUCH LIFE INSURANCE IS NEEDED?

After the death of the primary income earner, there are basically three approaches to estimate the amount of money a family/estate requires to continue a life style suited to what they have been accustomed. Here are three ways to help you determine that amount:

MULTIPLE OF INCOME

The simplest method for estimating your life insurance needs is the multiple-of-income approach. The goal of this approach is to replace the primary income earner's salary for a predetermined number of years. Begin by multiplying the client's current annual income by how many years they want to provide financial support for their survivors. The recommendation is to have seven to ten years of life insurance. It's an easy method, but it doesn't take into account the specific needs of survivors, other sources of funds — such as the survivors' income and investments —

or different types of family structures. For example, this method may work well for a family with one child, but might not work as well for a family with six children. It also doesn't take into account inflation or future salary increases. Using this approach may lead to over-insuring or under insuring, but it's a start.

HUMAN LIFE VALUE APPROACH

This method considers your age, gender, occupation, current and future earnings, and employee benefits. There are several steps to determining your overall value if you were to die today:

1. Estimate your expected retirement age. Be sure to factor in future wage increases as well.
2. Subtract your annual taxes and living expenses from the total. It's usually safe to assume 30 percent of salary will go to taxes.
3. Select an assumed rate of return on the remaining total and subtract it from the gross amount. In other words, subtract the interest you expect the money to earn.
4. Add the cost of additional benefits provided through employment, such as health care, that will need to be replaced when the client dies. Remember to account for inflation.

The primary goal of this method is to replace income lost. It doesn't necessarily account for funeral costs, children's educational expenses, or other specific future needs.

CAPITAL NEEDS ANALYSIS

The capital needs analysis is the most widely-used approach for estimating life insurance coverage. In addition to replacing your salary, it also accounts for other sources of income and the specific needs of survivors. This method factors in:

- Current and future income of both the insured and surviving spouse
- Immediate lump-sum cash needs upon death, such as funeral expenses, debt repayment, and mortgage payoff
- Future expenses such as college, weddings, long-term care expenses, and retirement funding
- Existing family assets, retirement funds, or insurance policies

Once all future needs are taken into consideration, there are then two ways to calculate how much insurance you need, based on how you want to utilize the funds in the future.

- **Earnings-Only Approach:** The survivors will live off only the investment earnings of the policy without cashing in the principal value. This method is preferable if you want funds to be available for your children after your spouse has also died. Like any investment, this method is subject to the risk of changing market interest rates. To provide a sufficient income stream, the death benefit is usually significantly higher than in the liquidation approach.

- **Liquidation Approach:** The surviving beneficiary utilizes a portion of the principal as well as the investment earnings. There is more risk with this approach, particularly if the investment earns less than originally predicted. The surviving spouse may not have sufficient income to live on for the remainder of their life.

SUMMARY

PAIS wants to bring you value added services like assisting you in making life insurance choices you understand. We also have access to experienced and credentialed life insurance professionals to help us bring this value added service to you, our valued client. If you would like to know more contact: Dwight Callaham, CIC dwight@paisllc.com 501-392-6327