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The major function of life insurance is to create capital and to solve problems through the use of that capital and the income it can produce.

The ability of life insurance to solve a client's problems often will indicate that life insurance is an appropriate planning tool. Life insurance can play a major role as a sometimes "elegant solution" to estate and business planning problems.

The following are ways that life insurance can be used:

- n Providing an adequate level of after-tax income for food, clothing and shelter for the family.
- n Obtaining cash to pay federal and state death taxes, administrative costs, appraisal fee and other death-generated expenses.
- n Repaying mortgages and other debts.
- n Securing the funds for a college education for the client's children, grandchildren or others.
- n Paying for the purchase of a business interest (e.g. funding a buy-sell agreement).
- n Satisfying a business obligation (e.g. financing the employer's obligation in a nonqualified deferred compensation plan).
- n Stabilizing a business interest (e.g. satisfying a business debt or, if used as key employee insurance, to provide additional cash flow during the inevitable crisis that follows a key person's death, or merely to reassure creditors that the business is financially sound in spite of that death).
- n Fulfilling a desire to make a meaningful and substantial charitable gift either through the direct payment of life insurance proceeds to the charity or as a means of replacing family wealth when a gift of other property is made to charity.
- n Equalizing an estate (e.g. when the client is leaving a business to one child and wants to give equal value -- but not an interest in the firm -- to another child).

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n Simplifying wealth (e.g. relieving a beneficiary from the tasks and burdens of a complex portfolio of real estate, stocks, or a family-owned and family-run business).

n Finding a more cost-effective transfer of wealth (e.g. shifting wealth one or more generations with minimal federal and state death taxes, probate costs and other cash outflows that tend to reduce the net amount of cash available to survivors).

n Meeting special needs (e.g. providing extraordinary levels of capital and income to provide for a physically handicapped, mentally retarded or learning disabled child).

Life insurance is a unique planning tool for two reasons. First, it can leverage wealth — a small premium payment can generate a vastly disproportionate amount of capital. Second, life insurance can guarantee the availability of that capital almost instantly and at the time it is needed the most. Death, an event that creates the need for large amounts of capital, causes creation of the capital to satisfy that need through life insurance proceeds.

These two unique aspects of life insurance make it one of the most important of all the wealth-creation and wealth-transfer tools.

Next time you think about life insurance, look at what it can create.

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