

## PASQUESI ASSOCIATES

Professional Corporation

### ATTORNEYS & COUNSELORS

101 Waukegan Road, Suite 600

Lake Bluff, Illinois 60044

THOMAS A. PASQUESI

MARY D. CASCINO

*of Counsel*

THEODORE A. PASQUESI

Telephone (847) 295-9980

Fax (847) 295-9981

E-mail: [pa@pasquesi.net](mailto:pa@pasquesi.net)

## LIFE INSURANCE CONSIDERATIONS

While life insurance can satisfy a number of needs, and is at times used as an investment alternative, it is generally used to protect an insured's family against financial loss likely to result from the insured's death. The purposes of life insurance generally include: (i) replacement of lost earnings potential arising from the premature death of a major income earner; (ii) providing cash for payment of debts and taxes when the insured's estate is comprised of assets that can not be readily liquidated; and (iii) providing cash to pay estate taxes on the insured's qualified retirement benefits (such as IRAs) so that the related income taxes may be deferred as long as possible.

The determination of the best type of policy and its terms for a given situation begins with an analysis of each family's specific needs. These needs vary, but often include consideration of the following:

- determination of projected future expenses and debts
- how much income a family will need until children are self-supporting
- how much income a surviving spouse will require for life
- any special family needs, such as education or disabilities
- any special business or special asset related issues (such as illiquid real estate, partnership or corporate interests or large qualified retirement benefits)

Once the needs are identified and measured, other resources available to meet those needs can be determined or estimated. The difference between those needs and the other resources represents the life insurance need.

After the amount of the life insurance need has been determined, attention can turn to which type of policy best fits the situation. Cash flow, other investments and savings patterns are among the factors to be considered in making this decision.

Term insurance is pure insurance coverage. If the insured does not die during the term (usually one year), the insurance company pays nothing and the premium is gone. Permanent life insurance (such as whole life and universal policies) provides both pure insurance and an investment aspect. A portion of each premium is allocated to insurance and to investment. Generally these policies build value each year from the investment return. Because term insurance has no investment aspect, it typically offers more insurance protection for the lowest initial outlay.

Premiums for both term and permanent insurance can vary considerably between life insurance companies. If term insurance is appropriate for all or part of the protection, it is important to consider the guaranteed renewal period and the applicable conversion (into permanent insurance) options. If permanent insurance is under consideration, a number of additional factors should be investigated, including the insurance company's assumed mortality rates, guaranteed returns and the portion of the premiums allocated to commissions. These factors can dramatically affect the overall value of a policy.

A family's current and future tax structure should also be considered when evaluating different forms of life insurance. For example, variable universal life has some very attractive tax benefits, but may be less attractive to a retiree who had not been able to substantially fund the policy before retirement or who is in a very low income tax bracket.

Finally, it is very important to consider the alternatives relating to the manner in which the insurance will be owned and who will be designated as the beneficiary. Depending on the family's objectives, financial circumstances and estate planning objectives, the owner and beneficiary may be an individual, a trust, or a combination thereof. It may also be advisable under certain circumstances to consider having the insurance owned by the trustee of an irrevocable insurance trust that would be created by the insured.

Presented as information to our clients and friends, and not to be construed as or take the place of legal or other professional advice or opinion.

**IRS Required "Circular 230" Notice:** Pursuant to recently enacted federal regulations imposed on attorneys who give tax advice ("Circular 230"), we are required to include a notice in most of our written communications that any tax advice contained in the communication is not intended or written to be used, and may not be used: (i) by any taxpayer for the purpose of avoiding penalties that may be imposed on the taxpayer by any governmental taxing authority; or (ii) by any person to recommend or support the promotion or marketing of any federal tax transaction addressed in the communication.