

## Life insurance: It's no longer just for rich people

Aaron Skloff's January IT'S YOUR BUSINESS column

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**Q: Growing up in the 1970's, I remember my father saying life insurance was for rich people. Now that I have my own family I am evaluating life insurance for my wife and I. What are the unique considerations for New Jersey residents?**

**The problem: the financial impact of passing away.**

Life has few certainties, but one certainty exists for everyone — mortality. When you pass away you want to know what responsibilities you leave behind with loved ones. Who is going to pay the mortgage and real estate taxes? Are there additional tax considerations? Who is going to pay for the kid's college education? Who is going to take care of the kids if we work long hours? Who is going to replace contributions to the retirement account?

New Jersey residents have unique considerations when answering these questions.

**The solution: lessen the blow with life insurance.**

While proceeds from a life insurance policy will not lessen the emotional blow from the loss of a loved one, they can lessen the financial blow. Proceeds from a life insurance policy can be utilized to pay for key expenses, as outlined below.

**Mortgage and real estate tax payments.**

New Jersey residents pay the third highest median prices for new homes in the U.S. New Jersey residents pay the highest median real estate taxes. This presents two problems if you pass away. One, you could leave behind a crippling amount of mortgage debt. Two, you could leave behind an ever growing real estate tax responsibility.

Clearly, it is no longer the "rich people" who own an expensive home with high real estate taxes — it is the typical New Jersey household. Life insurance proceeds can be used to pay, reduce or eliminate the mortgage, because no family should be forced to move, particularly during such an emotionally charged time.

**Federal and state estate taxes.**

Not only is death unavoidable, but so are taxes. If your estate is worth more than \$2 million in 2008 you may be subject to federal estate taxes. If your estate is worth more than \$675,000 in 2008 you may be subject to New Jersey state estate taxes. Your loved ones may have to liquidate assets to pay estate taxes. Those liquidations will likely generate additional taxes. Life insurance proceeds can be used to pay estate taxes, avoiding asset liquidations in the process.

**College education costs.**

Many families learn all too quickly and all too late that the cost for their children to attend college far outweighs the savings they have accumulated. This forces them to take on additional debt and devote a large portion of their paychecks to pay college costs. Compounding the problem are six percent increases in college costs versus the typical three percent salary increases. Life insurance proceeds can be used to pay college costs, avoiding interest-bearing debt in the process.

**Child and home care costs.**

Rising costs of living in New Jersey have forced many families to work longer hours, forced retirees to move out of the state, and forced many homemakers back into the workforce. Gone are the days when grandparents can walk down the street to your home to take care of your young children during the day and older children in the evenings.

If you pass away it is likely you will need to place young children in daycare, which can easily cost over \$1,000 per child, per month. Add to that the cost of hourly housekeeping and childcare, and you now have an expensive "employee" on your books.

Life insurance proceeds can be used to cover ongoing child and home care costs. Both the primary wage earner and secondary wage earner in the household should consider life insurance.

**Substitute for retirement account.**

In the event you pass away, your employer is not going to fund the next 20 years of your retirement plan to sustain your family. Proceeds from a life insurance policy can be invested similar to a 401(k), 403(b) or pension plan. The investments can generate a stream of income throughout your loved one's retirement.

**Living expenses.**

Just because you pass away does not mean your family's living expenses cease. Utility bills, car lease payments, credit bills and countless other expenses continue well after you pass away. The proceeds from a life insurance policy can be used to keep your family afloat and maintain their current lifestyle.

**Action step: Establish life insurance.**

Establishing life insurance immediately reduces the financial and psychological burdens that can cause hardship when the need for the proceeds arrives. Like most insurance, the earlier you start your policy the lower the cost of the policy.

Consult with a licensed insurance professional to gain an understanding of all your options.

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