

Asset Protection with a Capital Needs Analysis

CASE STUDY

Protecting the Present Value of Your Future Earnings

THE CLIENT

High income professional, age 45, is in good health and has an annual income of \$300,000. The professional's stay-at-home spouse is 42 years old. Together, they have two children, ages 10 and 12, and maintain relatively no current assets besides their home.

THE PROBLEM

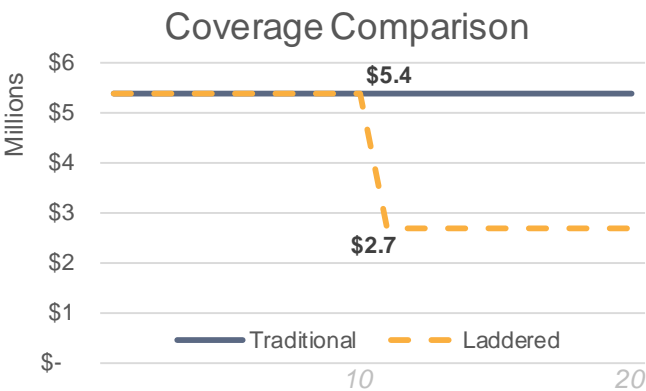
The family is concerned that if the working spouse dies, the non-working spouse will not be able to continue the current lifestyle or contribute to their children's college education. To the right is a break-down of their current capital needs.

CAPITAL NEEDS	
Final Expenses	\$ 50,000
Education	300,000
Income Replacement *	300,000
Total Capital Need Today	\$ 5,400,000

* Income replacement assumed for 20 years at a 2% inflation rate and a 4% after-tax capital growth rate.

THE SOLUTION

The client worked with BEJS to develop an insurance strategy that will provide the non-working spouse with the capital he/she will need to sustain the desired lifestyle and meet family goals. The strategy utilized a set of 2 level term insurance policies that insured the working spouse and will decrease over time as needs presumably decrease. Full (\$5.4MM) coverage for 10 years was issued while half of that amount (\$2.7MM) for will be in place for 20 years.



This "laddered" approach to term insurance is cost-effective when compared to simply purchasing the amount for 20 years – especially considering the need in 10+ years could be considerably less than the current capital need (\$5.4MM) due to liquid asset appreciation and/or the loss of need (e.g. college funding no longer pertains).

Another advantage of the laddered approach is that both policies are convertible to permanent insurance without the need for medical underwriting (certain limitations apply), so it adds some flexibility during the first 10 years. Below is a hypothetical example of the potential premium savings that can be achieved by utilizing a laddered approach:

Approach	Description	Annual Premium (Yrs 1-10)	Annual Premium (Yrs 11-20)	Total Premium (20 Yrs)
Traditional	\$5.4MM for 20 Yrs	\$6,600	\$6,600	\$132,000
Laddered	\$2.7MM for 20 Yrs / \$2.7MM for 10 Yrs	5,100	3,300	84,000
Potential Savings		\$1,500	\$3,300	+ \$ 48,000