How Much Life Insurance Do You Actually Need?

Sometimes the answer is based on what your family would lose. Sometimes it is based on what you want to leave behind.

There is no universal number.

Life insurance can be used to replace income, support children or dependants, pay debts and final expenses, and make charitable gifts. It can also be considered as part of broader estate planning where the objective is liquidity, equalization or creating a larger legacy.

A practical framework for Canadian families and business owners

Instead of starting with a multiple of income, start with the financial problem you want the insurance to solve.

1. Start with protection needs

If people depend on your income, the first calculation is usually about replacing the financial contribution that disappears at death.

• Mortgage and other debts

• Income your family would need replaced

• Children's education

• Final and immediate expenses

• Emergency or transition capital

• Existing savings and investments

• Existing individual and workplace life insurance

A simple needs-based framework

Capital needed
Debts + future family income needs + education + other objectives

Less existing resources
Savings + investments intended for the need + existing insurance

= Protection gap

This is more useful than saying everyone needs five, ten or fifteen times income. Two households with identical incomes can have completely different obligations, assets and objectives.

2. But protection is only one reason to own insurance

A family with substantial assets may have little traditional income-replacement need and still have a legitimate reason to consider life insurance.

3. Estate liquidity

Death can create cash requirements at exactly the wrong time. Depending on the estate, there may be tax liabilities, debts, professional fees, business obligations or other costs that must be funded before assets are distributed.

Insurance can sometimes create dedicated liquidity so heirs are not forced to sell investments, real estate or business interests simply to raise cash.

4. Estate equalization

Not every asset divides neatly. One child may eventually receive a business or property while another receives financial assets. Insurance can sometimes provide additional capital to help create a more intentional inheritance among beneficiaries.

5. Estate magnification

This is where the question changes from *How much do I need?* to *How much do I want to leave?*

> **Estate magnification**
>
> A permanent life insurance policy can exchange a stream of premiums for a contractual death benefit, subject to the policy remaining in force and its terms being satisfied. For the right client, this can create a larger amount of capital at death than simply retaining the dollars used for premiums. The economics depend on age, health, premiums, policy design, longevity, alternatives and tax considerations.

This is not automatically better than investing. It is a different planning tool with a different purpose: creating capital at death.

6. Charitable legacy

Life insurance can also be incorporated into charitable planning. A charity may be named as beneficiary, or in some structures a policy may be transferred to a qualified donee. The ownership and beneficiary structure affects when charitable receipting and tax benefits may arise, so charitable insurance planning should be coordinated with tax and legal professionals.

7. How much is enough?

For a young family, the answer may be driven mainly by income replacement and debt. For an established family, it may include estate taxes, equalization and charitable objectives. For a business owner, it may also involve corporate or shareholder needs.

That means one person could reasonably need $500,000 while another with the same income could have a planning objective of several million dollars. The number should follow the objective - not the other way around.

Questions worth asking

• What financial obligations disappear - and which remain - if I die?

• How much income would my family actually need, and for how long?

• What insurance do I already have through work or personally?

• Would my estate have enough liquid cash to meet taxes and other obligations?

• Do I want to equalize inheritances among children or beneficiaries?

• Is charitable giving part of the legacy I want to leave?

• Am I looking only for protection, or also for estate magnification?

• Should permanent and term insurance be compared for different portions of the need?

The takeaway

The right amount of life insurance isn't always based on what you owe. Sometimes it's based on what you want to leave behind.

A sound analysis separates temporary protection needs from permanent estate objectives, then considers whether insurance is an efficient tool for each problem.

Want to put a number around your own situation?

Jacob Warren Financial can help you identify the protection gap, clarify estate objectives and compare insurance strategies in the context of your broader financial plan.

Money, Clearly.

Important: This guide is for general educational purposes only and is not individualized tax, legal, investment or insurance advice. Insurance availability, premiums and benefits depend on underwriting, policy terms and individual circumstances. Coordinate estate, charitable and tax planning with the appropriate professional advisors.

Prepared for Jacob Warren Financial Inc. | Money, Clearly.