Personal life insurance needs analysis

A framework for determining appropriate life insurance coverage for core personal needs

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Estimating Personal Needs	Spouse* 1 (or individual)	Spouse 2 (as applicable)
Income replacement This is a simplified calculation using constant values rather than indexed future years' cash flows		
Gross annual income		
Spouse 1 Tax @ % (table 1) Spouse 2 Tax @ % (table 1)	$ 0	$ 0
Net monthly income	$ 0	$ 0
Capital required __ yrs needed @ factor (table 2)		
[A] Total		

Estate & final expenses		
General estate & final expenses		
Mortgage or other major debt retirement	+	+
[B] Total	$ 0	$ 0

Terminal Taxes This is a simplified calculation; generally spouses use rollovers to defer the taxation until the second death. For jointly-owned assets, show them under the higher taxed spouse to get a better estimate of the eventual tax liability		
Taxable capital assets Fair market value		
Adjusted cost base	-	-
Capital gain	$ 0	$ 0
Taxable gain @ 50%	$ 0	$ 0
Registered retirement plans/funds	+	+
Amounts subject to terminal taxes	$ 0	$ 0
[C] Spouse 1 Tax @ % (Table 1) Spouse 2 Tax @ % (Table 1)	$ 0	$ 0

Bequests & donations		
Individuals incl. special needs		
Favourite causes/Charities	+	+
[D] Total	$ 0	$ 0

Total This rough estimate (less existing insurance and liquid assets) can be used to begin discussions with your insurance professional		
[A] + [B] + [C] + [D]	$ 0	$ 0

*spouse includes common law partner.

Tax rates (Table 1)

This table shows the approximate combined federal / provincial tax rate by province at selected gross income levels, as well as the top marginal rate. Source: Ernst & Young 2023

Province	25 k	50 k	75 k	100 k	MTR
BC	11%	18%	22%	25%	54%
AB	12%	20%	24%	26%	54%
SK	13%	21%	26%	29%	53%
MB	16%	23%	27%	31%	53%
ON	12%	18%	23%	27%	53%
QC	15%	23%	28%	32%	52%
NB	14%	21%	26%	28%	51%
NS	14%	23%	28%	31%	50%
PE	15%	23%	28%	31%	48%
NL	13%	21%	25%	29%	48%
NT	12%	18%	22%	26%	47%
YT	13%	19%	23%	26%	47%
NU	11%	17%	21%	24%	44%
Avg:	13%	20%	25%	28%	50%

Income needs multipliers (Table 2)

This table helps determine what amount of capital would be needed presently to provide a given aftertax income over the selected number of years to intended retirement. The income amount is treated as constant (ie., not indexed for inflation), and therefore this is only a guideline for discussion. Choose the after-tax interest rate that is the best reasonable estimate of interest rate investment returns over the expected time period.

Capital to provide needed monthly income	
# of years required	Factor
10	0.008744
15	0.005964
20	0.004573
25	0.003747
30	0.003195

How to use the table:

Divide the total monthly income you require by the appropriate factor listed above. You should select the factor that corresponds closest to the number of years you will need to provide monthly income for your family. Input this result into the appropriate column Spouse 1 and Spouse 2. Example: If you determine that your family needs $2,500 per month net after tax for the next 20 years, then: $2,500 / .004573 = $546,687. This is a time-value analysis to determine future cash needs assuming a 3% annual increase in inflation and a 4% return on the lump sum death benefit. This is for illustrative purposes only. Different long term inflation rates and investment rates of return will produce different results.

Ref: Canada Inflation Rate (I:CIRUMY) Y Charts, June 2023; 30 Year Treasury Rate (I:30YTCMR) Y charts, Aug. 2023

Main types of personal insurance needs

	Purpose	Amount	Duration
Income replacement	Replacing lost income capacity of principal breadwinner to spouse and family retirement income	Generally calculated as a present value of after-tax income; declines as retirement approaches or as dependents get older and become independent	Temporary need up to retirement calculated as one's intended retirement age less current age or for selected period of time
Estate, Final Expenses	Cost arising at death such as funeral, medical bills, retiring debt, probate/estate fees, and other administrative expenses	Depends on circumstances and desires; may range from nominal to very large like a mortgage to be retired	Permanent need that must be addressed; this and taxes are the first charges on an estate, ahead of beneficiaries
Terminal Taxes	Tax arises on deemed disposition of capital property & on registered retirement plans.	Capital property taxed on growth,generally increasing over time; registered retirement plans are fully taxable, going up and down with its value	Permanent need for life; may be used to recoup tax from a lifetime capital property sale; spousal and other allowable rollovers may defer taxes on capital property & registered plans
Bequests, Donations	To provide for individuals, particularly special needs individuals and/or favourite causes/charities	Decision is completely discretionary as to the recipients and respective amounts	Permanent need based on individual wishes, but may be revisited as circumstances change

Tax Retirement & Estate Planning Team

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