

# How much life insurance do you need?



The primary purpose of life insurance is to replace income lost due to the death of an income earner.

Here's one quick method to help you decide how much insurance is enough. Remember, entire books have been written on the subject and, since no one has a crystal ball, there's no one-size-fits-all answer to determining your family's needs. It's your judgment call ... so be sure to review your coverage frequently as your goals, assets and debts change over time.

**Step #1:** Multiply your current annual *gross* income by 5 to 7 \$\_\_\_\_\_ This is the amount recommended by The American Council of Life Insurance.

**Step #2:** Use the chart to translate your answer into an income stream lasting for 20 years. Was the lump sum enough? Too much?

Annual Income for 20 Years**	Life Insurance You May Need
\$ 8,000	\$ 100,000
\$ 16,000	\$ 200,000
\$ 40,000	\$ 500,000
\$ 60,000	\$ 750,000
\$ 80,000	\$1,000,000
\$120,000	\$1,500,000
\$160,000	\$2,000,000

The chart shows the amount of income each amount of life insurance proceeds can generate.

Example: \$1,000,000 of coverage would provide your family with an income stream of \$80,000 a year for a 20-year period. Two million dollars would provide an income stream of \$160,000 a year.

Your Academy's 10-Year and 20-Year Level Term Life Insurance policies provide quality protection at very competitive rates.

\*\* Assumptions:

1. Principal earns 5% after taxes in today's dollars.
2. Principal and interest to be depleted after 20 years by withdrawing an amount equal to 8% of the original principal each year.
3. Income is taken in a lump sum at the beginning of the year.

**To apply, complete and return your application today.**

# How much life insurance do you need?

The ideas presented herein are commonly used methods to estimate your life insurance requirements. Of course, the real answer to the question “How much financial security do you want to provide your loved ones” rests with you... the amount needed to settle your estate *and* not have to abandon the plans you made together for their future.

## WORKSHEET

**A. Your current assets** \$ \_\_\_\_\_

- You may want to include only your **liquid assets** (i.e., cash and cash-equivalents) which your heirs could access easily and without incurring substantial financial penalties due to disadvantageous timing.
- If you include **illiquid assets** (i.e., the equity you own in your medical practice or other businesses) remember that their value could be substantially less than it is today under your active management.
- Exclude the value of your **home(s)** unless you anticipate your family will want to move.

**B. Your current annual income multiplied by 5 to 7** \$ \_\_\_\_\_

The American Council of Life Insurance recommends that total life insurance coverage be equal to 5 to 7 times annual *gross* income.

Example: If you earn \$100,000 per year, you should have no less than \$500,000 coverage on your life.

**C. Your foreseeable financial obligations**  
(the sum of the items listed below) \$ \_\_\_\_\_

Your current **debts** \$ \_\_\_\_\_

Mortgage, car loans, credit card balances, any outstanding medical-school loans

Your estimated final **medical expenses** \$ \_\_\_\_\_

Those expenses which will *not* be paid by your medical insurance. For example: deductibles & co-pays; medical equipment or disposable medical supplies; elective surgery; experimental &/or alternative medical treatment; hospice &/or 24-hour custodial care.

Your estimated **funeral expenses** \$ \_\_\_\_\_

The average adult funeral costs over \$6,000.<sup>1</sup>

Not included are the cemetery charges (i.e., grave space, crypt/mausoleum, monument/marker).

Estimated **children's college education expenses** \$ \_\_\_\_\_

\$15,565 is the average total expense for one year (2005-06) at an in-state public college and \$31,915 at a private institution.<sup>2</sup> (Costs include tuition/fees, books/supplies, room/board, transportation & other miscellaneous expenses for a resident student.) Multiply that number by at least four. This brings the projected costs to a minimum of \$62,260 and \$127,660.

Next, consider the impact of a modest 3% inflation. Four years at a public college for a child entering in 2010 could run \$72,176; \$83,672 in 2015; \$96,999 in 2020.<sup>3</sup>

<sup>1</sup> National Funeral Directors Association, 2004

<sup>2</sup> www.collegeboard.com>For Parents>Pay For College>2005-06 College Costs>Trends In College Pricing>Trends Reports>Trends In College Pricing (Table 2, page 6) [accessed 11/30/05]

<sup>3</sup> These are projected costs, based on a 3% inflation estimate, and do not reflect actual costs of a particular institution.

**D. Your current life insurance** \$ \_\_\_\_\_

(The sum of A+B+C minus D.)

**Estimated amount of life insurance needed** \$ \_\_\_\_\_