

How Much Life Insurance Do You Really Need?

A CAPITAL NEEDS APPROACH

Assuming you died today, this worksheet will allow you to select those items that are important to you. In this way, you can estimate the amount of life insurance you need today. If you have not done this before, the results may surprise you.

Note: Use the "enter" key to refresh the numbers on this sheet.

INCOME

1. Total annual income your family would need if you died today

What your family needs, before taxes, to maintain its current standard of living (Typically between 60% - 75% of total income)

\$ _____

2. Annual income your family would receive from other sources

For example, spouse's earnings or a fixed pension or social security. (Do not include income earned on your assets, as it is addressed later in the calculation)

\$ _____

3. Income to be replaced Subtract line 2 from line 1

\$ 0

4. Capital needed for income

Multiply line 3 by appropriate factor in Table A. Factor _____.

\$ 0

If the purpose of the insurance is income replacement, stop at step 4.

EXPENSES

5. Funeral and other final expenses

Typically the greater of \$15,000 plus unpaid medical expenses

\$ _____

6. Mortgage and other outstanding debts

Include mortgage balance, credit card balance, car loans, etc.

\$ _____

7. Capital needed for college – tuition and fees

(2010-2011 average total 4-year cost: Out-of-State Public \$78,000, In-State Public \$30,500, Private, \$109,000¹)

	Estimated 4-Year Cost		Appropriate Factor in Table B		NPV
Child 1		x		=	0
Child 2		x		=	0
Child 3		x		=	0

+ } → \$ 0

8. Total capital required

Add items 4,5,6,7

\$ 0

ASSETS

9. Savings and investments Bank accounts, money market accounts, CDs, stocks, bonds, mutual funds, annuities, etc.

\$ _____

10. Retirement savings IRAs, 401(k)s, SEP plans, SIMPLE IRA plans, Keoghs, pension and profit sharing plans²

\$ _____

11. Present amount of life insurance Including group insurance as well as insurance purchased on your own

\$ _____

12. Total income producing assets

Add lines 9, 10, 11

\$ 0

13. Life insurance needed

Subtract line 12 from line 8

\$ 0

Table A

Years Income Needed	Factor
10	8.8
15	12.4
20	15.4
25	18.1
30	20.4
35	22.4
40	24.1

Table B

Years Before College	Factor
5	.95
10	.91
15	.86
20	.82

¹ Trends in College Pricing, 2010-2011 Numbers Rounded ² Distributions from most retirement savings plans are subject to ordinary income tax rates.