



Stewart's Insurance Depot

Innovative solutions today...not tomorrow

How Much Life Insurance Is Right For Me?

What's the hardest part of buying life insurance? For most people, it's trying to figure out exactly how much you should have. It doesn't make financial sense to spend money on protection you don't need. But you still have to make sure your family will always be comfortable - even if the worst happens.

On one hand, some financial advisors recommend multiplying your yearly income by 7. On the other hand, they recommend purchasing just enough coverage to protect your income during your working years, and put the savings into retirement investments.

So what's right for you? Before you decide to buy a policy, ask yourself these questions about your current - and future - financial needs.

4 Questions to Ask before You Buy Life Insurance

The answers to these 4 questions will help you determine what amount of life insurance is right for you.

1) Do you have any short-term financial needs?

You can get this figure by first adding up your short-term debts, like credit cards and car loans. Next, add in the amount you would need to cover emergency expenses like unexpected hospital visits or home repairs.

2) Do you have any long-term debts?

Long-term debts include your mortgage, any student loans, or your children's expected tuition costs. You can use today's college prices to give you an idea of how much your children will need in a few years.

3) How much would it cost to maintain your family's current lifestyle?

Add up how much it costs to run your household and care for your family for one year. That includes your household and food bills, transportation costs, and childcare. Don't forget to add in "standard of living" expenses like clothing and travel expenses. Once you've added up one year of costs, multiply that by the total years you expect to be your family's financial provider.

4) What is your family's total number of assets?

Add up your family's resources. Your resources include all your savings, investments, home equity and Social Security benefits. Only add up your "liquid assets" - those resources that your family can easily turn into cash.

Now all you have to do is subtract your total resources from your total expenses. This number is the minimum life insurance protection you should consider buying. You should ask yourself these questions once a year so you can make sure your life coverage matches your current financial situation.

We can get an idea by using the following form on the next page. For general discussions, if a spouse provides \$60,000 in income, then six to ten times (which would give us \$360,000 to \$600,000 in this case) is the normal range of policy coverage. That seems like a lot of coverage, but we must understand that once a provide is lost, that family will live over the next six years \$360,000 minimum. The funds provided by insurance can cover not only lost income, but payoff of major credit obligations and provide for daycare for the children and spouse education to increase the income of the survivors.

Life Insurance Needs Worksheet

Below is a worksheet that can help you get a general sense of how much life insurance you need to protect your family, assuming that you died today. Before buying any insurance products, you should consult with a qualified insurance professional for a more thorough analysis of your needs. Feel free to fill out this form online and email it to us (stewartsinsure@yahoo.com) or you can print it out and mail it to us (122 Bryce Ryan Circle, Kingsland GA 31548). For any assistance with filling this out, please contact us via the Live Chat on the website homepage or give us a call (866.203.5097).

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.¹ (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

\$

4. Capital needed for income.

Multiply line 3 by appropriate factor in Table A (below). Factor .

\$

TABLE A

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

*Note: This table helps you determine the Net Present Value (NPV), the amount of capital required today to satisfy future income or college cost needs, given an assumed investment return of 6%, inflation of 3% for living costs and 5% for college costs (see Table B)

EXPENSES

5. Funeral and other final expenses

Typically the greater of \$15,000 or 4% of your estate.

\$

6. Mortgage and other outstanding debts

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

\$

7. Capital needed for college

(2007-2008 average 4-year cost: Private, \$146,210; Public (\$61,499²))

\$

	Estimated 4-Year Cost		Appropriate Factor in Table B		Net Present Value (NPV)
Child 1	\$	X		=	\$
Child 2	\$	X		=	\$
Child 3	\$	X		=	\$

(Total of NPV Column)

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

8. Total capital required Add items 4,5,6 and 7

\$

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 plans³

\$

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 and 11

\$

13. LIFE INSURANCE NEEDED

Subtract line 12 from line 8

\$

¹Social Security benefits, which may be available, have not been factored into this calculation.

²Trends in College Pricing, 2007, The College Board. Costs reflect total charges, which include tuition, fees, room and board.

³Distributions from most retirement savings plans are subject to ordinary income tax rates