Life Insurance:
How Much Is Enough?

You may already be aware of the importance of having enough **life insurance** coverage to handle financial matters that could affect your family in the event of your death. However, determining the appropriate amount of coverage for your family can be complicated. Rather than using an arbitrary formula, such as having enough coverage to equal five to seven times your annual salary, you may want to conduct a “**needs analysis.**”

A needs analysis incorporates an evaluation of your family’s most important financial obligations and goals. It can help you plan to address mortgage debt, college expenses, and funds for your family’s future, as well as liquidity for meeting potential estate tax liabilities with life insurance coverage.

Mortgage Debt

You may want to consider whether your life insurance proceeds will be sufficient to help pay the remainder of the mortgage on your home. If you are carrying a large mortgage, you may need to increase your life insurance coverage. If you own a second home, you may also want to factor that mortgage into the formula.

College Expenses

Many people want life insurance proceeds to help cover their children’s undergraduate college, and possibly graduate school, expenses. The amount needed can be roughly calculated by matching the ages of your children with projected college costs adjusted for inflation. Because it may be difficult to project costs that far into the future, it is important to revise this calculation periodically, as your children get closer to college age. When estimating long-term savings goals, it may also be a good idea to be as conservative as possible.

Your Family’s Lifestyle

The amount you may need to help provide for your surviving spouse and dependents will vary according to your age, health, retirement plan benefits, Social Security benefits, and other assets, along with your spouse’s earning power. Many surviving spouses may already be employed or will find employment, but your spouse’s income alone may not be sufficient to cover your family’s current lifestyle. Providing a supplemental fund can help your family maintain its standard of living in the event of your death.

Estate Taxes

Life insurance has long been recognized as a method for establishing liquidity at death to pay estate taxes and maximize asset transfers to future generations. Be sure to consult your qualified tax and legal advisors to help ensure the desired results.

Existing Resources

If your current assets and any other death benefits are sufficient to cover your financial needs and obligations, you may not need additional life insurance for these purposes. However, if they are inadequate, the difference between your total assets and your total needs may be funded with life insurance.

You must consider many factors when completing a needs analysis. In addition to the areas already mentioned, ask yourself thefollowing questions:

- What are your estimated Social Security benefits at retirement?
- How do you “inflation-proof” your family income, so the real purchasing power of those dollars does not decrease?
- What is the earning potential of your surviving spouse?
- How often should you review your needs analysis?
- How can life insurance help provide resources for your retirement?
- How do you structure your estate to reduce the impact of estate taxes?
- Which of your assets are liquid and which would not be reduced by a forced sale?
- Which of your assets would you want your family to retain for sentimental reasons or for future growth possibilities?

As you evaluate your insurance needs, remember to assess your existing policies. Calculate the additional coverage you may need based on your family’s financial obligations and any other resources, such as retirement benefits and personal savings. Planning now may help to protect your family’s financial future.