

Zeroing In on Your Life Insurance Needs

How much **life insurance** do you need? A reasonable guide to follow may be to purchase an amount equal to five to seven times your annual income. But this approach may not be the best for appropriately coordinating your life insurance needs with your overall financial goals.

A better alternative may be a **financial needs analysis**, which can help determine your short-and long-term financial needs and those of your family. Here are some of the most common goals you want to achieve with life insurance: use them to calculate the amount of life insurance coverage you may need:

Protect your home. Your first consideration may be to obtain adequate life insurance to help pay the mortgage remaining on your home. If you are carrying a large mortgage, you may need a sizable amount. If you own a second home, the mortgage on that home should also be factored into the formula.

Secure your children's future education. Many people want adequate life insurance to help fund their children's college, and possibly graduate school, tuition and expenses. The amount needed can be estimated based on the ages of your children and the anticipated return from the investment of life insurance proceeds during precollege years. This figure should be compared to projected college costs adjusted for inflation and revised periodically as your children get closer to college age. Keep in mind that it can be difficult to accurately project inflation and earnings for future years.

Provide supplementary income for your spouse and family. The amount of income needed to help provide for your surviving spouse and dependents will vary according to your assets, retirement plan benefits, Social Security benefits, and spouse's earning power. Many surviving spouses may already be employed or may plan to find employment, if needed. However, your spouse's earnings alone may be insufficient to cover the monthly expenses of your family's current lifestyle and future needs. Providing a supplemental income fund through life insurance may help your family maintain its current standard of living.

Provide funds for estate tax liability. **Life insurance has long been recognized as an effective method for creating liquidity at death so that estate taxes can be paid, and asset transfers to heirs can be maximized. Be sure to consult with a qualified legal professional if you want to use life insurance this way.**

Life insurance is a major part of a family's financial protection. As you create your insurance program, remember to carefully review your existing policies. Calculate the additional coverage you may need based on your family's financial obligations and other available resources, such as retirement benefits and savings.

A financial needs analysis can help you determine what is important in creating and protecting your family's lifestyle. Even if your family's current income is insufficient to meet all your future goals, the needs analysis process will help you establish *priorities*. A financial needs analysis tailored specifically to your family can help you focus on the appropriate amount of life insurance coverage for your situation.

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