

How much Life Insurance Do You Need?

To do now:

1. Daily Attendance Question
2. Take out earbuds

You will need:

- Student Notes
- Textbook
- Calculator
- Notebook Paper
- Pen or Pencil

Items in red are needed for the lecture.

Why do you need life insurance?

You will no longer be here – so why do you care?



Life insurance is to make sure that your family members **needs are met.**



Life Span and Finances – 2 Risks



1. Risk of dying too soon - You could die before adequately preparing for those who **depend on you.**

2. Risk of **out-living your money.**



Let's focus today on risk #1

The rest of this course addresses risk #2

What Needs Must Be Met?



1. Final expenses - One-time expenses occurring just prior to or **after a death**:
 - Medical
 - Funeral
 - Burial
2. Income-replacement - Parents of young children will have **large needs**.

What Needs Must Be Met?



3. Readjustment-period:

- Spouse may need to **move**
- Spouse may need additional **education to improve earning potential**
- **Counseling**

4. Debt-repayment: Your debts will be paid out of your **assets** and it will **reduce** the amount of **money the family receives**.

What Needs Must Be Met?



5. Children's college expense

6. Special needs:

- Existing mental or physical needs of your dependents
- Your death event could create special medical needs for your dependents. (Ex: Car accident survivors)

What can reduce the level of needs of your dependents?

1. Existing assets

2. Government benefits:

- Social Security survivor's benefits - These benefits will be available for the family of a surviving bread winner while there are children under age 18 in the home.
- Social Security blackout period - After all children are 18 there are no survivor benefits until the spouse is age 60 then benefits begin again. This gap is called the Social Security blackout period.



How much life insurance do you need?



There are two commonly used methods:

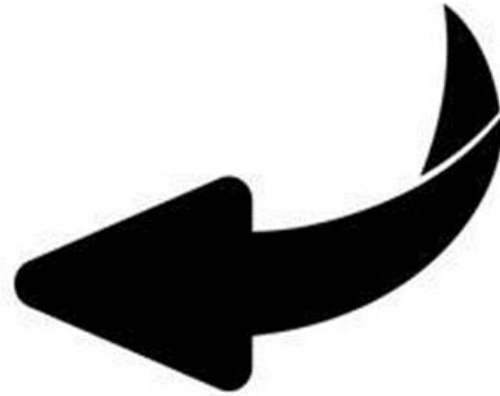
1. The Multiple-of-Earnings Approach:

- Multiply current annual earnings by 6, 7 or 8
- Easy but flawed

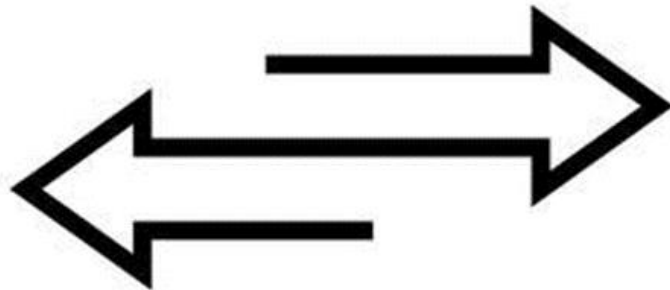
2. The Needs-Based Approach:

- A MUCH better method
- Uses a detailed analysis of needs

Flip to the
back of
your
notes



BACK



Needs to consider for a person with NO DEPENDENTS

Which are needed?

1. Final expenses **Yes**
2. Income-replacement **No**
3. Readjustment-period **No**
4. Debt-repayment **Yes**
5. Children's college expense **No**
6. Special needs **No**

If you have no dependents your life insurance needs are small – just items 1 and 4.

Needs – If no dependents (Only #1 and 4)

1. Final expenses

Step 1: Add up all of your **final expenses**. (Medical, funeral, and burial – Currently \$10,000 to \$12,000)

Step 2: Add up all of your **liquid assets** (Cash, checking, savings, and stocks)

Step 3: Answer this true/false question:

**My liquid assets are more than
my final expenses.**

- If true - **No insurance is needed for final expenses.**
- If false – **Life insurance is needed.**

Amount of Life insurance needed =

Final expenses – Liquid assets

Needs – If no dependents (Only #1 and 4)

4. Debt-repayment –

Step 1: Add up all of your **debts**.

Step 2: Add up all of your **assets**.

Step 3: Answer this true/false question:

**My total assets are more
than my total debts.**

- If true - **No insurance is needed for debt.**
- If false – **Life insurance is needed.**

Formula for life insurance needed =
Debt – assets

What do I do now?

The 12-1 Assignment

When is it due?

Next Class