

Name: \_\_\_\_\_ Period: \_\_\_\_\_

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# How Much Life Insurance Do You Need?

## 12-1 Assignment

**Read Section 12-1 in the textbook and answer the following questions.**

**Questions 1-27:** Determine if the following statements are True or False.

- \_\_\_\_\_ 1. Life insurance is insurance that protects against financial losses resulting from death.
- \_\_\_\_\_ 2. The purpose of life insurance is to protect the person on whose life an insurance policy is issued.
- \_\_\_\_\_ 3. The primary reason for buying life insurance is to obtain a high-quality investment.
- \_\_\_\_\_ 4. A modest funeral can easily cost more than \$10,000.
- \_\_\_\_\_ 5. Life insurance provides protection against dying too soon, and cash-value life insurance does this best.
- \_\_\_\_\_ 6. The major reason that people buy life insurance is to protect the person whose life is insured.
- \_\_\_\_\_ 7. Life insurance is the best way to address the "living-too-long" problem.
- \_\_\_\_\_ 8. The largest potential financial loss resulting from premature death is lost income.
- \_\_\_\_\_ 9. Since homemakers do not have money income, no financial loss results from the premature death of a homemaker.
- \_\_\_\_\_ 10. Your need for life insurance will change significantly over the course of your life cycle.
- \_\_\_\_\_ 11. Readjustment-period needs typically last about one month.
- \_\_\_\_\_ 12. The amount of Social Security benefits received by survivors depends on the amount of income earned during the lifetime of the deceased that was subject to Social Security taxes.
- \_\_\_\_\_ 13. Life insurance should definitely provide funds to pay off all debts if the breadwinner dies.
- \_\_\_\_\_ 14. The cost of replacing the household labor of a stay-at-home spouse should be included in life insurance planning.
- \_\_\_\_\_ 15. Married couples should integrate their life insurance plans and combine their life insurance needs in one policy on the life of one of the spouses.
- \_\_\_\_\_ 16. Life insurance proceeds are nontaxable to the beneficiary.
- \_\_\_\_\_ 17. Life insurance needs typically increase while assets decrease over the course of one's life.
- \_\_\_\_\_ 18. As a family matures, savings and investments may exceed potential losses from premature death and reduce or eliminate the need for life insurance.
- \_\_\_\_\_ 19. If losses from a premature death exceed resources available, life insurance is probably needed.
- \_\_\_\_\_ 20. Younger families should be wary of using retirement money for living expenses after the death of an income provider.

- \_\_\_\_\_ 21. You should rely on an insurance agent to determine how much life insurance you need.
- \_\_\_\_\_ 22. The need for life insurance is usually low during retirement.
- \_\_\_\_\_ 23. The multiple-of-earnings approach consists of multiplying one's income by some factor to derive an estimate of the amount of life insurance needed.
- \_\_\_\_\_ 24. The needs-based approach to estimating life insurance coverage considers all of the factors that might affect the level of need.
- \_\_\_\_\_ 25. The needs-based approach is not as accurate as the multiple-of-earnings approach.
- \_\_\_\_\_ 26. Social Security survivor's benefits end when the youngest child reaches age 21 or graduates from college, whichever comes first.
- \_\_\_\_\_ 27. Surviving spouses under age 60 may only collect Social Security survivor's benefits if there are also surviving children under age 18.

**Questions 129-214:** Determine the best answer.

- \_\_\_\_\_ 129. Life insurance should be bought primarily
  - a. as a tax shelter.
  - b. to provide protection from financial losses.
  - c. as an investment.
  - d. as a gift.
  
- \_\_\_\_\_ 132. The major financial loss resulting from premature death is the
  - a. readjustment-period expenses.
  - b. lost income of the deceased.
  - c. necessary final expenses.
  - d. debt-repayment expenses.
  
- \_\_\_\_\_ 133. \_\_\_\_\_ should be considered when evaluating income-replacement needs.
  - a. Lost income of the deceased
  - b. The value of employment fringe benefits
  - c. Contributions of a spouse's income
  - d. All of these.
  
- \_\_\_\_\_ 134. The largest final expense for most families would be
  - a. food and lodging for mourners.
  - b. travel expenses during a long illness.
  - c. estate taxes.
  - d. funeral and burial expenses.

- \_\_\_\_\_ 135. Debt payments can be handled through either debt-repayment needs or \_\_\_\_\_ needs.
- a. income-replacement
  - b. final-expense
  - c. readjustment-period
  - d. college-expense
- \_\_\_\_\_ 141. The most accurate and complex method of calculating life insurance needs is the
- a. needs-based approach.
  - b. multiple-of-earnings approach.
  - c. value-of-life approach.
  - d. term life approach.
- \_\_\_\_\_ 142. Adriana is financially responsible for her aged parents. She wants to provide income for her parents for 15 years should she die. Adriana earns \$48,000 after taxes and believes that her parents could live on 60 percent of her current income. If the insurance funds could be invested at 4 percent after taxes and inflation, how much life insurance does Adriana need? The approximate interest factor is 11.9.
- a. \$228,480
  - b. \$342,720
  - c. \$432,000
  - d. \$571,200
- \_\_\_\_\_ 143. Marvin was widowed at age 38 when his children were 8 and 10 years of age. Assuming his deceased spouse was eligible for Social Security survivor's benefits, how many years would Marvin be in the "blackout period"?
- a. 0 years
  - b. 10 years
  - c. 12 years
  - d. 13 years

**Also do:**

Concept Check: Page 355 #1, 3 and 4