Insurance

Determining Your Survivor's Needs

Like auto insurance coverage, it is sometimes difficult to see the true value of life insurance coverage until you actually need it. In the meantime, the only way you will feel comfortable with your life insurance policy is if you understand, and agree with, the reasons you bought it in the first place. There are many reasons for an individual to own life insurance coverage. Perhaps the most compelling reason is to purchase a death benefit which will provide for the financial needs of their survivors.

Determining how much life insurance coverage you need is a four step process:
1. Determine total short term needs in the event of your untimely death
2. Determine total long term needs in the event of your untimely death
3. Determine total resources available to family members
4. Provide insurance coverage for any remaining shortfall

Determining Your Total Short Term Needs

Short term needs are financial obligations and/or expenses arising within six months of death. Examples of short term needs include expenses you pay now such as:

- loan balances (automobile loans, etc)
- outstanding credit balances (credit cards, revolving lines of credit, etc)
- mortgages (first mortgage, second mortgage, equity loans)

Add to these current expenses any death-related expenses which must be paid in the short term: funeral expenses, final medical costs, estate settlement costs, estate taxes due, charitable bequests you would like to make at death, etc. And if you don't already have one, your survivors should be left with a liquid emergency fund sufficient to get them through any unexpected financial needs, perhaps six months worth of living expenses.

Determining Your Long Term Needs

In addition to covering your survivors' short term needs, some level of monthly income will be needed to maintain their standard of living and meet financial goals you have made together. These long term income needs include:

- a future income stream to cover standard of living items (we recommend that you identify several time periods with unique needs such as while kids are in home, when kids are gone, and your spouse's retirement years.)
- college expenses that you would like to cover for your dependents
- elderly care expenses you plan on contributing for relatives
- monetary support for a disabled dependent
- child care costs if your spouse will work after your death

The value of these future obligations is discounted back to present value amounts. This gives us a single dollar amount which, if invested, could provide funds for all of your long term goals.

Calculating Your Total Available Resources

At this point, we have a pretty good idea of what your total cash need would be in the event of your untimely death. With any luck, you have already begun to set money aside to cover some of these costs, and the government has a plan to help you as well.

- estimated earned income of your survivor(s)
- survivor Social Security benefit (continues while you have children under the age of 17)
- retirement Social Security benefit (begins approximately when your spouse turns 65)
- survivor benefits from your pension plan

The value of these future resources is discounted back to present value amounts. This gives us a single dollar amount which we can use to offset your total needs.

Providing Funds To Cover A Shortfall

Life insurance is uniquely suited for covering any shortfall. It is a means of sharing the financial risk of premature death with many, many others who have similar concerns. You pay a relatively small premium to an insurance company in exchange for their promise to pay your beneficiaries a specified death benefit in the event of your death. A financial need that arises from your death can be eliminated by a financial resource that is created upon your death.

The cost and availability of life insurance coverage that is appropriate for you depends on underwriting factors such as product availability by state, age, health, and the type and amount of insurance you need. As with any financial decision, reviewing your particular circumstances and weighing the costs versus benefits is important to making a good decision.