Determining Amount of Personal Life Insurance Needed

The proper amount of life insurance should be determined to prevent over or under insuring an individual. Two of the approaches used to determine the need and amount are, human life value and needs analysis.

1. **HUMAN LIFE VALUE APPROACH**

   This approach is a measure of the actual future earnings and services of a person at risk in the event of a premature death. The objective is to provide the proper amount of coverage as determined by the value of the individual to his/her dependents using the following factors:

   loss of future earnings

   a) The individual's after-tax annual salary.
   b) The individual's annual expenses, **not to include hobby or habit expenses.**
   c) The value of all personal assets.
   d) The number of years remaining for the individual's expected ability to work.
   e) Ages of all family members. (Determines the dependency period of the family members.)
   f) The value of the individual's dollar as it depreciates over time.
   g) Present salaries of all wage earners in the home.

   cash it death benefit

2. **NEEDS ANALYSIS APPROACH** The determination of a need for coverage upon the premature death of an individual. Always assume the death of the individual to be immediate and use the following factors to arrive at the proper amount of coverage needed.

   a) Calculate all financial needs caused by an immediate death. (To properly calculate this need you must know the age of each dependent child.)
   b) Subtract any assets available to fund financial needs after death.
   c) Prepare adequate life insurance to fill all gaps between needs and available assets.
   d) Regardless of age, some needs are permanent (e.g. retirement, disability funds, and funeral expenses). Some are disappearing needs (e.g. mortgage and educational funds).
   e) An Emergency Reserve Fund could be part of the calculation to provide for unexpected emergencies the family might encounter immediately after the death of the insured. For educational funds, consideration must be given to the type of education, tuition costs, and number of children. (Medical expense during college is not an educational cost factor.)

To analyze the insurance needs in either approach we must also take into consideration the income objective of the proposed insured. We may use two methods of income objectives to arrive at the amount of insurance needed to fill the human life value or needs analysis requirements. The methods of income objectives are as follows:

a) **Capital Liquidation** – assumes both principal (capital) and interest are liquidated over the relevant time period to provide the required income for the dependents.
b) **Capital retention/conservation** – assumes the desired income will be generated by the investment earnings only, thus retaining or conserving the capital or principle invested.