

## Zeroing in on Life Insurance Needs

How much life insurance do you need? One general rule of thumb suggests that you should buy an amount equal to five to seven times your annual income. While perhaps a reasonable guideline, this method may not properly align life insurance needs to your personal financial goals.

Often, a better method may be a **financial needs analysis**. This process helps you determine the short-term and long-term financial needs of you and your family. Here are some of the more common factors used in determining life insurance needs.

**Protecting your home.** Your first consideration may be whether your life insurance proceeds are sufficient 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 also needs to be factored into the formula.

**Securing your child's future education expenses.** Many people want life insurance proceeds large enough to help cover their children's college expenses, and possibly, graduate school. The amount needed can be roughly calculated by taking into account the ages of your children, and the anticipated return from life insurance proceeds during pre-college years. This figure should be compared against projected college costs adjusted for inflation, and revised periodically as your children grow closer to college age. Bear in mind, however, that it is impossible to project inflation and earnings with any measure of precision for many years into the future.

**Providing continuing income for your spouse and family.** The amount of income you may need to help provide for your surviving spouse and dependents will vary greatly according to your other assets, retirement plan benefits, Social Security benefits, age, health, and your 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 will help your family maintain its standard of living.

**Funding 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 future generations can be maximized. However, this use of life insurance requires qualified legal experience to ensure the proper results.

Life insurance is a major part of any family's financial protection. As you develop your insurance plan, make sure to analyze your existing policies. Calculate the additional coverage you may need based on your family's financial obligations and any other resources, such as retirement benefits and savings.

A financial needs analysis helps to determine what is important in creating and protecting the lifestyle you and your family enjoy. Even if your family's current income doesn't stretch far enough to satisfy all your financial objectives, the needs analysis process will help you establish priorities.

The best part of a financial needs analysis is that it is created specifically for you and your family and can help you "zero in" on the right amount of life insurance coverage for your particular situation.