

# Estimating Life Insurance Needs

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## Life Insurance Basics

Life insurance is the safety net that provides for dependents when a family breadwinner dies prematurely. It can also perform functions in a family estate plan and in a business plan. Unfortunately, most families don't shop for life insurance even as systematically as they shop for groceries. Instead, many people wait until a salesperson or employer offers them life insurance.

Employees tend to receive favorable group rates on employer-sponsored insurance policies. But they may not get advice on the type or amount of insurance best suited to family needs. Insurance salespersons also may fail to explain exactly how to calculate insurance needs or the variety of options available. Therefore, it is the family members' responsibility to make sure they have a plan to meet their insurance needs. Families may employ someone, such as a financial planner, or they may do their own calculations.

This publication guides you through the process of estimating life insurance needs. It gives tips on shopping for the most basic type of life insurance, term life. It also includes a life insurance record form to organize your family's insurance policies.

## Reasons for Life Insurance Coverage

How much is enough? The answer depends on your situation. If you are single, with no dependents, your life insurance needs may be limited to final medical and funeral expenses. If you are married or have dependents, you will also need enough to replace the part of your income you used to support family members. When the dependents are your children, you may need income until the children are old enough to earn their own. When replacing income for disabled dependents

or a spouse without retirement benefits, support may be needed for the dependent's lifetime. Especially when young children are involved, losing a parent means financial consequences beyond replacing the income. The family may need additional childcare and household help to function without a parent.

Use the following questions to identify some of the potential reasons your family may need life insurance:

- How much cash would I need to cover medical or funeral expenses for a family member? Check your family health insurance plan for the policy's stoploss limit (the dollar amount of out-of-pocket expenses you are responsible for before full coverage begins), maximum benefits, copays, and deductibles. According to the National Funeral Directors' Association, the average price of a funeral in 2001 was \$5,000.
- How would my family's standard of living be affected by the death of any family member?
- How much income would be needed to keep my family's standard of living at its present level in the event of my death?
- What amount of support would Social Security pay to my spouse or dependents? When would that income start, and how long would it last?
- Is there a survivor benefit in my employer's pension plan? What benefits would it pay to my spouse at my death? What other retirement benefits are available to my spouse?
- How many dependents do I have, and how old are they? Would my spouse need more education and training in order to work if I died? How would the children's education costs be handled? How long would they be in school?
- Would debts or outstanding mortgages need to be paid upon the death of the breadwinner?

## Estimating Family Needs

Calculate your insurance needs using the blank form on the next page. The first three sections examine one-time expenses for the family, such as funeral costs and college education. The last section includes recurring expenses, such as utilities and household items.

Enter a dollar amount beside each type of expense you would expect to have at the death of the insured person. Then enter the amount of funds available to pay toward those expenses before insurance. Total the individual items for each category. Subtract the funds available from the anticipated expenses. The difference is the amount of insurance needed to cover the one-time expenses.

Calculate the total amount needed for monthly or recurring expenses by multiplying the monthly amount by 200. This sum of money will generate enough to meet monthly needs without dipping into principal (the original amount invested) as long as the investment earns a 6 percent rate of return.

The family can purchase a lower policy death benefit if they plan to use both principal and interest for living expenses. Another plan could be to live off interest only until children are college age. At that time, some of the principal could be diverted for college because you expect children will soon become self supporting, and household expenses will be less for the spouse after they are gone.

## Shopping for Life Insurance

Once the family has determined the dollar amount of coverage needed and how long coverage is needed, it can begin the shopping process. Most young families need a large dollar amount of coverage for the most economical price possible. This usually means purchasing pure insurance with no extra features or savings options. This publication suggests how to shop for the most basic type of insurance, term life insurance. For more information on other types of insurance available, see Extension Information Sheet 1410, Family Insurance Planning.

Several methods can help you locate low-cost, high quality term life insurance. Local insurance agents typically offer individual term policies. Employers often offer attractively priced group life insurance as a part of their benefit packages. Companies called "insurance quote services" also search out and represent some of the most competitively priced term life insurance available. The quote service gives a price quote of several insurance policies. If you decide to apply, the quote service processes your application.

National services with no-obligation quotes include Select Quote ([www.selectquote.com](http://www.selectquote.com) or 800-670-3214), Quote Advantage ([www.quoteadvantage.com](http://www.quoteadvantage.com) or 800-388-9211), and Insurance Quote Services

([www.IQUOTE.com](http://www.IQUOTE.com) or 800-972-1104). You can find more services on the Internet and through magazine ads.

Regardless of where you purchase your life insurance, be sure to check the ratings for the company you choose. You can check these through the rating services listed here and through the Mississippi Department of Insurance (800-562-2957).

A.M. Best's Insurance Reports

A++, A+ (superior), A, A- (excellent), B+ (very good), C- (fair)

[www.ambest.com](http://www.ambest.com)

Available at many public libraries, free online and telephone ratings

Standard and Poor's Insurance Rating Service

212-438-2400 (ratings desk)

[www.standardandpoors.com/ratings](http://www.standardandpoors.com/ratings)

Free online and telephone ratings

Moody's Investor Services

212-553-0377

[www.moodys.com](http://www.moodys.com)

Free online and telephone ratings

Fitch (formerly Duff & Phelps)

312-368-3198

[www.fitchratings.com](http://www.fitchratings.com)

Free online and telephone ratings

Weiss Research

800-289-922

[www.weissratings.com](http://www.weissratings.com)

Small charge for telephone

**Expenses**

**SECTION 1**

**Final expenses**

Medical care \$ \_\_\_\_\_  
*(out of pocket)*  
 Funeral \$ \_\_\_\_\_  
 Taxes \$ \_\_\_\_\_  
 Insurance loans \$ \_\_\_\_\_  
 Estate settlement \$ \_\_\_\_\_  
 Extra family expenses \$ \_\_\_\_\_  
 Other debts \$ \_\_\_\_\_  
 Total final expenses \$ \_\_\_\_\_

**SECTION 2**

**Mortgage balance** \$ \_\_\_\_\_

**SECTION 3**

Children's education expenses \$ \_\_\_\_\_  
 \$ \_\_\_\_\_  
 Total education expenses \$ \_\_\_\_\_

**SECTION 4**

**Monthly expenses**

Household operation \$ \_\_\_\_\_  
 Food \$ \_\_\_\_\_  
 Medical care \$ \_\_\_\_\_  
 Transportation \$ \_\_\_\_\_  
 Child care \$ \_\_\_\_\_  
 Clothing \$ \_\_\_\_\_  
 Other \$ \_\_\_\_\_  
 Total monthly expenses \$ \_\_\_\_\_

**- Funds Available**

*(minus)*

Savings and liquid reserves \$ \_\_\_\_\_  
 Social Security \$ \_\_\_\_\_  
 Other \$ \_\_\_\_\_  
 - funds available \$ \_\_\_\_\_

- mortgage insurance \$ \_\_\_\_\_  
 Children's earnings \$ \_\_\_\_\_  
 Financial aid \$ \_\_\_\_\_  
 Funds in child's name, tuition, savings plan, etc. \$ \_\_\_\_\_  
 - College savings and aid \$ \_\_\_\_\_

**Expected family income**

Social Security \$ \_\_\_\_\_  
 Salary or wages \$ \_\_\_\_\_  
 Investment earnings \$ \_\_\_\_\_  
 Pension/retirement \$ \_\_\_\_\_  
 Other \$ \_\_\_\_\_

- Expected family income \$ \_\_\_\_\_ =

Monthly needs \$ \_\_\_\_\_ x 200 = \$ \_\_\_\_\_  
*(subtract expected family income from monthly expenses)*

**= Insurance Lump Sum Needed**

= \$ \_\_\_\_\_  
**Lump sum needed**

= \$ \_\_\_\_\_  
**Lump sum needed**

= \$ \_\_\_\_\_  
**Lump sum for education**

\$ \_\_\_\_\_  
**Total lump sum insurance needs**

*(Add lump sums from sections 1, 2, 3, and 4)*

For free assistance in completing this form, call your county Extension office.

## Inventory of Life Insurance

Use this form to record your family insurance policies. Keep a copy with your important papers.

Amount and Type of Policy	Company Name and Address	Agent Name and Address	Policy Number	Premium Due Date	Date of Issue	Beneficiary	Settlement Options



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