

How Much Life Insurance Do You Need?

Life insurance is a key component of prudent financial planning. If individuals depend on you for financial support or if you are interested in providing financially for a surviving spouse, you are likely to need life insurance.

The first step in determining how much life insurance you need is analyzing how much income you need to replace. Some experts use a multiplier, such as between five and seven times current salary.

But this approach could leave out expenses that are important to consider, especially for someone with young children. You may want to try a more comprehensive calculation:

- Add up the one-time expenses that your survivors will face in the event of your death, such as funeral expenses and medical costs.
- Review your family's annual cost of living and multiply by the number of years a death benefit would need to cover these expenses. Average life expectancy is age 75 for a man and age 80 for a woman.
- Include college tuition for children and retirement savings for a spouse or partner.
- Subtract liquid assets (not qualified retirement accounts or home equity) that are available to fund these needs.
- The bottom line is the amount of the death benefit you may need to purchase.

Life Insurance Worksheet: Adding It Up

This table presents a sample calculation of a hypothetical death benefit needed to finance a family's cost of living. It is an illustration of the factors involved in a life insurance calculation and not intended as a recommendation. Your specific calculation will differ. Life insurance policies are subject to fees and charges. Death benefit guarantees are subject to the claims-paying ability of the issuing life insurance company. Loans will reduce the policy's death benefit and cash surrender value, and will have tax consequences if the policy lapses.

One-Time Expenses	Uninsured medical costs, funeral/probate	\$25,000
Income Replacement	\$75,000 annual family income for 7 years*	+ \$600,000
Health Care Costs	\$1,400 per year for family health insurance for 7 years*	+ \$11,000
Education Expenses	\$100,000 in college expenses for each of two students	+ \$200,000
Total Cost/Income Need		= \$836,000
Less Liquid Assets		(\$100,000)
Death Benefit Required		= \$736,000

*Assumes annual inflation of 4%

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