LIFE INSURANCE:

Important considerations for determining the right amount of coverage

To determine the right amount of life insurance coverage, it is important evaluate three important financial areas:

1) Immediate cash needs upon the passing of a loved one;
2) Ongoing income required of the beneficiaries; and
3) Any existing financial resources that would be available.

How much insurance do you need?

It's a number that is very specific to your circumstances.

When a loved one passes on, there are two primary financial need categories that surviving family members are faced with.

IMMEDIATE CASH

These needs typically arise within the 6 months after the insured's death and include items such as:

- Funeral expenses
- Medical bills
- Paying off mortgage

ONGOING INCOME

Occurring over a long period of time, living expenses will need to covered. Planning for inflation is important as well as future major expenses such as:

- College tuition
- Financially helping adult children
- Caring for elderly family members etc.

Survivors can place life insurance benefits into an account earning a suitable amount of interest to provide an income stream.

A life insurance policy can help beneficiaries with each of these financial need categories.

AIG

Policies issued by American General Life Insurance Company

The United States Life Insurance Company in the City of New York

Let's explore in more detail each of the important financial areas that help determine the right amount of life insurance coverage needed: 1) immediate cash needs, 2) ongoing income needs, 3) existing resources.

1) IMMEDIATE CASH NEEDS

There are several different demands on cash that may happen immediately after the death of a loved one. Below is a list of several of these types of cash needs to consider when determining the right amount of life insurance coverage needed.

Final expenses

Final expenses include much more than a funeral. The final expenses amount should allow for additional costs, such as remaining medical bills, travel/lodging for relatives, even flowers.

Emergency fund

It can take several months to settle an estate, liquidate and reposition assets, possibly sell a home and move to a new residence and stabilize a family's income. An emergency fund of six months of household income is recommended while working towards settling the financial affairs.[1]

Mortgage payoff

A common desire for survivors is to reduce their monthly expenses; meaning less income is needed to cover the rest of the bills. Life insurance benefits can pay off a mortgage and help eliminate the financial strain of these monthly payments. For renters, the money can be used to buy the survivors a home and reduce their ongoing monthly housing expense.

Debt payoff

Credit cards, auto loans, student loans and other forms of debt can be paid off in order to provide the surviving family the best options for their financial future.

2) ONGOING INCOME NEEDS

Once the immediate cash needs are taken care of, insurance can then be used to provide the funds necessary to ensure the ongoing income needs of the surviving family are available. There are several of these ongoing income needs that should be considered when determining the right amount of insurance coverage.

Household income needs

Consider how much survivors need to keep the household running without the mortgage. Housing expenses can be reduced to homeowner's insurance premiums, property taxes, utility bills, groceries, transportation expenses (e.g., auto insurance, gas, auto maintenance), clothing and entertainment.

Minor children

Consider the growing expenses associated with raising minor children. Money should be set aside for childcare needs, especially if a single-parent household requires the parent to work. Extracurricular expenses should be considered such as sports, scholastic programs, scouting, summer camps, and other activities.

Education fund

Providing an educational fund can be a big priority and a big expense. The table below provides a guide on how much is needed. These are yearly rates, so multiply them by four to cover the costs of a typical bachelor's degree.

ANNUAL COLLEGE EXPENSES		
	PUBLIC FOUR YEAR	PRIVATE FOUR YEAR
Tuition and Fees	$9,650	$33,480
Room and Board	$10,440	$11,890
TOTAL	$20,090	$45,370

"Trends in College Pricing 2016" published by The College Board[2]

Dependent parents

Do you have a parent that requires assistance or financial support? Setting aside an amount to provide an income stream for an aging parent may help offset a significant financial burden for surviving family members.

Calculating the "income fund"

There are many online calculators that can help determine the "right" amount of life insurance for your situation. A life insurance professional can also assist with sophisticated analysis tools to help you.

In general, the calculators work by first determining how much you think you can reasonably earn in an account for the duration of the income need. For example, if you estimate that you can earn 5%, then to provide $2,000/month ($24,000/year) to your family for 20 years, a $300,000 insurance benefit would be necessary.

No one can guarantee what rate you will earn if and when an untimely death occurs. Keep in mind that a low rate will be more conservative – and easier to acquire – than a higher one.

3) EXISTING RESOURCES

Before a final life insurance amount is determined, it is important to evaluate not just your needs, but also the resources at your disposal.

Social Security benefits

If you have contributed to Social Security, then you are entitled to more than just the "retirement" benefits. There are three forms of "survivor" benefits as well.

1) **Surviving spouse** - may be entitled to a portion of your retirement benefits when the spouse reaches retirement age
2) **Dependent children** - each child under the age of 18
3) **Surviving parent of any of your dependent children** - benefits continue until the youngest of these children turns 16

Each of these benefits is calculated separately. If your surviving family is scheduled to receive multiple benefits (for example, a parent's benefit and three children's benefits), then they will be added up and compared to a "family maximum." Your surviving family will receive the lesser of the combined benefits or the family maximum. All of these benefits are adjusted for inflation.

Adding it all up

So, how much insurance do you need? It is a number that is very specific to your circumstances.

FIRST:

Immediate Cash Needs
\+ Ongoing Income Needs

TOTAL NEEDS

THEN:

Total Needs (minus existing resources, including:)
− Social Security benefits
− Spousal earned income
− Existing life insurance
− Existing assets/accounts

TOTAL LIFE INSURANCE NEEDS

While there are many online calculators that can help you determine your life insurance needs, a life insurance professional can help answer questions such as:

- How long should I provide a household income?
- Until my children are grown?
- Or, until my spouse's retirement?

Consider that the amount may be different for each head of the household.

These calculations are complex and estimating the value for your situation will require special calculators. You can visit www.ssa.gov to create your own estimate, or meet with a licensed insurance professional, who will have tools at their disposal to help you determine your benefits.

Spousal earned income

If you have a surviving spouse, that spouse may be able to offset some of the income needs with earned income. Of course, if there are dependent children, you may wish to include additional childcare expenses.

Existing life insurance

You may have purchased existing life insurance in the past that may still make sense for you to keep. You may also have life insurance benefits available to you through your employer or an association with which you are affiliated.

Existing assets/accounts

Consider other assets as well. If you own rental real estate that your surviving family would not be willing or able to manage, then the net sale price of these assets can be applied to your needs. Generally, if you have a surviving spouse, then any retirement assets should be held for that spouse's ultimate retirement. If you do not have a surviving spouse, then you may wish to calculate the after-tax value of these assets for use by those caring for surviving dependent children.

TYPES OF LIFE INSURANCE

There are two major kinds of life insurance: **Term and Permanent**.

Term Insurance

Term insurance is the most inexpensive, but it lasts for a set period of time (a "term" of years). You can find policies that have 5-year, 10-year, and even 20-year terms and more. Longer term policies may not be available to you if you are older.

Permanent Insurance

Permanent insurance is designed to last for a long time – age 85, age 100, even age 131 – and are, generally available to most ages. For this reason, permanent insurance can be more expensive.

For many, a combination of products may make some sense. For example, you may wish to use term insurance for the needs that are short-lived – like those associated with dependent children. Permanent insurance may make sense for needs such as Final Expenses, Emergency Funds and ongoing household income needs.

For more information, contact:
Name
Agency
Phone
Email
Address
City/State/ZIP

AIG®

Policies issued by American General Life Insurance Company

The United States Life Insurance Company in the City of New York

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NO BANK OR CREDIT UNION GUARANTEE | NOT FDIC/NCUA/NCUSIF INSURED

[1] The National Funeral Directors Association (NFDA) 2015 Member General Price List Study, a survey of 5,829 NFDA-member funeral home owners
[2] The College Board, Trends in College Pricing 2016 (covering the 2016-2017 school year)

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