

Life Insurance

Determining how much insurance you need.

The amount of life insurance you need is based on the financial obligations that must be met by your family when you die.

Cash Needs:

- A. Immediate expenses:** These are the expenses that must be met right after death. They include: Funeral, burial, taxes, medical expenses, etc.
- B. Debt liquidation:** Pay off creditors such as credit cards, auto loans, etc.
- C. Mortgage fund:** Provides for the continuation of mortgage payments should the wage earner die.
- D. Children's education and childcare (if applicable):** Provides college fund and/or child care for children.
- E. Emergency fund:** Provides the family with 6-12 months of income. This gives the family time to grieve before having to make investment decisions with the insurance proceeds.

Income Needs:

- A. Income replacement:** It is recommended that insurance plus other death benefits such as social security provide 70% of the pre-death total household income.
- B. Retirement income:** Life insurance cash values with many policies may be converted to an income at retirement.

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How Much Life Insurance?

1. Annual living expenses of survivors (spouse, children, etc.) \$ _____
(Consider at least 70% of current family living expenses)

2. Less: Expected annual benefits
 - a. Social Security benefits \$ _____
 - b. Survivor's pension benefits \$ _____
 - c. Survivor's earned income \$ _____
 - d. Other income \$ _____Total expected annual benefits \$ _____

3. Net living expense shortage (or surplus) \$ _____
(Line 1 minus line 2)

4. Amount of capital required to produce living expense shortage \$ _____
(Line 3 divided by projected rate of return on invested capital.
Consider using a conservative return rate to adjust for inflation.)
Inflation-adjusted Rate of Return _____%

5. Plus other lump-sum expenses
 - a. Final expenses /estate costs \$ _____
 - b. Mortgage cancellation \$ _____
 - c. Education fund or other \$ _____
 - d. Emergency fund \$ _____Total lump-sum expenses \$ _____

6. Total capital required (Line 4 plus line 5) \$ _____

7. Less: Present capital
 - a. Income producing assets \$ _____
 - b. Present life insurance \$ _____Total Present Capital \$ _____

8. Amount of capital to be added, if any \$ _____
(Difference between lines 6 and 7)

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