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Determining Your Life Insurance Needs

If you have a family who relies on your income, it's critical to consider having enough life insurance to provide for them after you pass away. But too often, life insurance is an overlooked aspect of personal finances.

In fact, 41% of U.S. adults have no life insurance coverage at all, according to a study conducted by LIMRA, which closely follows life insurance trends. That's an all-time low.¹

Recognizing the role life insurance can play in your family finances is an important first step. A critical second step is determining how much life insurance you may need.

Rule of Thumb

One widely followed rule of thumb for estimating a person's insurance needs is based on income. Some will say a person needs a life insurance policy that is five times his or her annual income. Others recommend up to ten times annual income.

But if you are looking for a more accurate estimate, consider completing a "DNA test." A DNA test is a **Detailed Needs Analysis** that takes into account a wide range of financial commitments to help better estimate insurance needs.

The first step is to add up needs and obligations.



Tip

Final Cost. Paying for a funeral can be a financial burden on a family. Make sure your estate management will provide them with sufficient funds to cover this important cost.



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Short-term needs

Which funds will need to be available for final expenses, such as a funeral, final medical bills, and any outstanding debts, such as credit cards or personal loans? How much to make available for short-term needs will depend on your individual situation.

Long-Term Needs

How much will it cost to maintain your family's standard of living? How much is spent on necessities like housing, food, and clothing? Also, consider factoring in expenses such as travel and entertainment. Answering the question, "What would it cost per year to maintain this lifestyle?" is a good place to start.

New Obligations

What additional expenses may arise in the future? What family consideration will need to be addressed, especially if there are young children? Will aging parents need some kind of support? How about college costs? Factoring in potential new obligations allows for a more accurate picture of ongoing financial needs.

Next, subtract all current assets available.

Liquid Assets

Any assets that can be redeemed quickly and for a predictable price are considered liquid. Generally, houses and cars are not considered liquid assets since they may require time to sell. Also, remember that selling a home or a car may adjust a family's current standard of living.

Your Life Insurance Need

Needs and obligations—minus liquid assets—can help you get a better idea about the amount of life insurance coverage you may need. While this exercise is a good start to understanding your insurance needs, a more detailed review may be necessary to better assess your situation.



Fast Fact

Need More. Nearly one-third of consumers believe they need more life insurance.

Source: LIMRA, 2012