

# Calculate Your Client's Life Insurance Needs

Four Ways



## Multiple-of-Income Approach

Your client's annual gross earnings:<sup>1</sup> \_\_\_\_\_

Number of years<sup>2</sup> your client wants to replace income: \_\_\_\_\_

x

=

\_\_\_\_\_

Total amount of policy: \_\_\_\_\_

<sup>1</sup>Include all sources: W2 income, Social Security, pension, etc.

<sup>2</sup>Seven to 10 years of replacement income recommended.

## DIME Method

**Step 1:** List and add up client's debt (except mortgage):

Example: Car loan \$14,000

\_\_\_\_\_

\_\_\_\_\_ +

\_\_\_\_\_ +

\_\_\_\_\_ +

\_\_\_\_\_ +

\_\_\_\_\_ +

\_\_\_\_\_ +

\_\_\_\_\_ =

Total debt: \_\_\_\_\_

**Step 2:** List and add up client's anticipated education costs for any children:<sup>1</sup>

Example: Lucy 4 years of tuition \$80,000

_____		
_____	+	
_____	+	
_____	+	
_____	+	
_____	+	
_____	+	
	=	
Total estimated education costs:		<u>                    </u>

<sup>1</sup>Factor in costs such as tuition, room and board, and supplies.

**Step 3:** Add up DIME

Total <b>debt</b> :	_____		
		+	
<b>Income</b> replacement required (use total from multiple-of-income approach):	_____		
		+	
Balance on <b>mortgage</b> (if applicable):	_____		
		+	
Total estimated <b>education</b> costs:	_____		
		=	
Total amount of policy:			<u>                    </u>

## Human Life Value Approach

### Step 1: Calculate total earnings until retirement

Number of years until retirement:	_____	
		x
Your client's current gross annual salary:	_____	
		+
Adjustment for inflation/raises	_____	
		=
		<u>                    </u>

### Step 2: Calculate average annual living expenses and multiply by years until retirement

Mortgage payment:	_____	
Utilities:	_____	+
Food:	_____	+
Gas:	_____	+
Home maintenance:	_____	+
Transportation:	_____	+
Entertainment:	_____	+
Credit card payments:	_____	+
School expenses:	_____	+
Other:	_____	+
Total estimated annual living expenses:	_____	
Number of years until retirement:	_____	x
		=
Estimated living expenses until retirement:		<u>                    </u>

**Step 3:** Calculate annual taxes and multiply by number of years until retirement

Your client's annual income: \_\_\_\_\_

x

Your client's tax bracket:<sup>1</sup> \_\_\_\_\_

=

Total estimated annual taxes: \_\_\_\_\_

x

Number of years until retirement: \_\_\_\_\_

=

Total estimated taxes until retirement: \_\_\_\_\_

<sup>1</sup>Dependent on your client's income. Examples include .18, .20, .30, etc.

**Step 4:** Subtract annual taxes and living expenses from total earnings

Total earnings until retirement (Step 1): \_\_\_\_\_

-

Total living expenses until retirement (Step 2): \_\_\_\_\_

-

Total taxes until retirement (Step 3): \_\_\_\_\_

=

Adjusted total earnings until retirement: \_\_\_\_\_

**Step 5:** Calculate assumed rate of return on adjusted total earnings

Adjusted total earnings until retirement (Step 4): \_\_\_\_\_

x

Assumed rate of return:<sup>2</sup> \_\_\_\_\_

=

Assumed total interest earned until retirement: \_\_\_\_\_

<sup>2</sup>Could range from 3 percent to 9 percent, depending on how aggressively your client invests. Using a number between .04 to .06 here will give you a conservative and safe estimate.

**Step 6:** Subtract the assumed total interest earned until retirement from the adjusted total earnings until retirement

Adjusted total earnings until retirement (Step 4):	_____	
		-
Assumed total interest earned until retirement (Step 5):	_____	
		=
Adjusted total need:		<u>                    </u>

**Step 7:** Add up additional annual benefits and multiply by years until retirement

Estimated cost of benefits:

Annual health insurance premium cost:	_____	
		+
401(k) contribution:	_____	
		+
Additional insurance policies:	_____	
		=
Total annual additional benefits:	_____	
		x
Number of years until retirement:	_____	
		=
Total cost of benefits until retirement:		<u>                    </u>

**Step 8:** Add cost of benefits to adjusted total need

Adjusted Total Need (Step 6 total):	_____	
		+
Total cost of additional benefits (Step 7 total):	_____	
		=
Total amount of policy:		<u>                    </u>

# Capital Needs Analysis

**Step 1:** Calculate current and future income of client and spouse (if applicable)

Follow Step 1 of Human Life Approach for Insured: \_\_\_\_\_

Follow Step 1 of Human Life Approach for Insured's Spouse: \_\_\_\_\_

**Step 2:** Add up immediate lump-sum cash needs

Funeral expenses:	_____	+	
Current debts (credit cards, car loans, etc.):	_____	+	
Mortgage payoff:	_____	+	
Other:	_____	=	
Total estimated lump-sum needs:			_____

**Step 3:** Estimate future expenses<sup>1</sup>

Education:	_____	+	
Weddings:	_____	+	
Long-term care:	_____	+	
Retirement funding:	_____	+	
Other:	_____	=	
Total estimated future expenses:			_____

<sup>1</sup>Consider needs of survivors.

**Step 4:** Add up existing assets

Investments:	_____	+	
Retirement funds:	_____	+	
Insurance policies:	_____	+	
Emergency fund savings:	_____	+	
Other:	_____	=	
	Total assets:		_____

**Step 5:** Add needs and subtract assets

Estimated total earnings for client and spouse (Step 1):	_____	+	
Immediate lump-sum cash needs (Step 2):	_____	+	
Future expenses (Step 3):	_____	+	
Total assets (Step 4):	_____	=	
	Total amount of policy:		_____

**Step 6:** Decide on earnings-only vs. liquidation

- **Earnings-Only Approach:** The survivors will live off only the investment earnings of the policy without cashing in the principal value. This method is subject to the risk of changing market interest rates. To provide a sufficient income stream, the death benefit is usually significantly higher than in the liquidation approach.

- **Liquidation Approach:** The surviving beneficiary utilizes a portion of the principal as well as the investment earnings. There is more risk with this approach, particularly if the investment earns less than originally predicted. The surviving spouse may not have sufficient income to live on for the remainder of their life.