

# Paul Black

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## How Much Life Insurance Do You Need?

Ask ten professionals how much life insurance is advisable and you are likely to get ten different answers. We recommend the following detailed three step-process to get a better idea of your particular life insurance needs:

**STEP 1:** If you are the sole income provider, multiply your gross (pre-tax) annual income by .80. (If both you and your spouse or partner work, combine both of your incomes and multiply by .80). This calculation will reduce your household income by 20 percent, but the reason you do this is because if anything happened to you, there would be one less spender in the household- you!

**STEP 2:** Divide you answer in Step 1 by the rate of return you would reasonably expect to earn on the life insurance proceeds once they are invested. Your answer here will tell you how much money you will need to continue the necessary income stream to your surviving family.

**STEP 3:** Subtract any savings or investments you already have from your answer in Step 2. The resulting number is the amount of life insurance you should own!

**EXAMPLE:** Harry and Wanda Smith have two young children. Harry earns \$80,000 a year and Wanda earns \$50,000 a year. The couple has two children. The couple assumes that they could earn a modest 5 percent on investments in the current economic climate. They have \$150,000 in personal investments and in their retirement plans. Use their calculations as a model for your own:

	<b>Math Explained:</b>	<b>Harry and Wanda</b>	<b><u>Your</u> Household</b>
<b>Step 1</b>	Couple's Annual Income: <u>x 0.80</u> Adjusted Income Need:	\$130,000 \$104,000	
<b>Step 2</b>	Adjusted Income Need  <u>Divided By</u> Expected Rate of Return	\$104,000 \$2,080,000 (\$2.08mm)	
<b>Step 3</b>	Capital Needed minus  Savings & Investments	\$1,930,000 (\$1.93mm)	

The answer you get after completing this three-step process is only a rule of thumb, but it will give you a ballpark figure that will let you know if your current insurance is adequate, or if you might actually be under-insured.

For a conversation about optimizing the use of life insurance as part of your overall estate plan, email us at [paul@pvblack.com](mailto:paul@pvblack.com) or call us at **404.410.6820** to request a free initial consultation.