

## HOW MUCH IS ENOUGH? WORKSHEET

Follow the instructions given on the back of this sheet to determine your life insurance needs.

<b>Step 1.</b>	Expenses at the time of death (include medical costs, burial expenses, probate, and estate taxes)	\$ _____
<b>Step 2.</b>	Payment of debts (include nonmortgage debts such as credit card balances and car loans)	\$ _____
<b>Step 3.</b>	Education fund for family members	\$ _____
<b>Step 4.</b>	Short-term income needed	\$ _____
<b>Step 5.</b>	Long-term income needed	
	A. Average annual income needed	\$ _____
	B. Spouse's annual income plus Social Security benefits	\$ _____
	C. Annual income needed (subtract B from A)	\$ _____
	D. Investment factor	_____
	E. Total (multiply C by D)	\$ _____
<b>Step 6.</b>	Grand total of money your family needs (add amount from Steps 1, 2, 3, 4, and 5E)	\$ _____
<b>Step 7.</b>	Assets	\$ _____
<b>Step 8.</b>	Estimate amount of life insurance needed (subtract Step 7 from Step 6)	\$ _____

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Adapted from Bailard, Biehl, and Kaiser, *Personal Money Management*, MacMillan, Sixth Edition, 1992, pp. 363-366.

Prepared by Cynthia Needles Fletcher, associate professor and extension specialist, Department of Human Development and Family Studies, and Jane Schuchardt, former communication specialist.



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# IOWA STATE UNIVERSITY

## University Extension

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**Step 1.** If the size of your estate is small, the administrative costs associated with your death will probably be minimal. Health insurance may cover most medical costs associated with a death. Burial expenses might be in the \$5,000 to \$6,000 range.

**Step 2.** You'll probably want most of your debts to be paid off at death. You may prefer to include home mortgage payments in Step 5-A, rather than provide for immediate repayment of the balance at your death. Enter the total of any other outstanding debts in this blank.

**Step 3.** If you want to provide additional education for children or a surviving spouse, estimate the cost at current prices. For example, a four-year college education at a state university in Iowa costs about \$36,000. Costs at a private college would be higher.

**Step 4.** Your family will need money for immediate living expenses. A rough estimate might be two times your monthly take-home pay.

**Step 5. A.** Determine how much average annual income it will take to provide your family with its current level of living. One estimate is three-fourths of current take-home pay.

**B.** Add together the average annual take-home pay your spouse would earn until death, and the average annual Social Security benefits your spouse and children would receive. Family members might be eligible for both survivor and retirement benefits. A surviving spouse's benefits stop when the child reaches age 16. Children's benefits stop at age 18. Retirement benefits for a surviving spouse do not begin until he or she reaches age 60. For an accurate estimate of your survivor and retirement benefits, call the Social Security Administration at 800-772-1213.

**C.** Subtract B from A to get the annual income needed. For example, say you estimate your family's annual living expenses to be \$18,000. Your spouse's average annual earnings are estimated by dividing total earnings before retirement by remaining years of life. Your spouse, age 25, earns \$10,000 a year (in today's dollars) and will work to age 65. Over this 40-year period, total earnings would be \$400,000. To get an average earnings figure over his or her lifetime, you assume that your spouse will live a long life to age 85. Average annual earnings over your spouse's remaining 60 years would be approximately \$6,670 ( $\$400,000 \div 60$ ). Note that a spouse's lifetime earnings will be higher if you add in employment-related retirement income. If you have one child and estimate the Social Security average annual benefits to be \$7,000 to family members after your death, the calculation is  $\$18,000 - (\$6,670 + \$7,000) = \$4,330$ .

**D.** Estimate the total number of years you would want to provide additional income for your family. This will probably be a conservative estimate of your spouse's life expectancy. For example, you estimate that your spouse will live to age 85 and is now 25, the remaining years equal 60. You must determine how much money is required to produce the needed annual income over this period of time. Use the chart below to identify an investment factor. This figure considers both the yield from a lump sum invested over time as well as the impact of inflation. It assumes you would get a 2 percent real rate of growth on investments after taxes and the effect of inflation.

Years	Income Needed	Investment Factor
25		20
30		22
35		25
40		27
45		30
50		31
55		33
60 (and over)		35

Enter the investment factor corresponding to the number of years that income is needed on line D.

**E.** Multiply the needed annual income figure on line C by the investment factor on line D. If you were to die today, this would be the amount needed to generate enough income so your family could maintain its current level of living.

**Step 6.** Add together the figures in Step 1, 2, 3, 4, and 5. This is the grand total amount of money your family needs.

**Step 7.** Do you have savings or other assets that could be used to meet some of your family's expenses? Put that figure in the blank.

**Step 8.** Subtract assets (Step 7) from the total dollar amount listed in Step 6. This figure is an estimate of the amount of life insurance needed.