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Friday, 11 March 2016 12:22

If you think about the purpose of life insurance it becomes much easier to determine how much you need and for how long. Life insurance is an income replacement or liability matching tool and as long as your heirs need your income for sustenance your need for life insurance remains.

Life insurance may create uncomfortable thoughts or an assumption that it is an unaffordable expense, which are possible causes that people attempt to ignore a critical topic for their heirs' financial security. Anyone who fails to address the life insurance issue is exposing his/her family to an unfair risk.

Assume you are a married 42 year old male and the father of two children who earns $125,000 annually. To date you have long term retirement savings of $325,000 and college savings for each of your children of $25,000. Your children are ages nine and seven. In this example you have two specific insurance needs; the payment of college education and the replacement of your lost income. To cover the education need the husband and father could buy a $200,000 15 year term life insurance policy for about $200 annually. Assuming the married couple continues to save for education expense the need for the insurance will diminish over the years but they have to insure against the possibility of an immediate tragedy.

The second and larger insurance need is the father's lost income. My estimation is that the husband needs to buy about 20 years of coverage for no less than $2.25 million. By the time the man approaches 62 he should have accumulated most of the money that will be needed for retirement. At that point the need for income replacement drops significantly.

I arrive at the $2.25 million figure by assuming that the insurance proceeds will be invested and the survivors can draw about 4% from the principal value of all investments each year. Restricting draws to 4% of total investable balances will help the family to maintain purchasing power for the remainder of their lifetimes. Total investable assets with the policy proceeds will equal $2,575,000 and 4% of that amount in year one is $103,000. This doesn't equal the total lost current salary of $125,000 but you have to account for the fact that the family is now three people rather than four. For a healthy male the cost of this policy is about $1,800/year. As an option, the insured could distribute the need over two policies; one ten year term policy for $1 million and a second 20 year policy for $1,250,000. The cost savings by splitting the policies into two is about $300 annually.