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Brevard County Florida News

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QUESTION: I am a 40-year-old male with a wife and two young children. How much life insurance do I need? What type of insurance do you recommend?

Podnos: There are a variety of formulas to decide how much life insurance one needs. The first thing to consider is that there are two main reasons to own life insurance at all. One reason is to pay estate taxes in the event of owning something of value that you would not want sold at your death (to pay taxes) such as a family business. This is actually an uncommon reason to own insurance and will not be discussed further in this article.

The other and most common reason to own life insurance is to replace the lost income from a premature death. We can do some rough approximations of what a family losing its breadwinner would need in a death benefit as follows. An assumption is that any death benefit lump sum would produce a 3-5 percent long term withdrawal strategy if invested prudently. So, for every one million dollars in death benefit, a surviving family could spend $30,000 to $50,000 a year with reasonable safety.

Add up your lifestyle expenses and subtract other sources of income such as a spouse’s income (if it would continue past your death). Divide this amount by say 40,000 and multiply times $1 million. Add any future expected extra expenses to this amount and that is the approximate death benefit you probably want.

Let’s run through the numbers with some assumptions. You make $60,000 a year and spend most of it to support your wife and children. Your wife does not work outside the home. Both of your children are expected to attend college and estimated total expenses for that will be $150,000. Using the above calculations, you would want a death benefit of $1.5 million to cover the replacement of your $60,000 income loss. Add in the estimated college expenses and a policy with a death benefit of $1.5 million to $2 million dollars should be adequate.

The type of life insurance is somewhat complicated, as the main choices are term or some variety of whole life (standard cash value whole life, universal, variable are all terms you might see connected with whole life policies). The difference between term and whole life insurance is that the latter has a savings vehicle attached and is usually intended to last until death.

Many people do not need insurance as they get older, as they have accumulated savings to live on along with Social Security and other pension income. These people therefore may not wish to continue paying the premiums on a whole life policy.

The main issue is to buy the death benefit you need. One mistake I see often is the purchase of (the more expensive) whole life policy with an inadequate death benefit, rather than a term policy with enough of a payout. Good luck!

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