

DETERMINING LIFE INSURANCE NEED ASSUMING DEATH OF PRIMARY INCOME EARNER

PERTINENT INFORMATION

- Mr. and Mrs. Kugler, age 30, have children ages 3 and 1.
- Mr. K earns \$72,000 per year and Mrs. K earns \$24,000 per year.
- Mr. K has \$50,000 of life insurance.
- They have \$10,000 of liquid assets.
- Mr. and Mrs. Kugler have \$100,000 of total debt.

GOALS AND OBJECTIVES

- Mr. and Mrs. Kugler would like to know:
 - How they would fare relative to their cash and income objectives (see below) under their current arrangement at Mr. K's death.
 - The amount of new life insurance needed to meet their objectives.
- They would like to assume that the cash asset account (currently \$60,000):
 - Could earn 6%.
 - Would be depleted after 20 years.
- They would like to assume that Mrs. K:
 - Does not continue to work.
 - Does not wish to illustrate an inflation factor or Social Security COLA in the calculation.

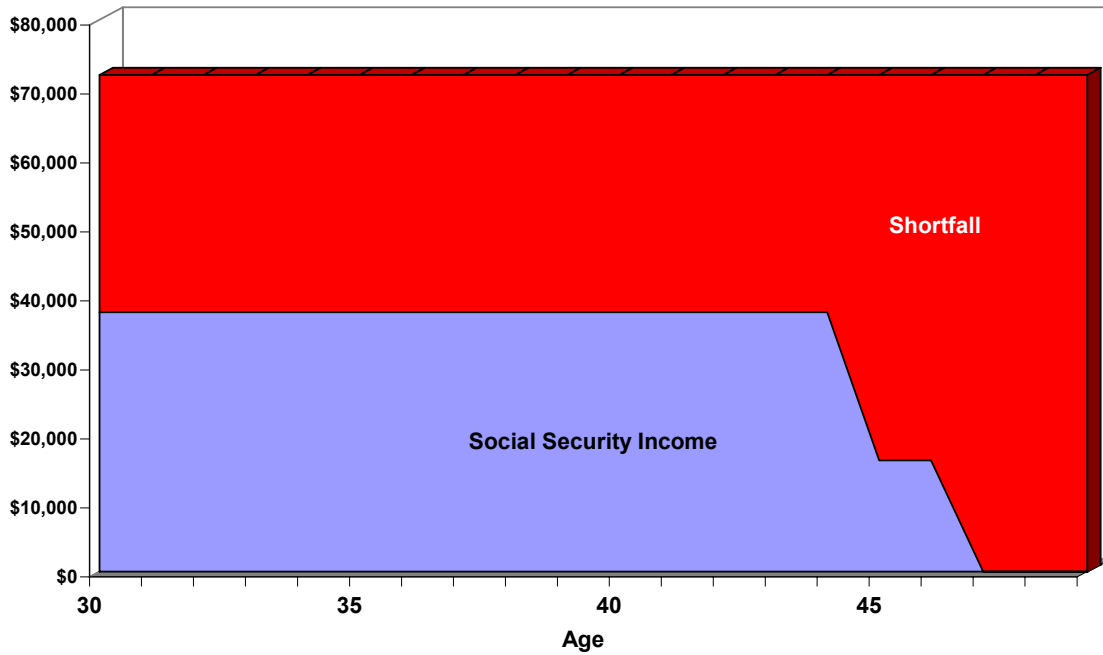
CURRENT 20 YEAR ARRANGEMENT CASH NEEDS ANALYSIS AT DEATH

TOTAL CASH AVAILABLE AT DEATH \$60,000	TOTAL CASH NEEDS AT DEATH: \$170,000	CASH NEEDED AT DEATH: \$110,000
Life Insurance \$50,000	Final Expenses \$10,000	Cash Available \$60,000
Cash Assets 10,000	Debt Payoff 100,000	Cash Needed <u>(170,000)</u>
	Emergency Fund 10,000	(\$110,000)
	Education Fund 50,000	

ANNUAL INCOME ANALYSIS

<p>ANNUAL INCOME FROM CASH ACCOUNT \$0</p> <p>Cash asset account has a shortfall</p>	<p>ANNUAL INCOME \$37,600</p> <p>Mrs. K's Income \$0 Social Security Benefit 37,600</p>	<p>ANNUAL INCOME GOAL \$72,000</p> <hr/> <p>ANNUAL INCOME SHORTAGE \$34,400 \$72,000 less \$37,600</p>
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Survivor Income Needs Analysis



Current Arrangement Income Distribution Summary of Values

Year	Age	Social Security Income	Income From Cash Assets	Total Combined Income	Income Need	Shortfall
1	30	\$37,600	\$0	\$37,600	(\$72,000)	\$34,400
2	31	37,600	0	37,600	(72,000)	34,400
3	32	37,600	0	37,600	(72,000)	34,400
4	33	37,600	0	37,600	(72,000)	34,400
5	34	37,600	0	37,600	(72,000)	34,400
6	35	37,600	0	37,600	(72,000)	34,400
7	36	37,600	0	37,600	(72,000)	34,400
8	37	37,600	0	37,600	(72,000)	34,400
9	38	37,600	0	37,600	(72,000)	34,400
10	39	37,600	0	37,600	(72,000)	34,400
11	40	37,600	0	37,600	(72,000)	34,400
12	41	37,600	0	37,600	(72,000)	34,400
13	42	37,600	0	37,600	(72,000)	34,400
14	43	37,600	0	37,600	(72,000)	34,400
15	44	37,600	0	37,600	(72,000)	34,400
16	45	16,000	0	16,000	(72,000)	55,900
17	46	16,000	0	16,000	(72,000)	55,900
18	47	0	0	0	(72,000)	72,000
19	48	0	0	0	(72,000)	72,000
20	49	0	0	0	(72,000)	72,000

PROPOSED ARRANGEMENT

- Mr. K should consider purchasing \$560,000 of life insurance.
- Mrs. K would return to work in 20 years.

PROPOSED ARRANGEMENT CASH NEEDS ANALYSIS AT DEATH

TOTAL CASH AVAILABLE AT DEATH: \$620,000		TOTAL CASH NEEDS AT DEATH: \$170,000		CASH ASSET ACCOUNT AT DEATH: \$450,000	
Existing Insurance	\$50,000	Final Expenses	\$10,000	Cash Available	\$620,000
Proposed Insurance	560,000	Debt Payoff	100,000	Cash Needed	<u>(170,000)</u>
Cash Assets	10,000	Emergency Fund	10,000		\$450,000
		Education Fund	50,000		

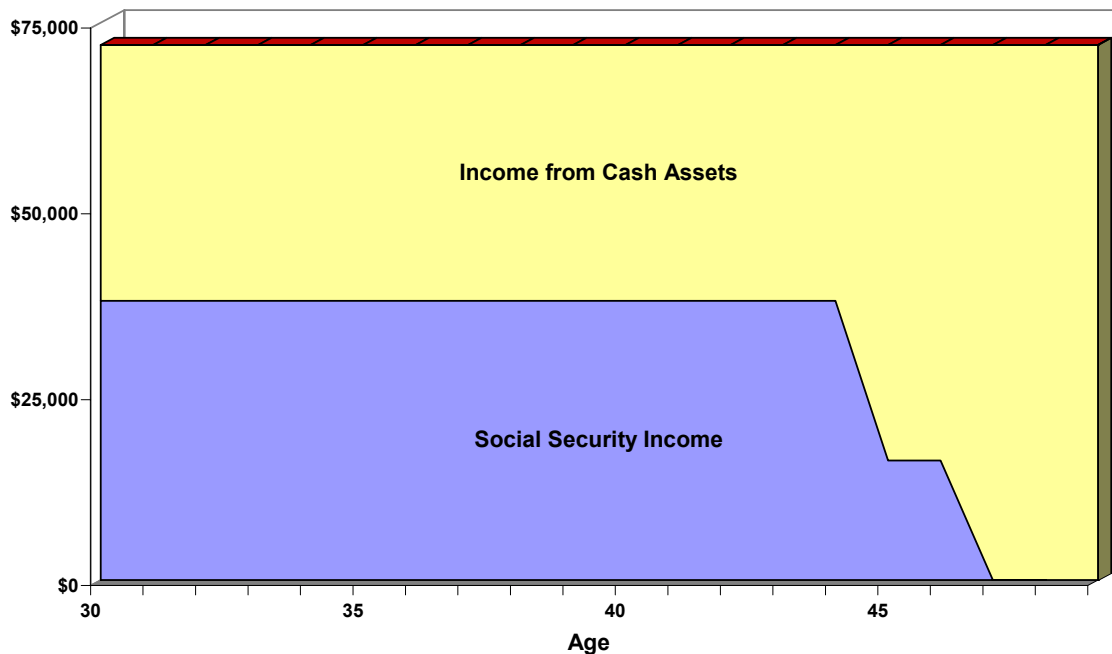
PROPOSED INCOME NEED ANALYSIS

- For years 1-15 Mrs. K and the children would receive the following annual income:
 - \$37,600 Social Security Survivor Benefits
 - \$34,400 Earnings and principal withdrawals from the cash asset account
- For years 16-17 (when the oldest child reaches age 18 and no longer qualifies for a Social Security Survivor Benefit) Mrs. K and the children would receive the following annual income:
 - \$16,000 Social Security Survivor Benefits
 - \$56,000 Earnings and principal withdrawals from the cash asset account
- For years 18-20 (when the youngest child reaches age 18 and no longer qualifies for a Social Security Survivor Benefit) Mrs. K and the children would receive the following annual income:
 - \$72,000 Earnings and principal withdrawals from the cash asset account
- Note: Inflation factors are not taken into consideration.

RESULTS AND BENEFITS

- The new life insurance will increase the total available cash at death to \$620,000 and create a \$450,000 cash asset account after total cash needs at death are met.
- The fund would be depleted after 20 years.

Survivor Income Needs Analysis



Proposed Arrangement Income Distribution Summary of Values

Year	Age	Social Security Income	Income From Cash Assets	Total Combined Income	Income Need	Shortfall	Ending Balance: Cash Asset Fund
1	30	\$37,600	\$34,400	\$72,000	(\$72,000)	\$0	\$442,600
2	31	37,600	34,400	72,000	(72,000)	0	434,756
3	32	37,600	34,400	72,000	(72,000)	0	426,441
4	33	37,600	34,400	72,000	(72,000)	0	417,628
5	34	37,600	34,400	72,000	(72,000)	0	408,286
6	35	37,600	34,400	72,000	(72,000)	0	398,383
7	36	37,600	34,400	72,000	(72,000)	0	387,886
8	37	37,600	34,400	72,000	(72,000)	0	376,759
9	38	37,600	34,400	72,000	(72,000)	0	364,964
10	39	37,600	34,400	72,000	(72,000)	0	352,462
11	40	37,600	34,400	72,000	(72,000)	0	339,210
12	41	37,600	34,400	72,000	(72,000)	0	325,162
13	42	37,600	34,400	72,000	(72,000)	0	310,272
14	43	37,600	34,400	72,000	(72,000)	0	294,489
15	44	37,600	34,400	72,000	(72,000)	0	277,758
16	45	16,000	56,000	72,000	(72,000)	0	238,523
17	46	16,000	56,000	72,000	(72,000)	0	196,935
18	47	0	72,000	72,000	(72,000)	0	136,751
19	48	0	72,000	72,000	(72,000)	0	72,956
20	49	0	72,000	72,000	(72,000)	0	5,333