LIFE INSURANCE: HOW MUCH DO YOU REALLY NEED?

Along with buying a home, paying for schooling and saving for retirement, buying life insurance is one of the most significant economic decisions you'll make. Eight out of 10 Americans have some life insurance coverage.*

Do you need life insurance?

Most people purchase life insurance to meet the future needs of a spouse, child or elderly parent. Some buy life insurance to build up cash reserves for the future when retirement or college tuition expenses loom.

To take out a life insurance policy, you need to be in reasonably good health. You may have difficulty getting coverage if you're in bad health, or if you work in a high-risk occupation. Even if your occupation or health condition makes you a less than perfect risk to insurers, however, you may still be able to obtain insurance but at a higher cost.

Insurance companies determine your risk level by reviewing personal information about you. Applications are reviewed for health factors (smoking, weight, heart disease, etc.), family history, occupation, gender, as well as a person's financial condition.

Industry statistics show that 93 percent of the people who apply for insurance are accepted at a "standard" rate, because they're expected to live a "normal" lifetime according to statistical probabilities. About five percent are accepted as a higher risk. Only about two percent of those who apply don't qualify at all.

How much insurance do you need?

Insurance should be part of an overall financial plan. It's worth taking the time to assess your net worth, review your spending habits, determine how much you need to save for retirement and estimate how you'll pay for your children's education before you determine how much life insurance you need.

When you're evaluating your needs, here's a blueprint:

- **You need to save about 5 to 15 percent of your gross income** to meet financial needs over the long term.
- **Part of your savings plan should include buying insurance** that's equivalent to about five to eight times your current wages. So, if you make $50,000 a year, you should have between $250,000 and $400,000 of coverage.

A well-drawn insurance plan looks at the assets you need to take care of your spouse, children, and in some cases your parents. This amount may decrease over the years.

Ideally, your goal is to buy or adjust your amount of insurance to cover any shortfall between your family's estimated income and expenses after your death. If we assume that the policy death benefit could be invested at six percent annually, the American Society of CLU & ChFC suggests that you buy $100,000 in insurance for every $6,000 shortfall in annual income.

Shouldn't I "buy term and invest the difference?"

This popular credo assumes you feel comfortable investing on your own, so this advice is not always correct. There are attractive life insurance plans that combine low investment fees with insurance tax breaks.**

*Source: American Council of Life Insurance, *From "Starting Smart," by Alan Lavine, Consumers Digest, September/October 1996. **Some Insurance Deals OK As Investments. Linda Stern. The Washington Times (Reuters New Service). November 13, 1996. Page B7.*

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