

How to think about APPROPRIATE AMOUNTS of LIFE INSURANCE

While there are many calculators online that generate specific results, they often give conflicting or confusing answers. This resource is designed **to help you understand the major considerations** for determining appropriate amounts of life insurance for your unique situation - for you, your family, and your business.



FOR YOUR FAMILY

PERSONAL EARNINGS
POTENTIAL

A Your Personal, Annual Income

MULTIPLY BY

How many more years
do you plan to be earning
this income?

= Subtotal Income Replacement

B Expected Protection Considerations See examples on reverse side

= Subtotal Concerns Coverage

= **Total Personal Life
Insurance Amount**



FOR YOUR BUSINESS

BUY-OUT & KEY
PERSON PLANNING

A Total Value of the Business

MULTIPLY BY

Percent Ownership Interest

= Subtotal Buy Out Coverage

B Your Non-Owner Compensation

MULTIPLY BY

5 years (est. between 3 and 10 years)

C Key Person Compensation for Partners & Executives

= Subtotal Key Person Coverage

= **Total Business Life
Insurance Amount**



PUTTING IT ALL TOGETHER

A Amounts: Compare the calculated amounts to your objectives, assets, and cash flow concerns

B Type: Select the right types of Life Insurance

C Ownership: Consider who or what should own the policies, for taxes & benefits



Speak with a specialist to
hone in on what would be
most appropriate for you.

APPROPRIATE AMOUNTS OF LIFE INSURANCE CASE STUDY

Hypothetical Scenario:

- Jane is 40 years old, married with two young children, and owns a successful business called Spectrum Co.
- Jane has a partner in her business and hopes to be able to sell the business and retire in 25 years.
- Jane makes \$250k a year in salary and plans to make more over time.

How might Jane think about **how much money would be enough** for her family & business, should anything happen to her?



FOR HER FAMILY

A Jane's personal, annual income:

- \$250,000 as W-2 from Spectrum
- \$50,000 as K-1 distribution
- \$300,000 Total Income

How many more years does she plan to be earning income from her business?

- 25 years (to age 65)
- \$300,000 x 25 years = **\$7,500,000**

Jane might double-check this subtotal against her mortgage (\$850k), college funding (est. \$376k), and her family's annual cost of living for 25+ years.

B Her expected planning considerations:

- ☒ Expected income increases: **3% per year** (adjusted as \$10.9 MM)
- ☐ Inflation over time:
- ☐ Large liabilities or debts:
- ☐ Planned, but not yet funded, major expenses:
- ☒ Life Insurance for her Spouse: 50% of Jane's coverage = **\$3.75 MM**
- ☒ Life Insurance for her Children: up to \$2.25 MM each = **\$4.5 MM**
- ☐ Legacy Planning:

= \$19.2 MM Total Family Life Insurance Amount



FOR HER BUSINESS

A Total Value of Spectrum Co.:

- \$10,000,000

Jane's Percent Ownership Interest:

- 60% of Spectrum Co.
- \$10 MM x 60% = **\$6,000,000** in buy-out insurance

In a worst-case scenario, Jane's partner could use the death benefit from a life insurance policy to buy out Jane's share of the business.

B Jane's Non-Owner Compensation:

- \$250,000 per year
- Multiplied by 5 years: = **\$1,250,000** in key person coverage

C Other Key Person Considerations:

- ☒ Partner: \$200,000 per year in non-owner compensation x 3 years = **\$600,000** in coverage
- ☐ Other Key People (who materially impact revenue and profits of the business)

= \$7.85 MM Total Business Life Insurance Amount



PUTTING IT ALL TOGETHER

A Amounts: Compare & prioritize coverages

- Jane will work with a specialist to determine specific amounts of insurance for her situation. Together, they will factor in her objectives, assets, and cash flow.

B Type: Select the right types of insurance

Certain types of life insurance are more effective or efficient at:

- Protecting against interruption to income
- Generating lasting wealth
- Creating a Tier 1, Promise-Based Asset™
- Planning multi-generational legacies
- Suiting Phases of Life: Early Career, Mid Career, Late Career, Retirement, etc.

C Ownership: See how this impacts taxes

- Who or what entity owns insurance policies can be a complicated matter - and have a big impact on taxes.

Jane's next step

is to speak with an insurance specialist (and her CPA) to hone in on what would be most appropriate for her.