PPROPRIATE 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.









MULTIPLY BY

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

= Subtotal Income Replacement

Expected Protection Considerations See examples on reverse side

- = Subtotal Concerns Coverage
- = Total Personal Life **Insurance Amount**

Total Value of the Business

MULTIPLY BY

Percent Ownership Interest

= Subtotal Buy Out Coverage

Your Non-Owner Compensation

MULTIPLY BY

5 years

(est. between 3 and 10 years)

Key Person Compensation

for Partners & Executives

- = Subtotal Key Person Coverage
- = Total Business Life **Insurance Amount**

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

- **Type:** Select the right types of Life Insurance
- 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

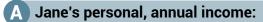
Hypothetical Scenario:

- 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



- \$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 nonowner 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



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.