How to Do a “Needs Analysis” Before you Buy Life Insurance

http://www.insure.com/articles/lifeinsurance/life-insurance-needs-analysis.html

When buying life insurance, don’t choose a policy before you understand the financial needs of your beneficiaries.

Damon Bates, a vice president at Massachusetts Mutual Life Insurance Co., says most people’s thinking is backwards when it comes to life insurance. They decide on the product they want — whether it’s basic term life insurance, permanent life insurance or a combination — before they consider how much protection they need.

“You really need to figure out how much life insurance you want and then think about which product, in that distinct order,” Bates says.

The best way to determine how much life insurance — if any — you should buy is with a needs analysis. A new study by the international insurance consulting group LIMRA finds that people are 1.5 times more likely to buy life insurance if they first do a needs analysis.
Analyze current and future expenses

A good needs analysis will look at immediate, ongoing and future expenses, says Curt Lundquist, a financial consultant with Allstate Financial.

Immediate expenses include any outstanding medical bills and the cost of a funeral, he says. Ongoing expenses include your mortgage and any other outstanding debt you have.

People typically want their families to be able to pay off their debts when they die. “Debts are a much bigger issue today than they have been in the past,” Lundquist says.

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“The mortgage is another thing you’ll want to pay off at death because it’s such a big part of the budget,” he notes.

Ongoing and future expenses might include sending your children to college. Consider whether your children are likely to seek advanced degrees and spend more time in school. “The more detail you can provide about the cost of college, the better,” he says.

What you’re worth to your family

Bates says his company looks at your lifetime economic value to help you determine the amount of life insurance to buy. The formula is based on your answers to these questions:

How old are you?

How much do you earn before taxes?

What’s the annual value of the things you do for your family, such as chauffeuring kids, cutting the lawn, or whatever your survivors would have to pay else someone to do?

How much do you pay in taxes?

How much do you receive in employee benefits, such as health insurance and contributions to retirement savings?

At what age do you plan to retire?

How much do your beneficiaries need for personal necessities such as food, clothing and transportation?

A good needs analysis also considers how much the death benefit from the life insurance policy is likely to earn if it’s invested, says Larry Ginsburg of Ginsburg Financial Advisors in Oakland, Calif., a longtime board member of the United Policyholders consumer advocacy group.

Be honest when doing a needs analysis, Ginsburg advises. The insurance company selling you a policy isn’t likely to ask for tax returns to verify the information you’ve provided, but the final analysis will be only as good as your answers.

You can find calculators online to do your own needs analysis. For example, Insure.com offers a life

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insurance calculator.

“Some folks are comfortable taking a pass at it themselves before they go and talk to an agent,” Bates says. Others prefer to have an agent do it for them.

Lundquist says that while online calculators are a good starting place, everyone’s needs are different, “so one form can’t work for all of us.” A good agent or financial planner will start with a basic form, he says, but customize the questions “and go deeper” to come up with a more accurate figure.

Ginsburg recommends asking several agents to do separate analyses. “You should get more than one proposal from more than one life insurance company so that you can compare life insurance quotes.”

He says you should review all your policies — including auto, home and disability insurance coverage — to be sure they’re meeting your needs. “If your goals and objectives change, so could your insurance needs,” he says.

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