

TABLE 16-1 Formula for Calculating Required Amount of Life Insurance Coverage

Calculation	Amount
1. How much money does your family need (after taxes) on an annual basis?	\$80,000
2. If your spouse works, how much after-tax wages does he or she earn, and will that wage be the same after your death?	\$30,000
3. Subtract line 2 from line 1.	\$50,000
4. How much could your spouse conservatively earn on his or her investments after you are gone?	5%
5. Divide line 3 by line 4. (This is the amount required that, at a 5% return, will provide \$50,000 annually.)	\$1,000,000
6. How much savings and investments do you have in your IRA, 401(k), profit-sharing plan, real estate, certificates of deposit, etc.?	\$200,000
7. Subtract line 6 from line 5.	\$800,000
8. Subtract current life insurance, including group insurance.	\$250,000
9. Add educational expenses or other planned expenses.	\$100,000
10. This result is your current additional insurance need.	\$650,000