

Is a Million Dollars Enough?

If your clients left \$1 million to their family in the form of a life insurance policy's death benefit, would it be enough? You may be surprised at the answer.

A Quick Case Study

Tom and Susan are a married couple with:

- A \$200,000 mortgage
- Annual incomes of \$60,000 each
- Two children, ages 2 and 4

In the event Tom or Susan should pass away, they want:

- To provide for their children's education
- Their family to be able to pay off all expenses and debt
- Their family's standard of living to remain the same
- The surviving spouse to retire comfortably

Upon the passing of one spouse, the other spouse receives the \$1 million benefit. Subtract from that the mortgage, college costs of \$95,000¹ and funeral and other final expenses of \$5,000, leaving a lump sum of \$700,000. A hypothetical return rate of 6% would create an annual income stream of \$42,000. That amount replaces only 70% of the spouse's missing income (\$60,000) with no adjustment for inflation.

If Tom and Susan would like to maintain the annual pre-tax income of \$60,000 (and assuming a 3% inflation rate and an annual pre-tax investment rate of 6%), the lump sum will last only 14 years.

¹ *Based upon both children attending school with current tuition of \$20,000 a year, taking into account 4% inflation and 8% return on a lump sum of money for 16 and 14 years, respectively.*

In the case of Tom and Susan, a surviving spouse would only be able to maintain the family's current standard of living for 14 years. What are your clients' needs, and do they have the appropriate coverage in place?