

Name Answer Key

Financial Math

Life Insurance Review Packet

**Figuring Out How Much Life Insurance to Buy**

Maria is married with two children, ages 11 and 9. She has a mortgage balance of \$310,000. Between Maria and her spouse they have \$115,000 outstanding in student loans and \$58,000 in car loans. The property taxes on Maria's house are \$11,000 per year. Her spouse makes \$72,000 per year in salary from his job. They plan on sending their kids to public colleges, and estimate a cost of \$30,000 per year for college. *\$6000 in recurring monthly bills*

**Step 1 – Total Big-Ticket Bills:**

- Mortgage Balance \$ 310,000
  - Student Loans Balance \$ 115,000
  - Car Loans Balance \$ 58,000
  - 3 year Property Tax Cushion \$11,000 x 3 = \$33,000
  - Kid(s) College Fund 2 x 4 x \$30,000 = \$240,000
- A. **Total Amount of Big-Ticket Bills to Pay Off** \$756,000

**Step 2 – Does Maria need interest income from the life insurance over a period of many years?**

- B. Recurring Monthly Bills (LIPA/Oil/Car Insurance, Groceries, etc) \$6000
- C. Spouse's Yearly Income \$72,000
- D. Spouses Monthly Income (Line C ÷ 12) \$6000
- E. Spouses Monthly Net Income After Taxes (Line D x .70) \$4200
- F. Monthly Interest Income Needed (Line B – Line E) \$1800
- G. Yearly Interest Income Needed (Line F x 12) \$21,600
- H. **Investment Amount of Life Insurance Needed (Line G ÷ .065)** \$332,308

**Step 3 – Spending Money**

- I. **Amount of Spending Money/Basic Savings** Whatever number you feel is appropriate 100,000

Total Life Insurance Needed (Line A + H + I) \$1,188,308  
*about 1.2 million*