Step 2: Figure out how much life insurance you and/or your life partner should have. If you've determined that you need life insurance, your goal will be to buy enough coverage so that the amount you get in case of a death creates the income needed to make up for your family's income deficit. In other words, the beneficiaries should be able to live off the income generated by the death benefit without dipping into the principal. The principal should continue to generate income indefinitely.

With this in mind, and as a rule of thumb, I would figure on needing about $120,000 in insurance for every $500 of monthly income your family requires. So let's say, for example, that your household needs $3,000 a month to cover all expenses and income taxes, and that your worst-case scenario is that the survivors in your family will have no wages or other income—they'll need the full $3,000. To figure out how much insurance you'll need, you would divide $3,000 by $500 and get a factor of 6. In this case, your insurance policy should be 6 times $120,000—or $720,000 worth of insurance coverage.

Now let's calculate how much projected monthly insurance income you or your life partner may need. In the next box, "Monthly Insurance Income Needed," copy the "Difference" (deficit) figure for you and your life partner from the "Where Would We Stand in Case of a Death?" box. Divide by 12 to come up with the projected monthly insurance income needed. (Both of these boxes can also be found on the Protection Portfolio CD-ROM as part of the "Where Would We Stand in Case of a Death?" worksheet.)

MONTHLY INSURANCE INCOME NEEDED

			Monthly Insurance Income Needed
My Deficit	$	divided by 12 =	$
Partner's Deficit	$	divided by 12 =	$

Now take the "Monthly Insurance Income Needed" number for you and your life partner and plug those figures into the "What the Death Benefit Needs to Be on My/My Life Partner's Insurance" chart below to find out what the death benefit on your insurance policy should be.

WHAT THE DEATH BENEFIT NEEDS TO BE ON MY/MY LIFE PARTNER'S INSURANCE POLICY

	Income I Need	Income My Life Partner Needs
Projected deficit/monthly insurance income needed is A:	A $	A $
Divide A by $500 to get B:	B $	B $
Multiply B by $120,000 to get C:	C $	C $

C is the amount of death benefit you need in an insurance policy.

Step 3: Estimate how long you and/or your life partner will need life insurance. Remember, life insurance was never intended to fill a permanent need. As the years go by, the money you're putting away in retirement accounts, the money you may accumulate on your own, and the decreasing size of your mortgage will probably diminish—or even eliminate—your need for life insurance. Bottom-line goal: By the time you're retired, your need for life insurance—and the necessity to pay premiums on a policy—should be gone. If you have children, you may want to continue to carry some life insurance to provide for them into early adulthood—typically until your youngest child is 24. By that time, if anything unexpected were to happen to you, your children should be able to support themselves.

Please note: Whatever your circumstances, never, *never* cancel or attempt to change a life-insurance policy without undergoing a thorough physical exam. If there's a medical reason to keep your insurance, you may decide to keep a policy you wouldn't otherwise need.

That said, please estimate how many years you and/or your life partner will need life insurance. Write your estimates in the following spaces:

I will need life insurance for____ years.

My life partner will need life insurance for___ years.

Step 4: Decide what kind of life insurance you and/or your life partner should purchase. In my opinion, there's only one kind of life insurance that makes sense for the vast majority of us, and that's term life insurance. Term insurance is the simplest kind of insurance you can buy, a just-in-case policy that offers the promise of a death benefit for the finite length of time for which you need protection. Term policies aren't very expensive because the insurance company knows that you have relatively little chance of dying—and therefore of triggering the payment of a death benefit—while the policy is in force. By contrast, with whole-life or universal insurance, you're expected to keep the policy for the rest of your life and to die with it, so the insurance company knows that it will almost certainly have to pay the death benefit. The company sets its premium accordingly.

While it's true that whole-life and universal policies accrue cash value, and that if you decide not to keep your policy or you suddenly need money, you can cash out at the policy's cash value, it's also true that there are much better ways to save for your future financial needs. Commissions on whole-life policies are some of the most lucrative commissions anywhere—and you're paying them. If your goal is to put money aside, you'd be much better off dollar-cost averaging into a good no-load mutual fund. If your goal is to ensure that your loved ones will have enough to live on in case of your unexpected death, low-cost term insurance is almost certainly the way to go. Decide for yourself by looking at the next chart.