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So I am about to leave the military – how much life insurance do I need?

By Chuck Rush

Congratulations, you have made your decision to leave the military! Among the many decisions you are going to make, determining how much life insurance you may need after your transition is among them. This transition brings about changes in your income, expenses, and other aspects of your personal and professional situation. This is an opportune time to reevaluate you and your family's insurance requirement and determining how much you may need to purchase.

There are a variety of methods to evaluate your life insurance need. Here are some common areas that people factor into their decision making when identifying how much insurance to purchase.

Debt. A common death benefit amount is the sum of your total liabilities, such as a mortgage, credit card and student loan debt, or a car loan. Depending on your circumstances leaving the military, you may increase the amount of debt you hold such as buying a home in your new location versus renting or living in base housing.

Income Replacement. Here, the need is to replace the insured's income for a specified period of time. This could range from a few years to the remainder of a surviving spouse's lifetime. The amount of income to be replaced could be offset by survivor benefits such as Social Security, Dependency and Indemnity Compensation (DIC), and the Survivor Benefit Plan (SBP) annuity. Including these sources of survivor income could reduce the amount of insurance required to replace income – it just depends on what you choose to decide as a family is necessary.

A key part of this decision is to making assumptions about how the death benefit could be invested to replace income. Some common investments used to replace lost income are annuities and investment income such as dividends and interest. Another decision to potentially make could be preserving the principal on those investments or using them as part of the income need. Other assumptions to consider may be the expected rate of return on investments, inflation outlook, future tax rates, etc.

Financial Goals. Depending on your situation, some may choose to use insurance to satisfy financial goals such as funding college, purchasing a new home if the decedents choose to relocate, or other goals. In this case, having a financial plan to quantify these goals may help determine the death benefit amount needed to achieve these goals. A key factor is determining when these needs may occur. College education may only apply to a specific window of time whereas relocation may be more of a permanent goal.

Estate and Probate Costs. For some, there may be situations where a portion of your estate could exceed the estate tax exemption limits. For these cases, insurance may be a way to pay estate taxes and probate costs. This could reduce the need to liquidate assets to settle an estate, especially when some assets are hard to sell on short notice such as a home or business.

Given these potential needs, how does one arrive at some figure? And more importantly, how much is that going cost? Working a financial planner may help you evaluate this important decision and provide you with options to consider. In my next article, I will dive into the income replacement need and provide you with some analysis of the different options and techniques available protect your future income.

Check out this article and others on my LinkedIn page and website:

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