

# How much Life Insurance should be enough?

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**H**ow much of life insurance is enough for an individual? The real answer, as is true for most important questions, is “Depends on your/your family’s situation”. There are a few rules of thumb to help you figure what’s the appropriate value of life insurance; they in essence suggest a multiple of 8-10 times the individual’s income.

However, two individuals with the same income but with different personal and household circumstances may need very different levels of insurance cover.

It is best to get a trained insurance professional to help assess the specific requirements in your case. Below are a few pointers, on what factors to consider when assessing your life insurance requirement:

**Replacement of income and maintaining lifestyle:** The easy one since you understand your income and expenses. However, do note that in your absence, additional expenses may be required such as domestic help and child care requirements. Hence, work out a robust estimate of household expenses - both the ‘with’ and ‘without’ you scenarios.

**Ensuring your child’s future is not compromised:** When you are employed/running your business, it’s easy to underestimate how much your child’s future education and life goals are dependent on your continued (and perhaps increasing) income and wealth in the next 10-20 years. In your absence, suddenly those future expenses may loom large.

Hence, plan separately for what would be required to meet your children’s education and life goals such as marriage and setting up a business or profession, and ensure your insurance cover provides that amount.

**The loans you availed:** Jot down all the loans and other liabilities that you have. Often we ignore short-term borrowings such as advances from employer, personal loans, or car loans. In the absence of an income, even a short term liability can be difficult for your spouse/ family to extinguish quickly without impacting other



priorities. Ensure your insurance cover explicitly covers immediate repayment of all loans at any point of time.

**Family commitments:** Often there are commitments we have made for our parents or extended family which don’t seem difficult when you are around, but can be onerous in an unexpected situation. Plan and account for these expenses as you would for your own sustenance.

**Your partner for life and beyond:** It is easy to imagine a cozy retirement with your spouse, but is tough to plan ahead for an extended span of living without work. With increasing longevity, it is important that your insurance also creates a pot which can help your spouse live with dignity in the golden years even if you’re not around.

Ensure that your life cover is enough that supports your spouse beyond the children’s requirements, particularly since medical and age-related expenses are likely to grow.

The above pointers can guide you this point of time, but the need for insurance

will change during your lifetime. It’s best to review your insurance coverage, ideally every few years.

At least on key life milestones such as marriage, addition of a new family member, significant change of employment or business circumstances, or kids leaving home for higher education, one should review the coverage and assess if one would like to increase or decrease the level of insurance cover.

Finally, insurance is an “intangible”, a promise for the unforeseen future that should be enough so that it gives you ‘peace of mind’ today.

Assessing ‘how much is needed’ can only provide a rough guide basis your financial circumstances; the comfort of knowing, for sure, that your family’s tomorrow is well protected, is priceless. Use the above as a guide but also take care to share and let your loved ones know how you’re planning for the unplanned events.

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