Policy Review

Case Study and Worksheet

Policies issued by American General Life Insurance Company and
The United States Life Insurance Company in the City of New York, members of
American International Group, Inc. (AIG)

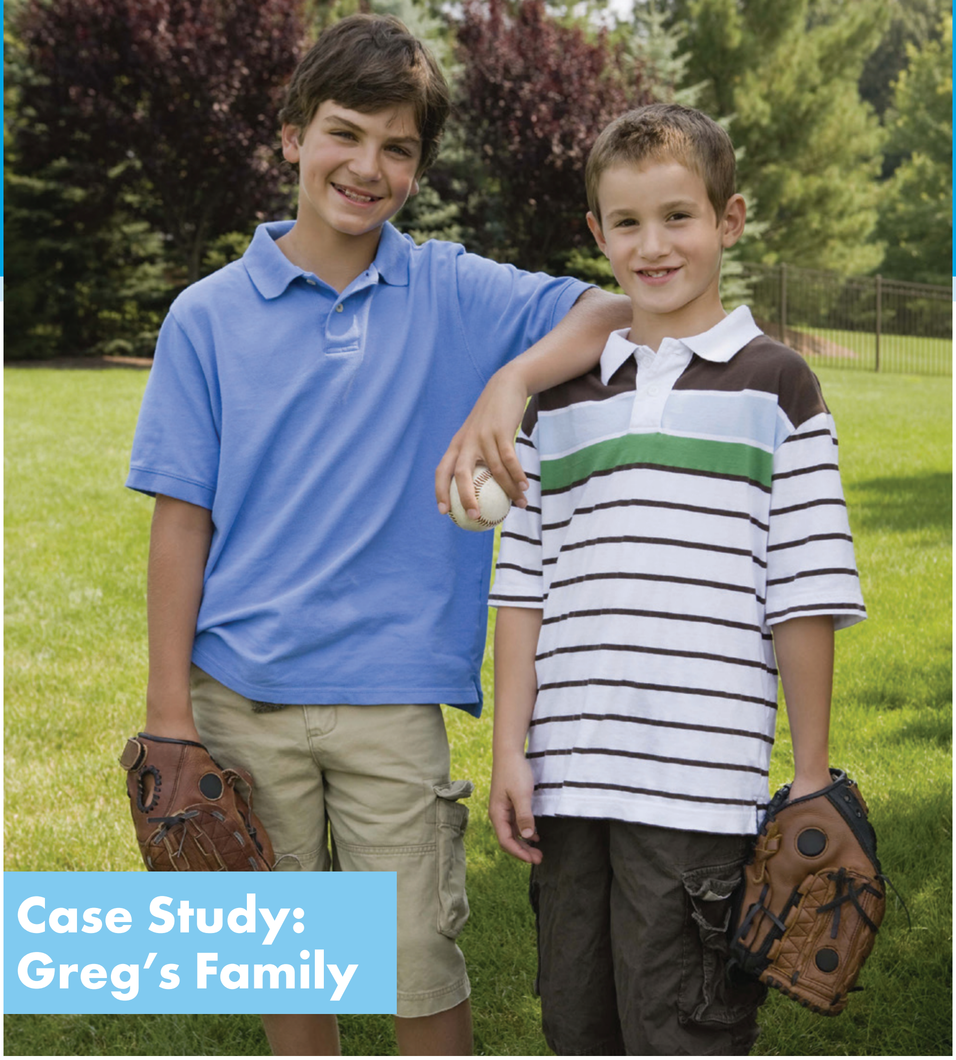
Why a Policy Review?

Some clients are puzzled when their financial professionals ask to schedule a review of their life insurance coverage. "I haven't had any problems with my policies," they often point out, "so why do I need a review?"

You can answer your own question by thinking about how your life may have changed since you purchased your policies. Was there a marriage or divorce? Did you start a new business? Acquire new property? Perhaps you earned a promotion, changed jobs or have children entering college — or finishing college and setting out on their own?

Additionally, competitive forces over the past several years within the life insurance industry have provided innovative designs in features, benefits and costs, which may need to be considered in your planning process.

Chances are, your life is quite different now from when you purchased your policy — and so are your insurance needs. A systematic policy review with your financial professional is the best way to ensure that your coverage continues to keep up with your needs. To illustrate this point even further, let's take a look at a hypothetical representation for illustrative purposes only case study.



Case Study: Greg's Family

As a partner in a prestigious law firm, Greg enjoys a comfortable lifestyle with his wife Sara and their two teenage sons, Justin and Kevin. Greg remains very actively involved in the management of his securities portfolio — but he hasn't thought about life insurance since just after the boys were born.

When Greg purchased his life insurance policy, he and Sara were living in a modest two-bedroom home, still paying off their student loans, and earning a combined total of $100,000 a year. Their insurance agent at the time recommended $500,000 in coverage. In the fourteen years that have elapsed since then, the family has:

- Moved twice, each time to a larger and more expensive home
- Enrolled the boys in private college-prep schools
- Purchased a lake house — and a boat to go with it — for summer vacations
- Gradually adopted a more upscale lifestyle as Greg's income grew
- Planned to send the boys to college at Princeton
- Begun taking care of Sara's mother

So if something were to happen to Greg with his current coverage, the family would find it difficult to maintain their way of life. Perhaps Sara would have to bring in more income by going back to work, or perhaps the boys would have to change their college choice.

Fortunately, Greg's current financial professional alerted him to the importance of a regular policy review. After taking this step, the advisor recommended that he augment his coverage to ensure the continued protection of his loved ones and their way of life. Greg has now established a means of protecting his family and transferring his wealth in a tax-efficient manner.

Policy Review Guidelines

SECTION 1: CURRENT CASH REQUIREMENTS

a. **Final expenses:** This estimated cost includes medical expenses not covered by your healthcare policy (deductible plus any coinsurance), funeral expenses (estimate $10,000 or more depending on arrangements desired) and probate costs.

b. **Emergency fund:** Financial experts recommend that you set aside up to six months' salary for any household or personal emergency that might arise. The emergency fund might vary, depending on your family's circumstances.

c. **Mortgage balance:** Many people select a life insurance benefit large enough to pay off their mortgage balance.

d. **Outstanding loans:** Determine total outstanding debts (principal), such as loans and credit card balances.

e. **Education costs:** Calculate future college expenses for your children. The current average costs are approximately $48,510 per year for a four-year private school education and $37,430 per year for a four-year public school education. This includes tuition, fees, books, supplies, room and board, transportation, and other personal expenses. The cost of a college education can increase by 3.5 percent annually (Source: *College Board, Trends in College Pricing*, College Board 2018).

f. **Total cash required:** Add the amounts in lines a through e.

SECTION 2: CURRENT CASH REQUIREMENTS

g. **Monthly income requirement:** Generally, it is estimated that a family will require 60 to 80 percent of prior total income following the death of one spouse. Existing sources of income could include the surviving spouse's earnings, Social Security survivor benefits, rental income and employer-provided benefits. Determine only the additional amount needed after considering all available sources of income, then divide by 12 months. For example: $40,000 x 70% / 12 = $2,333 = monthly income requirement

h. **Cash reserve factor:** To complete line h, multiply the total monthly income requirement (g) by the factor from the chart below, located to the right of the number of years your family would like to continue that income after your death.

For example: You determine your family's needs for the next 20 years at $2,500 per month. $2,500 x 218.6748 = $546,687

This formula is based on a time value analysis for determining future cash needs, assuming a 3 percent annual increase in inflation and a 4 percent return on the lump-sum death benefit.

Number of Years	Factor
15	167.6727
20	218.6748
25	266.8802

SECTION 3: ASSETS *(k through p)*

Determine your estimated assets as indicated on the worksheet.

SECTION 4: HOW MUCH WILL YOUR LIFE INSURANCE COST?

Ask your financial professional to prepare a personalized proposal for you and your family.

Policy Review Worksheet

CURRENT CASH REQUIREMENTS

a. Final expenses ____________

b. Emergency fund ____________

c. Mortgage balance ____________

d. Outstanding loans ____________

e. Education costs ____________

f. Total current cash requirements (a + b + c + d + e) ____________

LONG-TERM CASH NEEDS

g. Monthly Income Requirement ____________

h. Cash Reserve Factor ____________

i. Total Cash Reserve Required (g x h) ____________

j. Total Current and Long-Term Cash Needs (f + i) ____________

ASSETS

k. Cash and Savings ____________

l. Securities ____________

m. IRA, KEOGH, 401(k), Pension ____________

n. Life Insurance in Force ____________

o. Other Assets ____________

p. Total Assets (k + l + m + n + o) ____________

LIFE INSURANCE NEEDED

(j - p) ____________

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