



John and Sarah Livingston

HUMAN LIFE VALUE INSURANCE ANALYSIS
November 18, 2009

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Human Life Value Analysis

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Types of Life Insurance

Term Insurance

This type of Life Insurance provides coverage on the insured for a specified period of time (5, 10, or 20 years for example) as long as the premiums are paid and the policy is not canceled.

Annual Renewable Term

Provides a fixed amount of coverage for one year and allows the policy owner to renew the coverage each year, without evidence of insurability.

Level Term

Provides a fixed amount of coverage with premiums that are fixed over a certain period of time, often in 10 year increments.

Decreasing Term

Provides for coverage that decreases throughout the term of coverage, while the premiums remain level. Often times used for a short term decreasing liability like a mortgage.

Permanent Insurance*

Permanent Life Insurance provides coverage for the insured's entire life - as long as premiums are paid on time and the policy is not canceled - and generally allows for a build up of cash value. The most common types of Permanent Insurance are:

Whole Life

The oldest kind of permanent insurance, where premiums are fixed and guaranteed and remain level throughout policy's lifetime. Provided premiums are paid on time, this coverage also provides a guaranteed cash value and guaranteed death benefit, all backed by the issuing insurance company.

Universal Life

Universal Life allows the owner after the initial payment to pay flexible premiums. The owner may change the death benefit from time to time (increase in coverage may require evidence of insurability) and vary the amount and timing of premium payments subject to certain minimums and standards.

Variable Universal Life

A form of permanent coverage that combines premium and death benefit flexibility with allowing the policy owner to choose among different investment options. Values fluctuate based on market volatility. Variable universal life insurance is sold by prospectus. Before purchasing a variable universal life insurance policy, investors should carefully consider the investment objectives, risks, charges and expenses of the variable universal life insurance policy and its underlying investment choices. For this and other information, obtain the prospectuses for the variable universal life insurance policy and its underlying investment choices from your registered representative. Please read the prospectuses carefully before investing or sending money. The extent to which this form of coverage is permanent is also dependent on the performance of the underlying investments. Variable life insurance policy holders are subject to investment risks, including the possible loss of principal invested.

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A Feature Comparison of Term and Permanent Life Insurance

Feature	Term	*Permanent
Length of Coverage	Specific Period of time as long as premiums are paid.	Lifetime as long as premiums are paid
Premiums	<ul style="list-style-type: none"> • Determined by age and health • Typically lower than permanent coverage 	<ul style="list-style-type: none"> • Determined by age and health • Initially higher than term coverage with portion to cash value
Cash Value	Not Available	Accumulates on a Tax Deferred Basis
Face Amount	Typically Level	Level and/or Flexible
Key Advantage	Provides the highest death benefit for lowest premium when need is temporary.	Provides lifetime protection combined with cash value accumulation.

**Length of coverage is permanent for whole life as long as premiums are paid. This may not be true of variable life or variable universal life insurance.*

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HLV Analysis - Client

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Loss of Income

When calculating Human Life Value, the single largest financial impact to the survivors is the loss of the deceased's annual salary and bonus.

For this analysis, we'll assume that **John** dies this year, and that we need to take into account the impact of the resulting lost income for the next **15** years.

This premature death is expected to cause a loss of income of **\$100,000** for **2009**. We assume that over the **15** years that this analysis covers, this income will grow annually at a rate of **3.000%** due to raises and cost of living adjustments. We further assume that this income will be taxed at a **25.000%** effective rate.

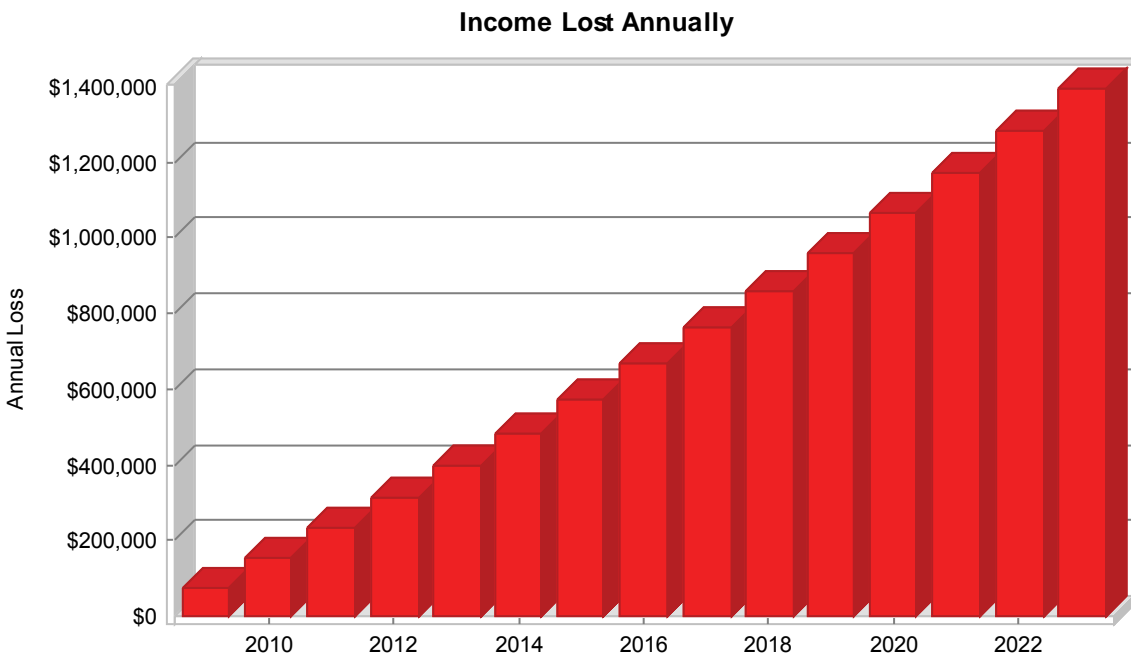
Income Lost this Year	\$100,000
Income Lost (Net of Taxes)	\$75,000
Years of Lost Income	15
Total Lost Income	\$1,394,919

How much income is lost over time?

It can be difficult to grasp just how much income you can expect to earn over a period of time. In this analysis, you are expecting to need to provide for the replacement of **15** years of income, spanning from today until the year **2023**. This amounts to a total of **\$1,394,919** in lost income over this period of time.

How much income is lost annually?

The chart below illustrates the annual amount of lost income amounts you can expect over **15** years, from today until the year **2023**.



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Expense Adjustments

Another potentially important factor when calculating Human Life Value are the other financial impacts that a premature death can have on the surviving family members. One common example is the loss of employee benefits received from the deceased's company during their lifetime. The sudden loss of healthcare benefits, including health insurance, prescription plans, dental plans, eyecare plans, and tax advantaged flexible spending accounts, can account for a sizable increase in a household's expenses. Other expense increases to consider include the need for additional child care and the need to pay for home and property maintenance work that the deceased would have performed.

The worksheet below is based upon the assumption that **John** dies this year, and that expense adjustments will continue for **15** years. It is further assumed that the underlying adjustment amounts grow annually at a rate of **3.000%** due to inflation.

Additional Expenses this Year	\$15,000
Reduction of Expenses this Year	\$9,500
Net Expense Adjustment this Year	\$5,500
Total Expense Adjustment	\$102,294

What expense additions and reductions can you expect?

The death of **John** will cause the following additional expenses:

Annual Additions to Expenses

▶ Healthcare Costs	\$10,000
▶ Home & Property Maintenance	\$3,000
▶ Other Additional Expenses	\$2,000
Total Additional Expenses	\$15,000

Annual Reductions to Expenses

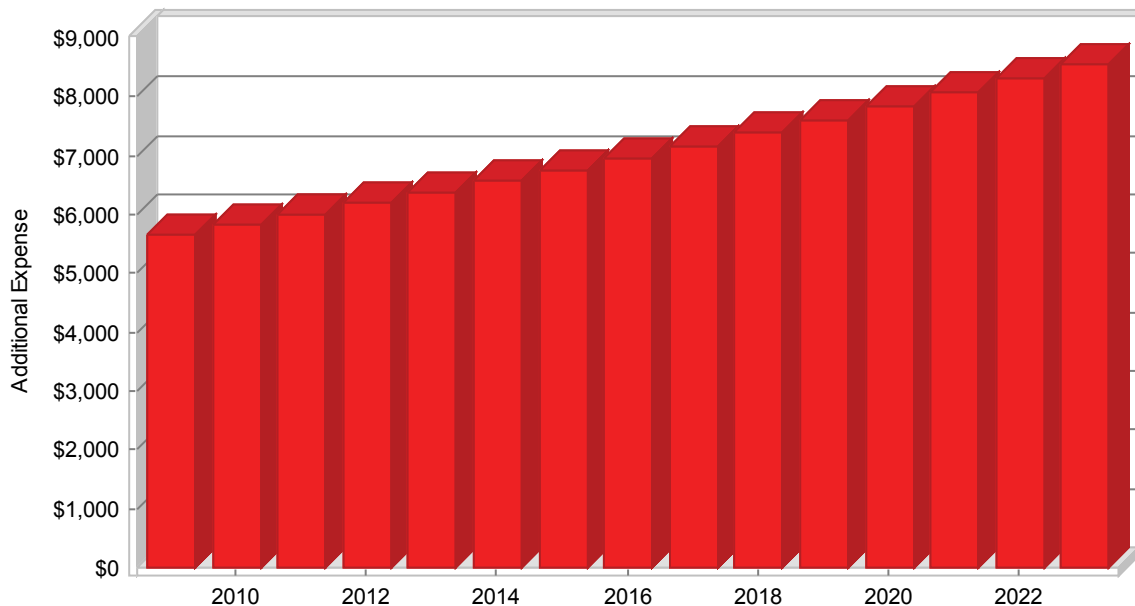
▶ Deceased's Personal Expenses	\$2,500
▶ Automobile & Commuting Costs	\$4,000
▶ Insurance Premiums	\$3,000
Total Reduction of Expenses	\$9,500

The adjustments defined add up to an overall **increase** in the survivors' expenses by **\$5,500** per year. This represents a total of **\$102,294** over 15 years.

Annual adjustments to expenses

The chart below illustrates the annual adjustments to expenses that you can expect over **15** years, from today until the year lost income amounts you can expect over **15** years, from today until the year **2023**.

Additional Annual Expenses



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Calculating HLV

Human Life Value is determined by performing a "present value" calculation of the financial impact caused by **John's** premature death. Present valuation is the amount of money a person would need today in order to make up for the financial impact over the next **15** years.

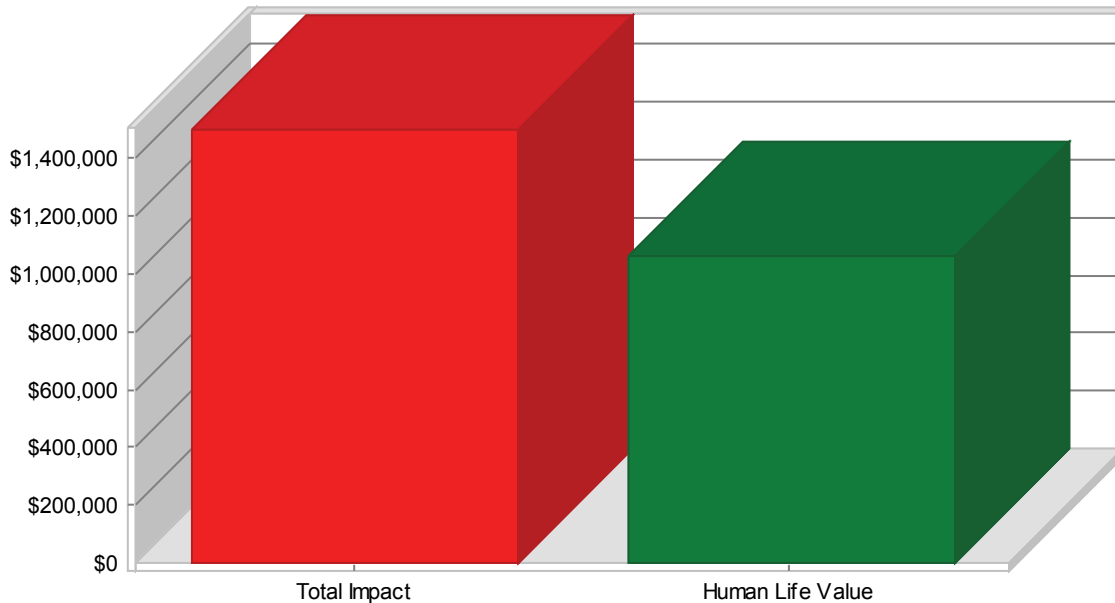
The total impact of death is expected to be a total of **\$1,497,213**. using an assumed rate of return of **5.000%** on the life insurance proceeds received by the surviving family, the Human Life Value for **John** is **\$1,059,060**.

Total Lost Income	\$1,394,919
Total Expense Adjustment	\$102,294
Total Impact of Death	\$1,497,213
Human Life Value	\$1,059,060

Total Impact vs. Human Life Value

The chart below shows the total impact of **John's** premature death, and compares it to the corresponding figure calculated for Human Life Value.

Total Financial Impact vs. Human Life Value



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Insurance Need

A Human Life Value figure of **\$1,059,060** has been calculated for **John's** premature death. Now that this figure has been determined, we need to compare that amount of need to the life insurance coverage already in place.

In addition to the Human Life Value figure, there may be some one-time life insurance needs that you wish to plan for at the same time. These include **\$20,000** to cover final expenses such as funeral costs, **\$200,000** to pay off liabilities immediately upon death, **\$100,000** to fund future goals such as childrens' college education, and **\$50,000** in emergency reserves for the surviving family members.

The amount of additional need of **\$370,000** plus the Human Life Value need yields a total life insurance need of **\$1,429,060**.

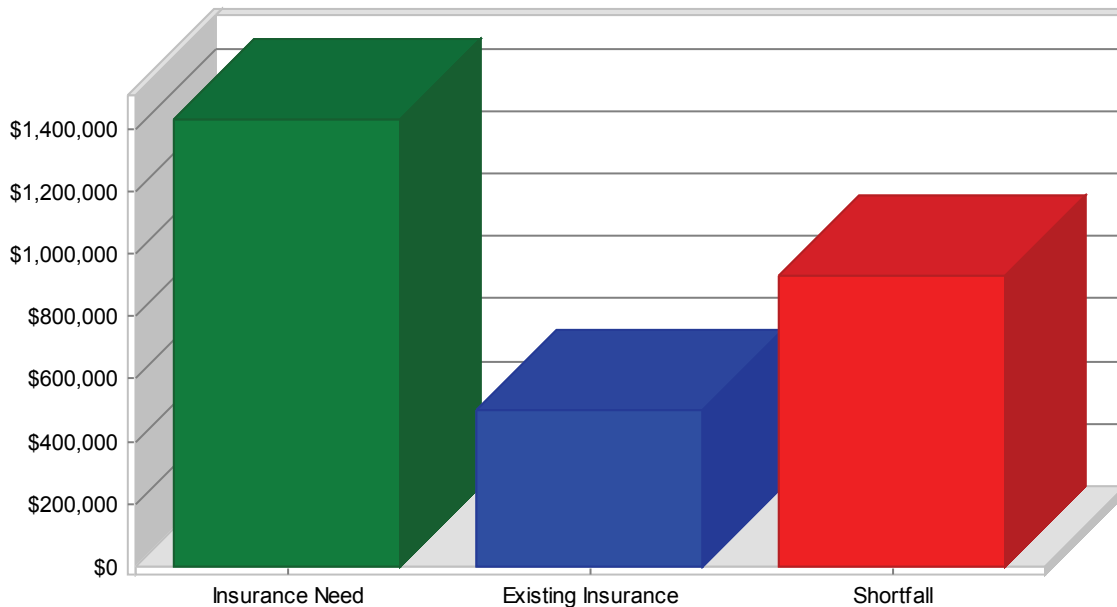
Existing life insurance would cover **\$500,000** of that insurance need. In the event of **John's** premature death, there would be a current life insurance **shortfall** of **\$929,060**.

Human Life Value	\$1,059,060
Additional Life Insurance Need	\$370,000
Total Life Insurance Need	\$1,429,060
Current Life Insurance	\$500,000
Insurance Shortfall	\$929,060

Need vs. Existing Life Insurance

The chart below shows the total need due to **John's** premature death, the existing life insurance benefit that would be available, and the resulting **shortfall** of funds.

Human Life Value Insurance Shortfall



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Summary

The following summarizes the Human Life Value analysis for the premature death of **John** this year.

Impact of Premature Death

This analysis provides replacement of **15** years of income, spanning from today until the year **2023**. This amounts to a total of **\$1,394,919** in lost income. Anticipated expense adjustments will **increase** costs by **\$102,294** over this period of time. The total impact of death is expected to be a total of **\$1,497,213**.

Human Life Value

Using an assumed rate of return of **5.000%** for the life insurance proceeds received by the surviving family, the Human Life Value for **John** is **\$1,059,060**.

Life Insurance Need

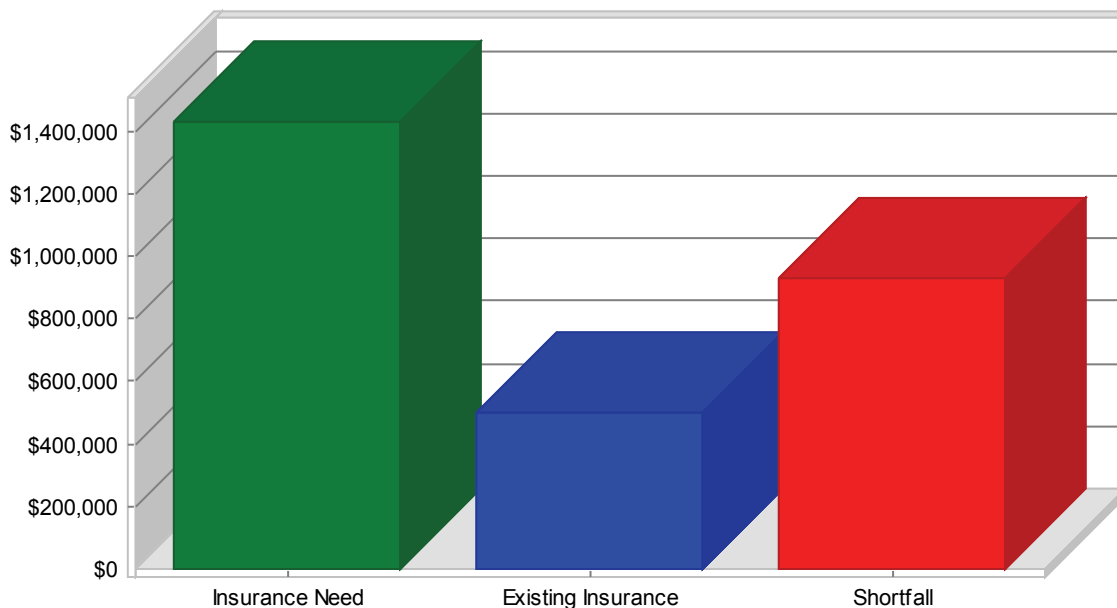
The amount needed to handle Human Life Value plus an additional need of **\$370,000** yields a total life insurance need of **\$1,429,060**. Existing life insurance provides a current benefit of **\$500,000**, resulting in a **shortfall** of **\$929,060**.

Need vs. Existing Life Insurance

The chart below shows the total need due to **John's** premature death, the existing life insurance benefit that would be available, and the resulting **shortfall** of funds.

Total Impact of Death	\$1,497,213
Human Life Value	\$1,059,060
Additional Life Insurance Need	\$370,000
Total Life Insurance Need	\$1,429,060
Current Life Insurance	\$500,000
Insurance Shortfall	\$929,060

Human Life Value Insurance Shortfall



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Results Summary

This report summarizes the results of the analyses for John and Sarah Livingston. It provides the information that is the basis for the "takeaway" message. All of the details concerning the process of how these results were arrived at are contained in the specific chapters for each selected analysis.

Family Information

Client: John and Sarah Livingston
Address: *Not Available*

Client: John Livingston
Date of Birth: 1/1/1965
Current Age: 44

Spouse: Sarah Livingston
Date of Birth: 1/1/1965
Current Age: 44

Children	Gender	Age	Date of Birth
Gloria Livingston	Female	14	1/1/1995
Mitchell Livingston	Male	9	1/1/2000

Advisor Information

Prepared By: Matthew Schulte, CLU, ChFC, CFP®

Analysis Performed

- Human Life Value Analysis
for: *HLV Analysis - Client*

Human Life Value Insurance Analysis For John Livingston

Human Life Value
\$1,059,060
Additional Life Insurance Need
\$370,000
Total Life Insurance Need
\$1,429,060
Current Life Insurance
\$500,000
Insurance Shortfall
\$929,060

The Human Life Value insurance analysis looks at the impact of an unexpected premature death to *John*. The analysis looks initially at the expected loss of income expected. It then looks at the expected increases and decreases in living expenses that could result from a premature death. This information provides the data needed for calculation of a human life value for *John*. Additional one-time expenses/needs can also be considered in arriving at a life insurance need. Once total need is calculated, the analysis takes into account existing insurance that is expected to be available to surviving heirs.

Based upon the assumptions utilized in this analysis, *John* is projected to have a life insurance **shortfall** of **\$929,060** in the event of a premature death today. This is based upon replacement of income needs through **2023**.

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\$1,059,060
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Total Life Insurance Need
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Current Life Insurance
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Address: *Not Available*

Client: John Livingston	Spouse: Sarah Livingston
Date of Birth: 1/1/1965	Date of Birth: 1/1/1965
Current Age: 44	Current Age: 44

Children	Gender	Age	Date of Birth
Gloria Livingston	Female	14	1/1/1995
Mitchell Livingston	Male	9	1/1/2000

Human Life Value Data Summary - John

Basic Assumptions

Analysis for: John Livingston
Date of Birth: 1/1/1965
Current Age: 44

Financial Assumptions

Insurance Proceeds Grow at: 5.000%	Income is Taxed at: 25.000%
Years of Lost Income: 15	
Index Rate on Lost Income: 3.000%	
Expenses Grow at: 3.000%	

Annual additions to Expenses:

Healthcare Costs	\$10,000
Home & Property Maintenance	\$3,000
Other Additional Expenses	\$2,000
Total Additional Expenses:	\$15,000

Annual Reductions to Expenses:

Deceased's Personal Expenses	\$2,500
Automobile & Commuting Costs	\$4,000
Insurance Premiums	\$3,000
Total Reduction of Expenses:	\$9,500

One Time Needs Included in Analysis:

Final expenses and funeral costs:	\$20,000
Liabilities paid off at death:	\$200,000
Emergency reserve fund:	\$50,000
Total One Time Needs In Analysis::	\$370,000

Existing Life Insurance

Policy Name	Insured	Death Benefit
Miscellaneous Insurance	John	\$500,000
Total		\$500,000

Lost Income Sources

	From	Until	Annual Amount
Mikes Salary	2007	2030	\$100,000

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