



Luke and Jen Smith

LIFE INSURANCE - HLV
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Table of Contents

- Table of Contents.....2
- Life Insurance - HLV3
 - Basics of Human Life Value4
 - Human Life Value.....5
 - Human Life Value Survivor Assets6
 - Human Life Value Summary9

Life Insurance - HLV

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Basics of Human Life Value

Prepared for Luke and Jen Smith

How much Life Insurance do I Need?

Anyone preparing to buy life insurance has asked this question and there is no single answer. Several different methodologies ranging from the complex to the overly-simple have been developed over time. Human Life Value (HLV) is one such methodology. HLV calculates the economic value of a person's life and is heavily based on the individual's earning ability. The HLV result is the amount a family would require to replace future lost income and other economic benefits provided by the decedent in order to maintain the same standard of living had the death not occurred. The basis of the HLV calculation is the present value of future lost income.

The HLV Concept

A person's economic contribution to the family starts with his or her expected earnings through the expected retirement date. In the HLV methodology, this lost income is present valued back using an assumed discount rate. It is important to keep in mind other financial benefits that should also be replaced such as the value of work-place benefits. For example, if health insurance is provided and paid for (even in part) by the employer, then that value should be included in the analysis either by adding it to the lost income or factoring it in as part of expense adjustments.

In addition to lost income, a family's expenses might change due to the death of one of the breadwinners. Child care costs might increase substantially as well as health care costs and other lost benefits. Certain other expenses might be reduced such as the need for extra cars or lifestyle expenses that were unique to the decedent. If deemed significant enough, positive and negative expense adjustments can be netted out, present valued, and factored into the HLV equation.

Why HLV?

The HLV methodology has existed since the 1920s and has recently become more widely used due to advantages it provides compared to other methodologies. HLV does not take current wealth or asset levels into consideration, but rather, seeks to replace a person's full economic value to his or her family.

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Human Life Value

Base Facts with Premature Death - Client

Prepared for Luke and Jen Smith

The Human Life Value (HLV) methodology estimates how much life insurance is needed in order to replace the value of future lost income for a decedent's family.

Based on the assumed death of Luke in 2010, when Luke is age 53, lost pre-tax income will start at \$129,400 in 2011 and grow to a cumulative loss of \$1,702,331 by retirement at age 65. Using a 2.40% discount rate produces a present value of future lost income of \$1,468,607.

Luke's death is also assumed to create a cumulative expense decrease over those same years of \$71,760 which has a present value of \$57,903.

The present value of the lost income combined with the present value of the expense adjustment creates a Human Life Value of \$1,410,704.

SUMMARY

Income Lost
(2011-2022)
\$1,702,331

Human Life Value
\$1,410,704

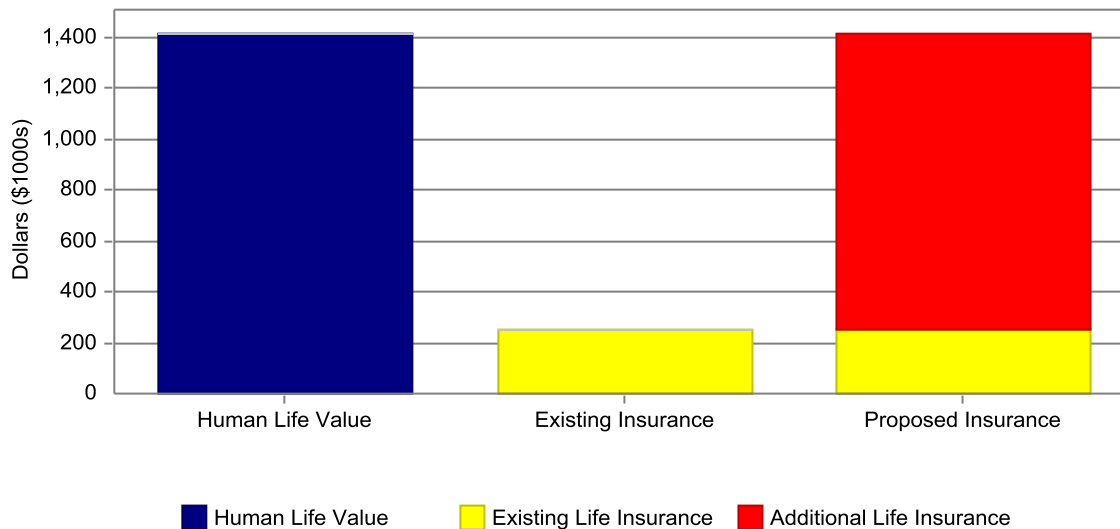
Life Insurance
\$250,000 (existing)
\$1,160,704 (additional)

Luke's death in 2010 results in a Human Life Value loss of \$1,410,704. Current life insurance on Luke is \$250,000 resulting in the need for \$1,160,704 of additional life insurance.

Human Life Value

The chart below compares your Human Life Value to your current coverage and additional need.

Human Life Value vs. Life Insurance



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Human Life Value Survivor Assets

Base Facts with Premature Death - Client

Prepared for Luke and Jen Smith

This report reflects the fluctuation in total portfolio assets during the surviving spouse's lifetime if additional insurance is purchased based on the Human Life Value methodology. Also reflected is the present value equivalent of those assets over time.

With additional insurance, portfolio assets are projected to be **\$9,634,906** at the beginning of **2011**, the year after **Luke's** death. Portfolio assets include **\$1,410,704** of life insurance benefits payable to **Jen**.

These assets, combined with their projected investment growth and additional savings are projected to produce **\$16,960,165** in total withdrawals over the survivor period. Remaining portfolio assets are projected to be **\$20,850,122** which has a present value of **\$8,268,187**.

Luke's additional **\$1,160,704** of life insurance results in **\$9,634,906** of portfolio assets for the family. Remaining portfolio assets in **2049** are projected to be **\$20,850,122** which is a present value of **\$8,268,187**.

SUMMARY

Additional Insurance
\$1,160,704

Existing Insurance
\$250,000

Portfolio Assets (2049)
\$15,525,895 (current)
\$20,850,122 (new)

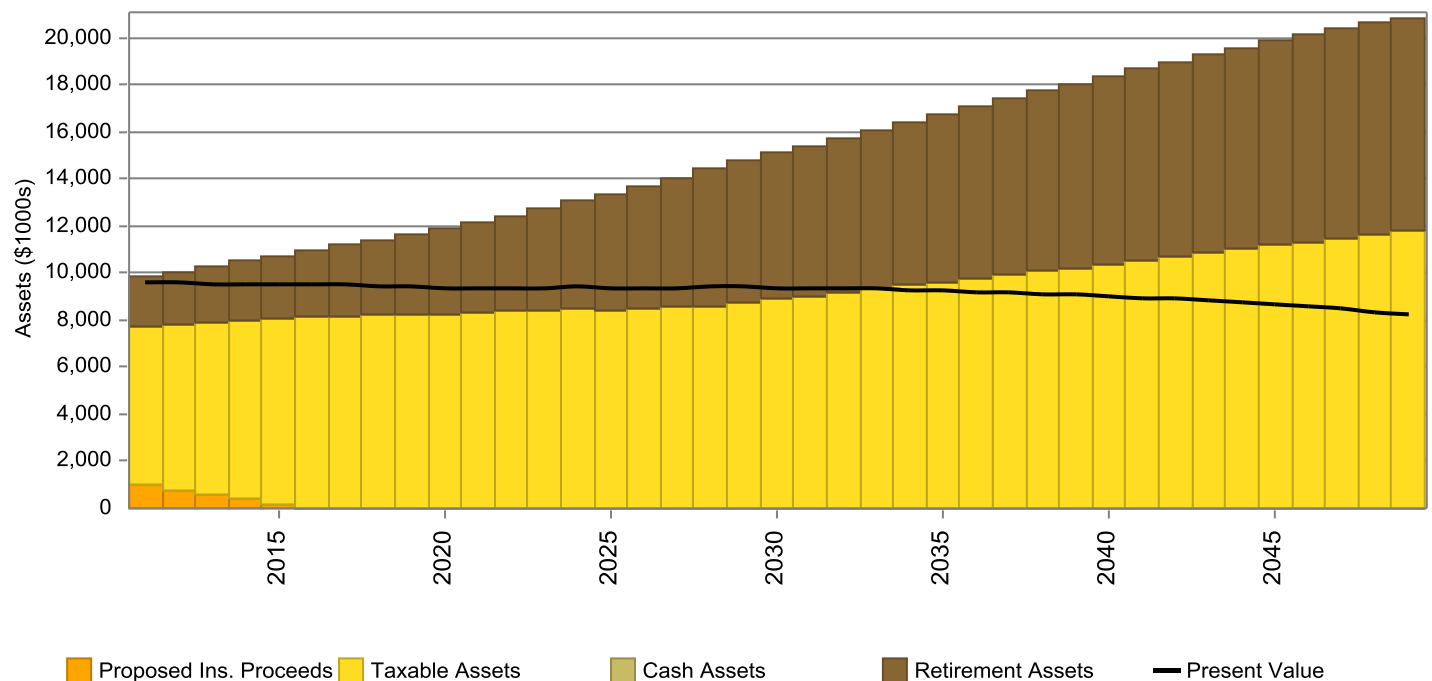
Present Value
Portfolio Assets (2049)
\$6,156,847 (current)
\$8,268,187 (new)

Present value calculation assumes a **2.40%** discount rate.

Human Life Value

The chart below shows portfolio assets in future dollars and present value dollars during the survivor period.

Survivor's Assets



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Human Life Value Survivor Assets

Base Facts with Premature Death - Client

Prepared for Luke and Jen Smith

Year	Age	Living Expenses	Other Expenses	Total Outflows	Present Value Total Outflows	Total Portfolio Assets	Present Value Total Portfolio Assets
2011	54/52	\$207,040	\$172,519	\$379,559	\$370,663	\$9,863,594	\$9,632,416
2012	55/53	214,328	179,444	393,772	375,530	10,071,026	9,604,479
2013	56/54	221,871	194,396	416,267	387,679	10,265,804	9,560,775
2014	57/55	229,681	146,610	376,291	342,235	10,509,406	9,558,249
2015	58/56	237,766	154,269	392,035	348,197	10,749,171	9,547,182
2016	59/57	246,136	160,693	406,829	352,868	10,985,622	9,528,508
2017	60/58	254,799	168,701	423,500	358,718	11,202,913	9,489,236
2018	61/59	263,769	169,474	433,243	358,370	11,423,696	9,449,460
2019	62/60	273,053	170,830	443,883	358,566	11,633,242	9,397,258
2020	63/61	282,665	141,141	423,806	334,324	11,875,910	9,368,441
2021	64/62	292,616	130,301	422,917	325,803	12,134,382	9,347,988
2022	65/63	260,506	121,668	382,174	287,516	12,449,469	9,365,940
2023	66/64	269,675	124,224	393,899	289,391	12,771,830	9,383,259
2024	67/65	279,168	131,236	410,404	294,450	13,113,480	9,408,460
2025	68/66	288,994	275,894	564,888	395,788	13,326,760	9,337,384
2026	69/67	299,166	134,540	433,706	296,754	13,685,292	9,363,857
2027	70/68	309,696	136,044	445,740	297,840	14,053,699	9,390,558
2028	71/69	320,597	137,309	457,906	298,798	14,432,550	9,417,678
2029	72/70	331,881	198,892	530,773	338,228	14,761,886	9,406,816
2030	73/71	343,564	204,887	548,451	341,302	15,092,993	9,392,393
2031	74/72	355,657	211,048	566,705	344,396	15,425,426	9,374,283
2032	75/73	368,177	217,396	585,573	347,522	15,758,673	9,352,347
2033	76/74	381,136	223,950	605,086	350,686	16,092,162	9,326,429
2034	77/75	394,552	230,725	625,277	353,894	16,425,252	9,296,363
2035	78/76	408,440	237,743	646,183	357,155	16,757,226	9,261,967
2036	79/77	422,818	244,657	667,475	360,277	17,087,656	9,223,242
2037	80/78	437,701	252,179	689,880	363,643	17,415,367	9,179,812
2038	81/79	453,108	259,552	712,660	366,846	17,739,844	9,131,687

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Year	Age	Living Expenses	Other Expenses	Total Outflows	Present Value Total Outflows	Total Portfolio Assets	Present Value Total Portfolio Assets
2039	82/80	469,058	267,153	736,211	370,087	18,060,157	9,078,681
2040	83/81	485,569	274,991	760,560	373,366	18,375,292	9,020,603
2041	84/82	502,661	283,066	785,727	376,680	18,684,157	8,957,253
2042	85/83	523,397	283,499	806,896	377,763	18,990,416	8,890,698
2043	86/84	541,820	291,696	833,516	381,079	19,288,463	8,818,588
2044	87/85	560,892	299,280	860,172	384,049	19,577,811	8,741,090
2045	88/86	580,635	306,954	887,589	387,002	19,857,233	8,658,053
2046	89/87	601,074	314,693	915,767	389,930	20,125,437	8,569,330
2047	90/88	622,232	322,476	944,708	392,825	20,381,058	8,474,778
2048	91/89	644,134	330,264	974,398	395,674	20,622,669	8,374,262
2049	92/90	666,808	336,675	1,003,483	397,935	20,850,122	8,268,187

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Human Life Value Summary

Base Facts with Premature Death - Client

Prepared for Luke and Jen Smith

The following is a summary of the relevant details and assumptions used in the Human Life Value calculations. It also displays any current life insurance policies insuring the assumed decedent.

Human Life Value Assumptions

Present Value Discount Rate	2.40%
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Lost Income Sources

Salary

Amount in 2010: \$125,000	Indexed at: Consumer Price Index (3.52%)
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Starts: Calendar Year 2009	Ends: Client's Retirement (age 65 in 2022)
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Existing Insurance on Luke

Life Insurance - UL

Death Benefit: \$250,000	Purchase Date: 8/29/2005
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Type: Universal	Term Period: n/a
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Annual Premium: \$2,000	Premium Term: 10 years
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Beneficiary: Jen Smith

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