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# Life Insurance Needs Calculator Kit: How Much Coverage Do You Actually Need?

This guide helps you build a coverage number from a real household balance sheet instead of a rule of thumb. Start with debts, final expenses, income replacement years, college funding gaps, and emergency fund adequacy, then subtract what survivors already have from savings and group life. The result should be an actual dollar amount you can defend, not a vague recommendation. Use the calculator to build a target, test it against the numbers you already own, and set a five-year review trigger so the answer stays current.

## 1. Foundation

The balance-sheet approach is the cleanest way to answer the needs question because it mirrors how surviving family members actually experience the loss. Start with everything the household owes or must fund: mortgage payoff, consumer debt, final expenses, college costs, and the years of income the survivor would need to replace. Then subtract liquid assets, existing policies, and employer group life that would actually pay out when needed. The key idea is that insurance should cover the gap between what the household must spend and what it can already absorb without help. Salary multiples are too blunt for this job because they ignore the obligations on one side and the assets on the other.

Income replacement should be expressed in years, not as a hand-wave. Some households need five years, some need ten, and some need support until the youngest child is launched or the surviving spouse is truly self-sufficient. The right number depends on the spouse's earning capacity, child care costs, the size of the mortgage, and whether the survivor already has meaningful investment income. If the surviving spouse can return to work quickly and the children are older, the income replacement years may be lower than a simple rule of thumb suggests. If the surviving spouse would need years to rebuild a career, the number may be higher. The calculator should make that logic visible.

Final expenses, college funding gaps, and emergency fund adequacy are where many calculators go wrong. Final expenses are not a trivial line item when funeral costs, probate, and medical balances are included. College funding is not always the full sticker price, but you should still write down the gap you intend to cover, especially if one child is close to school age. Emergency funds matter too: if the household already has six months of expenses in cash, do not count that money twice. Existing group life should be credited as well, but only if you know the employer policy remains in force, the coverage amount is real, and the benefit would be available during the period you care about. The goal is an actual output, not a comfort number.

## 2. Step-by-Step System

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### **Build the balance sheet first**

Make a two-column inventory: what the household owes or must pay, and what the household already owns. On the liability side, include mortgage balance, car loans, student loans, credit cards, medical balances, final expenses, and any near-term obligations you want the survivor to clear immediately. On the asset side, include cash, taxable investments, retirement accounts that might be used strategically, and existing life insurance. If the household owns a home, include only the equity you would realistically want survivors to use. The balance sheet is the foundation because it prevents you from overinsuring simply to cover a debt that is already funded or underinsuring because you forgot a future expense.

Write the numbers with dates. A mortgage balance today is not the same as a mortgage balance in three years. A college savings account will not be the same either. The more precise your snapshot, the more useful the output. If the need is time-sensitive, note it. If a debt will disappear soon or an account will vest later, note that as well. The calculator should answer the household's question, not a generic one.

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## Set income replacement years honestly

Choose the number of years the survivor would need help replacing income after taxes and work-related costs. A younger family often needs longer protection because the children are not independent and the surviving spouse may need time to adjust work or child care. A near-retirement family may need fewer years because accumulated assets, pensions, or Social Security are closer. Your output should be based on the actual runway, not on a broad average. If the surviving spouse earns income too, do not replace the entire gross salary unless the household truly loses that amount. Replace the household cash gap after considering survivor income and the taxes that would no longer be paid.

For a more careful output, model a base case, a conservative case, and a stress case. The base case might say seven years, the conservative case ten, and the stress case twelve. A household with young children, high child care costs, and one spouse out of the workforce for several years may need the higher end of that range. This is where the calculator earns its keep: it turns a broad feeling into a specific years-based decision.

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### **Add final expenses, college, and emergency fund gaps**

Final expenses should include funeral costs, medical residuals, estate settlement costs, and a buffer for the family's immediate disruption. College funding should be written as the amount you actually intend to protect, not the full sticker price unless that is the plan. If you want to cover only public in-state tuition or only a portion of private school costs, write that rule down. Emergency fund adequacy is the final check. If the household already has cash reserves large enough to cover several months of expenses, subtract that reserve from the coverage need instead of adding another separate emergency line. The same dollar should not solve two problems.

This step is also where the calculator becomes realistic about surviving obligations. If a child will start college in three years, the present-value funding need is different from a child who is already a senior. If final expenses are already prepaid or covered by another arrangement, subtract that as well. Each adjustment keeps the output from inflating simply because the worksheet was generic.

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### **Credit existing group life and other benefits**

Many households already have employer group life, union coverage, or association coverage. Credit those amounts, but only if they are dependable. Group coverage that disappears when employment ends should not be counted as long-term protection unless you know the likely timing of the loss and can replace it quickly. If the coverage is portable, note the portability premium. If it is not, treat it as temporary support. This step reduces double counting and gives you a cleaner final number.

Do the same with savings and investment assets. An emergency fund can reduce the death benefit need, but only if you are comfortable assuming survivors will actually spend it for the intended purpose. A taxable brokerage account can help too, but retirement accounts are less immediately available and may create taxes or timing delays. The calculator should be conservative about what can be used quickly and what should stay untouched for retirement.

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**Produce the actual dollar output**

Once the numbers are assembled, write the final result in dollars and round it to a policy amount that the insurer actually sells. If your worksheet says \$864,700, decide whether \$850,000 is close enough or whether \$900,000 is the safer choice. If the household has young children, a mortgage, and only a small emergency fund, rounding up is usually the cleaner answer. If the gap is large, document exactly which line item created the increase. The output should be one clean number, plus a short note about what assumptions would justify a lower or higher figure.

For readability, also keep a range. For example: base need \$820,000, conservative need \$975,000, target purchase \$1,000,000. That makes it easier to revisit the plan later without rebuilding the worksheet. The range also protects you from false precision. You are not trying to predict the future to the dollar; you are trying to buy enough coverage that the family can absorb the shock.

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### **Set the five-year review trigger**

Put a hard review trigger on the calendar five years from now, even if nothing seems urgent. The review should also happen sooner if there is a major life event: marriage, birth, new mortgage, divorce, disability, major raise, inheritance, child starting school, or a big change in employer coverage. A five-year review is long enough to matter and short enough to catch drift before the policy becomes stale. The point is not to buy insurance forever; it is to buy the right amount for the current phase of life and then check again when that phase changes.

When the review date arrives, refresh the balance sheet, income replacement years, college assumptions, and group life credit. If the target falls because assets grew, reduce coverage or let a term policy roll off. If the target rises because the family expanded or assets changed more slowly than expected, increase coverage before the gap becomes obvious.

## **3. Key Worksheets & Checklists**

Use these pages to produce a specific dollar amount and a review rhythm. The calculator only works if the input assumptions are visible, so keep the worksheet with the policy records.

## 1. Coverage Output Worksheet

<b>Income replacement years</b>	Write the number of years the survivor actually needs support, and note why.
<b>Final expenses</b>	Include funeral, medical, probate, and immediate family disruption costs.
<b>College funding gap</b>	Write the amount you want protected for tuition or training.
<b>Asset credit</b>	Subtract cash, investments, and reliable employer group life.
<b>Actual output</b>	Record the final dollar amount and the rounded policy size you will buy.

## 2. Balance-Sheet and Gap Checklist

- List all debts and note which ones should disappear at death.
- Write the survivor income gap after any existing spouse earnings.
- Credit group life only if the coverage will still exist when needed.
- Do not count the emergency fund twice if it already sits in the asset column.
- Mark the assumptions that would change the final dollar amount the most.

### 3. Five-Year Review Table

Review trigger	Update	Result
Five-year mark	Refresh all inputs and rerun the calculator	Keep, increase, or reduce coverage
Major life event	Update debts, assets, and years of need	Possible immediate policy change
Group life change	Re-credit or remove employer coverage	Cleaner net target
College or mortgage update	Revise future obligation estimates	More accurate output

### 4. Common Mistakes

#### Using a salary multiple and stopping there

Salary multiples are a useful start, but they ignore debts, assets, college costs, and how many years the survivor actually needs support. The balance-sheet method is better because it shows the gap directly.

#### Counting emergency savings twice

If the household already has a cash reserve, it belongs in the asset column. Do not also add it as if it were a new insurance need. The same dollar cannot do both jobs.

### **Ignoring the expiration of group life**

Employer coverage often disappears when employment ends. If you subtract it from the target, make sure the protection really lasts long enough to matter. Temporary coverage should not be treated like a permanent asset.

### **Forgetting the five-year review**

A policy that never gets checked can become too large, too small, or simply stale. A five-year review trigger forces the calculator to stay connected to the household's actual numbers.

## **5. Next Steps**

Write the final coverage number in one place, store the worksheet with the policy paperwork, and set the five-year review on your calendar now. Then set earlier reminders for marriage, birth, mortgage changes, or any employer coverage change. If the premium needs to fit the rest of your budget, review it in the [Budget Calculator](#) and keep [the full tool library](#) nearby for related planning.

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