FIN-ED
FINANCIAL EDUCATION

HOW MUCH INSURANCE DO I REALLY NEED?

The answer may surprise you.

Protect what matters most.

Published: June 2026
Category: Insurance
Reading Time: 5-6 minutes

How Much Insurance Do I Really Need?

One of the most common questions people ask when discussing insurance is:

"How much cover do I actually need?"

Unfortunately, there is no simple one-size-fits-all answer.

Some people are significantly underinsured, leaving their families financially vulnerable. Others are overinsured and paying for cover they may not require.

The purpose of financial planning is to find the balance between adequate protection and affordability.

The right amount of insurance should provide financial security without placing unnecessary strain on your monthly budget.

The Biggest Mistake People Make

Many people choose their insurance cover based on what they can afford rather than what they actually need.

The conversation often starts with:

"I can afford R1,000 per month. How much cover can I get?"

A better question would be:

"What financial risks would my family face if something happened to me?"

Only once those risks have been identified can an appropriate amount of cover be determined.

The Purpose of an Insurance Needs Analysis

A proper insurance needs analysis identifies the financial consequences of events such as:

- Death
- Disability
- Severe illness
- Loss of income

The objective is to determine the amount of capital or income required to protect your financial plan and your family's future.

Every individual's circumstances are different, which is why professional advice remains so important.

Determining Life Insurance Needs

Life Insurance is designed to provide financial security for your dependants if you pass away.

Factors typically considered include:

Outstanding Debt

Would your family be able to continue paying:

- Home loans
- Vehicle finance
- Personal loans
- Business debt

Many families choose to ensure that debt can be settled so that surviving family members are not burdened with ongoing repayments.

Income Replacement

If your income disappeared tomorrow, how would your family cope financially?

A life insurance benefit may need to generate sufficient income to replace all or part of your earnings.

Children's Education

Many parents want to ensure that their children's education plans can continue regardless of what happens.

Future education costs often form a significant part of a life cover calculation.

Estate Costs

Estate administration costs may include:

- Executor's fees
- Estate duty
- Capital gains tax
- Outstanding liabilities

Life insurance can provide the liquidity required to settle these costs without forcing the sale of family assets.

Determining Income Protection Needs

Income Protection Cover is often easier to calculate because it is based on your current income.

The objective is to ensure that if illness or injury prevents you from working, you can continue meeting your financial commitments.

Consider:

- Household expenses
- Debt repayments
- Medical aid contributions
- School fees
- Retirement contributions

The goal is to maintain financial stability while protecting your long-term financial plan.

Determining Disability Cover Needs

Disability Cover is designed to provide capital if a permanent disability occurs.

Questions often include:

- What debt should be settled?
- What future income may be lost?
- Will home modifications be required?
- Will ongoing care be necessary?
- How much capital would be required to generate a replacement income?

The younger you are, the greater the potential financial impact of a permanent disability because more future earnings are at risk.

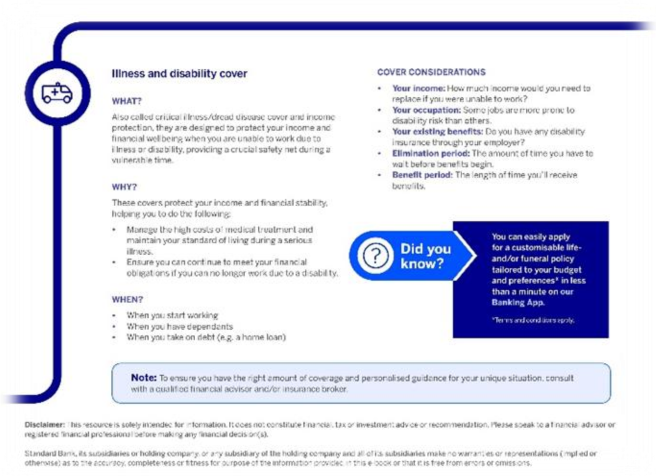
Determining Severe Illness Cover Needs

Severe Illness Cover is designed to absorb the financial shock associated with a major medical event.

Factors may include:

- Medical expenses not covered by medical aid
- Specialist treatment costs
- Recovery expenses
- Travel costs
- Temporary loss of income
- Lifestyle adjustments

The purpose is to provide financial flexibility during recovery.



Understanding Human Life Value

One of the methods often used in financial planning is known as the Human Life Value approach.

Simply put, it attempts to estimate the economic value of your future earnings.

For example:

A 40-year-old earning R600,000 per year with 20 years until retirement could potentially earn more than R12 million over the remainder of their working life.

This future earning capacity often represents a family's largest financial asset.

Protecting a portion of this value is usually an important consideration when determining insurance requirements.

Your Insurance Needs Change Over Time

Insurance is not something that should be set up once and forgotten.

Your needs change throughout your life.

Young Professional

Focus often includes:

- Income Protection
- Disability Cover
- Severe Illness Cover

Life cover requirements may be limited if there are no financial dependants.

Young Family

This is often the stage where insurance needs are highest.

Focus typically includes:

- Life Cover
- Income Protection
- Disability Cover
- Severe Illness Cover

Established Professional or Business Owner

Insurance needs may expand to include:

- Estate planning
- Business protection
- Buy-and-sell agreements
- Key person cover

Pre-Retirement

As debts reduce and assets grow, insurance needs often begin to decline.

Retirement

Many forms of risk cover may no longer be required, although ***estate planning and liquidity considerations remain important***.

The Danger of Underinsurance

Many families discover they are underinsured only when it is too late.

Common reasons include:

- Cover never reviewed
- Inflation reducing purchasing power
- Increased debt
- Growing family responsibilities
- Rising education costs

A policy that was adequate ten years ago may no longer meet today's needs.

The Goal Is Financial Security

The purpose of insurance is not to make you wealthy.

The purpose is to prevent an unexpected event from destroying the wealth you have worked hard to build.

The correct amount of insurance is enough to:

- Protect your family
- Protect your income
- Protect your assets
- Protect your financial goals

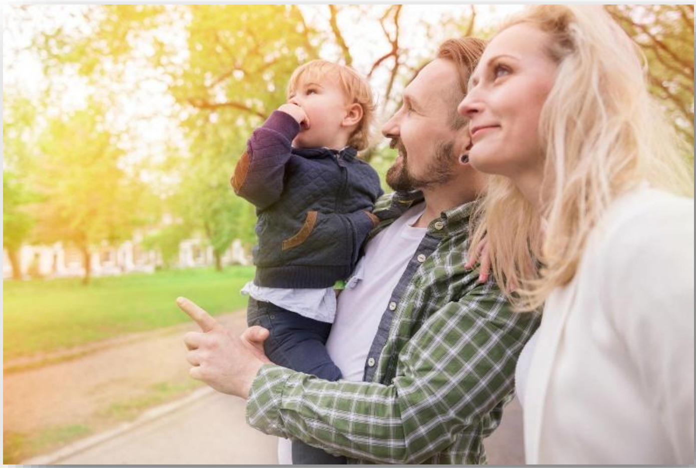
while remaining affordable and sustainable over the long term.

Final Thoughts

Determining the right amount of insurance requires more than selecting a random benefit amount.

It requires understanding your financial responsibilities, future goals, existing assets, and the risks that could threaten them.

The right cover provides peace of mind that your family, your lifestyle, and your financial future remain protected should the unexpected occur.



FinEd – Empowering Better Financial Decisions Through Education

This article is intended for educational purposes only and should not be construed as financial, tax, accounting or legal advice. Professional advice should be obtained before implementing any financial strategy.