

Financial planning: How to determine if you need life insurance in retirement

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When it comes to your financial future, procrastinating can make things much harder down the line. Here's how to get confident about your money. USA TODAY



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Many older Americans wonder whether they need life insurance in retirement. They wonder whether their surviving spouse and loved ones need the capital generated by the life insurance policy — the death benefit — to replace their income and preserve assets.

As with many things in the world of personal finance, the answer depends on the facts and circumstances, says Howard Pressman, a certified financial planner with Egan, Berger & Weiner in Vienna, Va.

Given that, here's what experts say you should consider.

Did you plan well enough?

Some financial planners say if you planned well enough prior to retirement, you won't need life insurance. You'll have no debt, plenty of assets to replace the income lost due to your death,

and plenty of money to leave to heirs. That all sounds good on paper, but reality is different.

Crunch the numbers. What does your cash flow statement look like before and after the death of either spouse? If there's more than enough income to cover the surviving spouse's living expenses throughout retirement, then you might not need life insurance. But if there's not enough income — even after you factor in how much the couple has saved and whether that can reliably provide for the surviving spouse — then you might need life insurance, says Pressman.

For instance, if one spouse has a pension and didn't elect a survivor benefit, then there likely is a significant loss of income for the surviving spouse and a need for life insurance. Note: Losing, say, one-third of a household's income due to the death of a spouse doesn't translate into expenses being cut by one-third. In many cases, the surviving spouse might need just as much income after the death of a spouse for large essential expenses, such as housing.

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Life insurance for multiple goals

Life insurance can be used for other goals, not just income replacement and paying off debt. It can be used for estate taxes, taxes due on inherited IRA distributions or taxes due on death-bed Roth conversions of qualified accounts, or for charitable planning.

For instance, retirees who have a large farm or business worth more than \$22 million might want their heirs to use life insurance proceeds to pay estate taxes and avoid selling the bequeathed asset, says Steven Podnos, a certified financial planner with Wealth Care in Cocoa Beach, Fla.

And Greg Hammond, a certified financial planner with Hammond Iles Wealth Advisors in Wethersfield, Conn., recommends using required minimum distributions or RMDs from IRAs to purchase life insurance that will provide a tax-free legacy to heirs while naming a non-profit organization as the eventual beneficiary of the retirement account. "This strategy allows a retiree to double the impact of their retirement account while eliminating income taxes on the retirement savings," he says.

Retirees may also need life insurance for business succession planning, says Rita Cheng, a certified financial planner with Blue Ocean Global Wealth in Gaithersburg, Md.

Consider hybrid life and long-term care

Given the possible need to fund long-term care expenses in retirement, Thomas Yorke, a certified financial planner with Oceanic Capital Management in Red Bank, N.J., says retirees might consider buying a permanent life insurance policy with a rider for long-term care.

In other cases, Michael Smith, a certified financial planner with D3 Financial Counselors in Chicago, says insurance policies with a large death benefit can be a substitute for long-term care coverage for the beneficiary, the surviving spouse.



Many older Americans wonder whether they need life insurance in retirement. As with many things in the world of personal finance, the answer depends on the facts and circumstances. (Photo: Getty Images/iStockphoto)

How much life insurance?

If you do need life insurance, financial professionals use one or more ways to calculate how much life insurance a surviving spouse will need. Those include human life, financial needs and capital retention. The human life value approach uses projected future earnings; the financial needs approach calculates the income replacement needs of one's survivor or survivors; and the capital retention approach provides a death benefit that, along with the family's other assets, provides enough income without having to touch the death benefit principal. Though some retirees do have earned income, most planners don't use the human life approach and the capital retention approach would result in you buying a larger amount of life insurance than with the other two approaches.

For his part, Pressman and other financial planners favor the financial needs approach. With the financial needs approach, you would factor in your surviving spouse's income needs, final expenses and debts, a mortgage payment fund, education expenses if any, and emergency expenses. A financial needs calculator can be found here <https://www.lifehappens.org/insurance-overview/life-insurance/calculate-your-needs/>.

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What kind of insurance to get?

If you need life insurance in retirement, Ian Weinberg, a certified financial planner with Family Wealth & Pension Management in Woodbury, N.Y., suggests buying pure insurance that doesn't build cash value, that just guarantees that the insurance will pay off.

Weinberg also notes that a limited number of insurance carriers issue universal life insurance with secondary guarantees so that if premiums are paid there is no chance of lapsing. Universal life policyholders can adjust their premiums, death benefit and cash values.

Life insurance, of course, isn't inexpensive for retirees.

"Generally, the older you are, the more expensive life insurance becomes," says Matthew Gaffey, a certified financial planner with Corbett Road in McLean, Va. "For many retirees, the biggest question you face is whether the coverage is worth the cost. If the coverage isn't necessary to their retirement plan's success, they may benefit more by applying the money that would otherwise be spent on insurance premiums towards other expenses. ... At some point, the client must determine whether they value the peace of mind attained from having the insurance coverage more than the money it will require to fund the premiums."

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Permission to spend down assets

Retirees should absolutely have life insurance, but, in a perfect world, it would already be paid off and guaranteed so no additional premiums would be needed during retirement, says Michael Resnick, a certified financial planner with GCG Financial in Deerfield, Ill. "Having a life insurance death benefit truly is a 'permission slip to spend down assets' while providing protection for the surviving spouse or a legacy for other beneficiaries," he says.

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