CFS Advisor Team

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What to Do If Your Term Life Insurance Policy Is About to Expire

One advantage of term life insurance is that it is generally the most cost-effective way to achieve the maximum life insurance protection you can afford. Many people first purchase term life insurance to protect their family's financial interests after a significant life event, such as getting married or the birth of a child.

You may have done the same for your family when you purchased your policy years ago. And chances are, other than paying the premiums, you probably haven't given it much thought since then. However, if your term life insurance policy is set to expire in the near future, it's important to explore your options now before the coverage runs out.

Before you get started, you first need to reevaluate your life insurance needs and determine if anything has changed. Are your children grown and have they graduated from college? Do you have a mortgage? If you have financial obligations that you need to take care of, you may still need term life insurance. If you are nearing retirement and have fewer financial obligations than you did when you were younger, your need for a term life insurance policy may not be as great as it once was.

Purchasing a new policy

If you are in relatively good health and your current term life insurance policy is about to run out, you might consider purchasing a new term policy altogether. When applying for a new term life insurance policy, you will generally need to pass a medical exam. In addition, since you are older now, your premiums may be higher than they were under your old policy. However, you may not need as large a policy as you did when you first purchased term life insurance years ago. It may pay to shop around and compare because premiums can vary among insurers.

Renewing your existing policy

When the coverage period for your term life insurance ends, you may have the option to renew the policy, depending on the specific policy and limitations. Though you won't be required to take a medical exam if you renew your policy, the rate will generally increase each time it is renewed for an additional term because your age has increased (as has the insurance company's risk of paying a death benefit). These increased premium costs can sometimes make renewing a term life insurance policy an expensive way to cover your life insurance needs.

Converting your policy to permanent life insurance

If you have a convertible term life insurance policy, you may be able to convert it to a permanent life insurance policy, such as whole or universal life insurance. Permanent insurance continues throughout your life as long as you pay the premiums. As with term insurance, permanent insurance pays a death benefit to your beneficiary at your death, but it also contains a cash value account funded by your premium dollars. When you convert your policy, you won't need to prove your insurability by taking a medical exam. However, there is usually a conversion deadline, which is the date by which you must convert, typically before your term life insurance is set to expire.

The cost and availability of life insurance depend on factors such as age, health, and the type and amount of insurance purchased. As with most financial decisions, there are expenses associated with the purchase of life insurance. Policies commonly have mortality and expense charges. In addition, if a policy is surrendered prematurely, there may be surrender charges and income tax implications. Any guarantees are contingent on the claims-paying ability and financial strength of the issuing company.

The rules governing 1035 exchanges are complex and you may incur surrender charges from your "old" life insurance policy. In addition, you may be subject to new sales and surrender charges for the new policy.

On the Road to Retirement, Beware of These Five Risks

No investment strategy can guarantee success. All investing involves risk, including the possible loss of your contribution dollars.

There is no assurance that working with a financial professional will result in investment success.

On your journey to retirement, you'll likely face many risks that have the potential to throw you off course. Following are five common challenges retirement investors face. Take some time now to review and understand them before your journey takes an unplanned detour.

1. Traveling aimlessly

Setting out on an adventure without a definitive destination can be exciting, but probably not when it comes to saving for retirement. As you begin your retirement strategy, one of the first steps you'll need to take is identifying a goal. While some people prefer to establish one big lump-sum accumulation amount — for example, $1 million or more — others find that type of number daunting. They might focus on how much their savings will need to generate each month during retirement — say, the equivalent of $5,000 in today's dollars, for example. ("In today's dollars" refers to the fact that inflation will likely increase your future income needs. These examples are for illustrative purposes only. They are not meant as investment advice.)

Regardless of the approach you follow, setting a goal may help you better focus your investment strategy. In order to set a realistic target, you'll need to consider a number of factors — your desired lifestyle, pre-retirement income, health, Social Security benefits, any traditional pension benefits you or your spouse may be entitled to, and others. Examining your personal situation both now and in the future can help you determine how much you may need to accumulate.

2. Investing too conservatively...

Another key to determining how much you may need to save on a regular basis is targeting an appropriate rate of return, or how much your contribution dollars may earn on an ongoing basis. Afraid of losing money, some retirement investors choose only the most conservative investments, hoping to preserve their hard-earned assets. However, investing too conservatively can be risky, too. If your investment dollars do not earn enough, you may end up with a far different retirement lifestyle than you had originally planned.

3. ...Or too aggressively

On the other hand, retirement investors striving for the highest possible returns might select investments that are too risky for their overall situations. Although you might consider investing at least some of your retirement portfolio in more aggressive investments to potentially outpace inflation, the amount you invest in such higher-risk vehicles should be based on a number of factors. Appropriate investments for your retirement savings mix are those that take into consideration your total savings goal, your time horizon (or how much time you have until retirement), and your ability to withstand changes in your account's value. Would you be able to sleep at night if your portfolio lost 10%, 15%, even 20% of its overall value over a short time period? These are the types of scenarios you must consider when choosing an investment mix.

4. Giving in to temptation

On the road to retirement, you will likely face many financial challenges as well — the unplanned need for a new car, an unexpected home repair, an unforeseen medical expense are just some examples.

During these trying times, your retirement savings may loom as a potential source of emergency funding. But think twice before tapping your retirement savings assets, particularly if your money is in an employer-sponsored retirement plan or an IRA. Consider that:

- Any dollars you remove from your portfolio will no longer be working for your future
- You may have to pay regular income taxes on distribution amounts that represent tax-deferred investment dollars and earnings
- If you're under age 59½, you may have to pay an additional penalty tax of 10% to 25% (depending on the type of plan and other factors; some exceptions apply)

For these reasons, it's best to carefully consider all of your options before using money earmarked for retirement.

5. Prioritizing college saving over retirement

Many well-meaning parents may feel that saving for their children's college education should be a higher priority than saving for their own retirement. "We can continue working, if needed," or "our home will fund our retirement," they may think. However, these can be very risky trains of thought. While no parent wants his or her children to take on a heavy debt burden to pay for education, loans are a common and realistic college-funding option — not so for retirement. If saving for both college and retirement seems impossible, consider speaking with a financial professional who can help you explore the variety of tools and options.

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Infographic: Working in Retirement

Do You Plan to Work in Retirement?

The 2018 Retirement Confidence Survey found that more than two-thirds of all workers surveyed expect that paid work will play a role as a source of retirement income. If you believe that working for pay will supplement at least some of your retirement income, consider the following facts.

1 More people are working beyond age 65

According to the Bureau of Labor Statistics, 37% of men and 28% of women between the ages of 65 and 69 were still in the workforce in 2017. In addition, 17% of men and 10% of women age 70 and older were still working.

2 Social Security imposes an "earnings limit"

If you plan to work and claim Social Security benefits before reaching your full retirement age (66 to 67, depending on year and month of birth), you will be subject to an earnings limit ($17,040 in 2018). Above that limit, $1 will be withheld from your benefit for every $2 earned. In the year you reach full retirement age, you will lose $1 for every $3 earned above a higher limit ($45,360 in 2018). Once you reach full retirement age, there is no reduction in benefits.

3 Income for older workers is on the rise

According to the U.S. Census Bureau, the average earnings for workers age 65 and older increased by 47.6% between 2000 and 2015, a far greater increase than that of any other age group.

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Should I enroll in a health savings account?

A health savings account (HSA) is a tax-advantaged account that you can establish and contribute to if you are enrolled in a high-deductible health plan (HDHP). Because you shoulder a greater portion of your health-care costs, you'll usually pay a much lower premium for an HDHP than you would pay for traditional health insurance. This allows you to contribute the premium dollars you're saving to your HSA. Then, when you need medical care, you can withdraw HSA funds to cover your expenses, or opt to pay your costs out-of-pocket if you want to save your account funds. An HSA can be a powerful savings tool, especially if your health expenses are relatively low, since you may be able to build up a significant balance in your HSA over time. Before you enroll in an HSA, ask yourself the following questions:

What will your annual out-of-pocket costs be under the HDHP you're considering? Estimate these based on your current health expenses. The lower your costs, the easier it may be to accumulate HSA funds.

How much can you afford to contribute to your HSA every year? Contributing as much as you can on a regular basis is key to building a cushion against future expenses. For 2018, you can contribute up to $3,450 for individual coverage and $6,900 for family coverage.

Will your employer contribute to your HSA? Employer contributions can help offset the increased financial risk that you're assuming by enrolling in an HDHP rather than traditional employer-sponsored health insurance.

Are you willing to take on more responsibility for your own health care? For example, to achieve the maximum cost savings, you may need to research costs and negotiate fees with health providers when paying out-of-pocket.

How does the coverage provided by the HDHP compare with your current health plan? Don't sacrifice coverage to save money. Read all plan materials to make sure you understand benefits, exclusions, and all costs.

What tax savings might you expect? HSA funds can be withdrawn free of federal income tax and penalties provided the money is spent on qualified health-care expenses. Depending on the state, HSA contributions and earnings may or may not be subject to state taxes. Consult your tax adviser for more information.