THE WALL STREET JOURNAL.

# Should Retirees Have Life Insurance?

*Photo: iStockphoto/Getty Images*

*By Cheryl Winokur Munk* | July 5, 2017

Conventional wisdom suggests you don't need life insurance during retirement. By this point, the children are likely grown and financially self-sufficient and you've amassed a sizable enough nest egg to make life insurance superfluous.

Or so the thinking goes. But before you dump your policy, it pays to take stock of your financial situation and carefully consider your long-term goals. Only then will you know if you've got enough insurance, or too little or too much.

"Sometimes life insurance makes a ton of sense to keep and sometimes it makes no sense," says Bob Gavlak, a certified financial planner and wealth adviser with Strategic Wealth Partners Ltd., a registered investment adviser in Independence, Ohio. "Sometimes it's a matter of getting a more appropriate insurance strategy in place, given that your goals, objectives and financial circumstances have changed."

Among the factors to consider: how much you've saved versus how much debt you've accrued; your financial obligations; your income-replacement needs; your health and how long you expect to live; your tax situation; potential liquidity issues; legacy-planning goals; and charitable-giving desires.

Ideally, financial advisers recommend that people evaluate their future insurance needs a few years before retirement, to optimize the timing of any changes they want to make.

## Doing heirs a favor

Consider the case of heirs. Some people choose to keep life insurance during retirement because the death benefits are tax-free to heirs. Others maintain it as another asset they can use to balance out the distribution of their estate to their heirs. Life insurance can also give a surviving spouse a financial cushion, and provide a greater sense of financial security while both spouses are still alive.

Sometimes people with assets that are difficult to liquidate quickly, like property, maintain life insurance so their heirs have cash on hand to pay the expenses that can pile up when someone dies. Hans E. Scheil, a certified financial planner and chief executive of Cardinal Retirement Planning Inc., a registered investment adviser in Cary, N.C., typically recommends that clients purchase at least $25,000 in permanent life-insurance death benefits. This will help cover the costs of a funeral, probate and executor fees and provide some income replacement, he says.

“When a person dies, the survivors need some amount of money right away,” Mr. Scheil says. “You’ll be doing a real favor to your family. It’s as much convenience as it is necessity.”

## Considering health

Health issues are another important consideration. Justin Halverson, founding partner at Great Waters Financial, an advisory firm based in Minneapolis, recently worked with a couple in their early 60s who had just retired. Each has a term life-insurance policy that will last well into their 80s. They don’t have long-term-care insurance and the husband wouldn’t qualify because of a pre-existing condition.

**Why Buy**

Top reasons for purchasing a life-insurance policy

**Help covering burial and additional final expenses** 85%

**Help replacing lost wages or the income of household wage earner** 67%

**Transfer wealth/leave an inheritance** 63%

**Help paying off mortgage** 54%

**Supplement retirement income** 52%

Source: 2017 Barometer Insurance Study, Limra and Life Happens

THE WALL STREET JOURNAL.

Mr. Halverson advised the couple to maintain their term insurance in case one of them needs nursing-home care and they deplete their nest egg to pay for it. The surviving spouse could then live comfortably on the insurance proceeds, he says.

Mr. Gavlak of Strategic Wealth Partners recently worked with a 61-year-old client who had a $350,000

universal life-insurance policy with a cash value of $100,000 and was planning to retire. The client no longer needed the death benefit to protect his wife and children, but he wanted to purchase long-term-care insurance. He used the cash value of the old policy to fund a new policy, in what's known as a Section 1035 exchange, named after the section of the tax code that allows such transfers to be done tax-free.

## Better alternatives

Sometimes, however, dumping life insurance makes more sense from a cost-benefit standpoint. Kimberly Foss, a certified financial planner and president of Empyrion Wealth Management, a registered investment adviser in Roseville, Calif., works with a 72-year-old widow who has a $500,000 whole life-insurance policy that she purchased 10 years ago after her husband died. Her goal is to leave that money to her grandchildren. However, she is paying tens of thousands of dollars in premiums each year. Ms. Foss advised her that she may be able to get a better return by investing what she is spending on premiums in a tax-deferred account and letting it grow over time.

Tony D'Amico, a certified financial planner who is the chief executive and senior adviser at Fidato Wealth, a registered investment adviser in Strongsville, Ohio, recommended a similar approach for two healthy and financially sound 63-year-olds he met earlier this year who had recently retired.

The couple has self-sufficient adult children and had amassed an investment portfolio of $1.5 million. Their term life-insurance policy was about to mature, and buying permanent insurance would have been prohibitively expensive, Mr. D'Amico says. The couple already had long-term care insurance, and he advised them to drop the term insurance and invest the money that they would have used to buy permanent life insurance.

Every decision about insurance requires meaningful financial planning, Mr. D'Amico says. "You make the most educated decision you can about your health and lifestyle and what you anticipate," he says, "and then roll with the punches."