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Do I Need Life Insurance After I Retire?

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When completing your spending budget for retirement it's common to go through your list and do away with any unnecessary expenses. This exercise often helps to prioritize your retirement lifestyle allowing you to allocate more money for vacation adventures and less money for frivolous things like extra TV channels and in some cases life insurance premiums. After all, it's likely that the kids are out of school and the house is paid off, so why would you need much life insurance anymore anyway? To dive deep and question the use of life insurance during retirement I spoke with Robert P. Burns, CEO of Senior Safety Net of Center Valley, PA, a leading retirement-advising firm.

Mr. Burns called life insurance the, "Rodney Dangerfield of financial products; it gets little or no respect." While that may be true, especially with several talking heads telling people to only buy Term Life insurance (which can be irresponsible advice), there have been some dramatic innovations in permanent life insurance in recent years, so it may be worth a second look.

The basic advantage of life insurance is the tax-free death benefit to your heirs, but there are other advantages as well according to Mr. Burns, "life insurance offers tax-favored growth, virtually interest-free loans that can create tax-free income in retirement, options to use your death benefit to help with assisted living or extended care costs, and creditor/predator protection." Opponents to permanent life insurance often cite the fees and expenses as their main concern, the truth is they can be structured to be very fee efficient if you're working with the right independent insurance professional, but not all permanent life insurance policies are alike.

There Are 3 Main Types Of Life Insurance – Which Is Right For You?

<u>There are 3 main types of permanent life insurance:</u>

1) Whole Life (WL)
2) Universal Life (UL)
3) Variable Universal Life (VUL)

VUL policies tend to be the most expensive and the most risky because you can gain, but also lose money based on the stock market, which also dramatically increases your investment fees because of the mutual funds, called sub-accounts, within the policies. A special breed of fixed UL policies (known as IULs) also earn interest based on a market index, but none of the losses or mutual fund fees – the trade off is that you give up some of the upside of the market index for principal protection against losses (which varies with each carrier, but can often provide an upside of 9+% with no market risk). Whole Life policies pay a stated fixed dividend, which can be quite low in this environment.

"People who can easily afford to self-insure are taking a whole new look at life insurance," according to Mr. Burns, "it's all about leveraging the smallest amount of money for the biggest amount of benefit. It's not so much about needing the insurance, it's about the tax benefits and passing it along to the kids without funneling it through the government that attracts people to it." It's common for retirees today to want to enjoy their life savings, but also leave something behind for their family – a life insurance strategy gives mom and dad "permission" to enjoy their savings while leaving behind tax-free benefit for their heirs.

Ed Slott, CPA, cited as "America's IRA Expert", feels that life insurance is the best inheritance you can leave behind, even more valuable than allowing your beneficiaries to "Stretch" your IRAs over their lifetimes.

He cites 3 reasons why life insurance is a better strategy: 1) it's tax-free, 2) there are no RMDs required, and 3) there aren't any complicated tax rules to navigate. The tax-free nature of life insurance was written into the original tax code over 100 hundred years ago in 1913 and it's likely not going to change whereas rules governing IRAs are very likely to change as we've witnessed in recent proposed legislation.

Because the earnings in a life insurance policy can grow tax-deferred they have become increasingly popular for high income earners who've fully contributed to their other retirement accounts like 401(k)s. If structured correctly, they can act like a Roth IRA on steroids because they can provide tax-free income in retirement and other tax-free benefits.

When pressed about the other classic argument against permanent life insurance; ***what if I need my money?*** Mr. Burns said, "it's simple…in more modern policies we can utilize a special feature that waives all surrender penalties if you need your money." What you give up for this feature generally is slightly lower earnings potential, but it's not a bad trade off.

"The advantages don't stop there," said Mr. Burns, "As opposed to personal funds kept in the bank, it is difficult or impossible for creditors to enforce judgments and liens against life insurance funds. Also—although your insurance's cash value is most assuredly an asset—it's one of the few assets not considered in federal college financial aid calculations."

While, permanent life insurance gets "little or no respect" because of the bad rap from the older style Whole Life policies, newer designs like IULs are garnering a lot more attention among retirees and high income earners because of their tax treatment and various benefits. While life insurance may be a dirty word in some circles, if it achieves your goals, does it really matter what you call it?

Disclosure: Rob Russell offers advisory services through Centum Capital an independent RIA. Mr. Russell is also the President of Russell & Company Total Wealth Management.