

Could Insurance Save Your Retirement?

The right coverage might help to insulate you against a money crisis.

Most people begin insuring themselves when they marry or start a family. They buy coverage in response to two potential calamities – disability during their working years, and death.

Somewhere between youth and death comes retirement, and in retirement, the role of insurance is often downplayed. Does a retired multimillionaire really need a life insurance policy? Now that he or she is not working, what is the point of having disability coverage?

Make no mistake, insurance can play a vital role in retirement planning. It may help to keep a retiree household financially afloat in a money crisis. It can also be used creatively to address other financial concerns.

What can life insurance do for a retiree *before* he or she dies? Many permanent life insurance policies accumulate cash value over time. Potentially, that cash value could be tapped to pay off medical expenses, education debt, mortgage debt, or debts owed by a business. It could fund a buy-sell agreement. It could go into an investment vehicle that could later pay out income. While the death benefit of a policy may be reduced as a consequence, the trade-off may be worth it for the policyholder.¹

What else can life insurance do for a retiree household? It can help the kids. Sometimes a retired dad or mom is 20-30 years older than his or her spouse, and the kids are minors. If the older spouse dies, the death benefit can help to provide for these minor children, who could have special needs.¹

There is also the matter of income replacement, even in retirement. When a retiree receiving a pension dies, the surviving spouse may subsequently get far less pension income. A life insurance death benefit may help to make up for it. In another scenario, a widowed spouse may elect to live on a life insurance policy's lump sum death benefit for a year or two, as an alternative to drawing down tax-advantaged retirement savings accounts.^{1,2}

How about disability insurance? In some households, one spouse retires, but another spouse keeps working well into his or her sixties and earns a large income. A couple or family would definitely miss that income if it went away. Keeping disability insurance coverage may be very wise in such instances.²

Long-term care coverage is expensive, but not compared to the cost of eldercare. Imagine paying \$6,235 a month for a semi-private room in a nursing home. Outrageous? No. Merely average. According to the Department of Health and Human Services, that is the average monthly cost for such care today. That comes to \$74,820 annually.²

Financially speaking, that kind of expense could break the back of a retiree household. Medicare and disability insurance will not absorb the cost – one that could deplete a retiree’s entire savings, with the next step being Medicaid or turning to adult children (who will be retired or approaching retirement themselves). When eldercare is needed, the daily benefit from long-term care coverage can feel invaluable. That benefit can also fund home health care and assisted living services.²

Liability insurance may come in handy. In certain states (such as California), retirement accounts are not protected against creditor lawsuits. So if a judgment against a retiree in one of those states is large enough, retirement account assets may be seized to satisfy it if liability limits on an auto or homeowner policy are too low. This is why an umbrella liability policy may have merit for some retirees.²

Insurance should not be a “missing piece” in your retirement plan. You may need life, disability, long-term care, or liability coverage more than you think.

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Citations.

1 - investopedia.com/articles/personal-finance/010716/do-you-need-life-insurance-after-you-retire.asp [1/7/16]

2 - money.usnews.com/investing/articles/2016-09-13/4-kinds-of-insurance-that-can-save-your-retirement [9/13/16]