

A NEW LEASE ON LIFE INSURANCE

THAT TERM OR CASH-VALUE POLICY YOU BOUGHT TO PROTECT YOUR YOUNG FAMILY COULD CUSHION YOUR RETIREMENT AS WELL.

BY KIMBERLY LANKFORD

YOU'RE 53 OR 56 OR 61, THE KIDS ARE OUT OF THE HOUSE, the mortgage is nearly paid off, and before long you'll be eligible to retire and take your pension—and so will your better half. Life insurance? At 60, you can expect to live another 20 to 25 years, if you're in good health.

You'll have more than enough money, or at least your house will be worth a million. So surely you won't need to pay insurance premiums for much longer, right? Dropping your policy would be like getting a bonus worth hundreds or thousands of dollars a year.

Nice try. After the real estate collapse and the stock-market crash, the finances of preretirees are far more challenging. Your mortgage payments may now be more of a burden, you can't borrow against home equity, and your retirement accounts have shrunk so much that you hope to hang on to your job and continue to contribute until you're old enough to collect your full Social Security benefit. That's crucial because your pension isn't getting any bigger—and it may in fact shrink if your company can't keep the plan solvent or the investments perform poorly.

Here's the unpleasant dilemma if you have a term-life-insurance policy that is about to expire: Renew the coverage and your premiums are almost certain to soar. Drop all coverage and your family could be in a financial bind if you die prematurely.

If you own permanent, or cash-value, life insurance, you have other decisions to make. Premiums may be level but high. You may be tempted to take out money to compensate for a smaller pension or a tighter budget, especially if you are forced into early retirement. Or you might cash it in altogether to be done with premiums. That could make sense—or it could be a major financial-planning error.

●● TERM-LIFE POLICIES

Millions of Americans bought low-cost, multiyear term policies ten to 20 years ago when their kids were

young, and they expected to drop the coverage when the term—and low rates—expired. But if you go without now, you could be missing some special opportunities to extend your coverage for less than you think and retain tax-free death benefits that will make up for the damage to your retirement funds and pension.

Dane and Susan Swenson of Gainesville, Va., both 58, thought they'd be finished with life insurance by now. Dane retired from the Army in 1998 and currently works as a civilian for the U.S. Department of Defense. He has life insurance through work until he retires, which he plans to do in the next few years. He has a military pension and will qualify for a small federal-employee pension. But if he were to die and Susan collected only reduced survivor's benefits, she'd be short of money to live on.

The couple originally thought their retirement savings would allow Susan to go without life-insurance benefits. "I planned to be self-insured, but then the market dropped," says Dane. His retirement accounts fell by as much as 40%, so he started to reconsider the idea of going without insurance.

Early in 2009, Dane bought a \$200,000, 15-year term policy from Genworth for \$600 a year. “The policy covers the difference between being self-insured and the decrease in our portfolio,” he says.

That may sound like a low price for a policy that will cover Dane until he turns 73, but it’s hardly unusual. Term-insurance rates have plummeted over the past 15 years because of intense competition and longer life expectancies. So you may actually pay less now for the same coverage even though you’re older, or lock in a longer rate guarantee with little impact on your premiums.

In 1994, a healthy 40-year-old man would have paid at least \$995 per year for a 20-year, fixed-rate term policy with a \$500,000 death benefit. Today, the same man—now age 55—could buy ten more years of comparable coverage for \$880 a year, as long as he’s still physically fit. (In most cases you’ll be asked to answer a few questions about your health, provide the insurer with doctors’ references, and agree to a brief physical exam at home.)

If you have health issues, find an agent who deals with several insurance companies and can help you present a strong case for a fair deal. Also, check whether the expiring policy has conversion features. Most term-insurance policies come with the option to convert to a permanent life-insurance policy so that you can be covered for the rest of your life, regardless of what happens to your health. The premiums will be high: They are based on your age at conversion, which means the older you are when you convert, the more you pay. But the rates will also reflect your medical condition when you originally signed up for the insurance—and unless you’re a marathon runner, you were probably lighter and healthier then (see the box on page 3 for more about conversions). And, in case you didn’t look, term insurance gets very expensive in old age.

●● CASH-VALUE POLICIES

Cash-value life-insurance policies, such as whole-life and universal life, don’t expire. They can lapse if you don’t keep up the premiums; but as long as there’s enough money in the policy, the insurance will live on with you through age 100. Cash-value insurance is often criticized because it’s hard to follow where all your premiums go and how your value builds. But as you get older, you may find that this complexity translates into more ways to pull money out and still preserve your life-insurance coverage.

Tom Arenberg of Mequon, Wis., bought a whole-life policy from Northwestern Mutual when he was just 22 years old. In addition to its value as protection, says Arenberg, now 57, he “considered it savings that would be harder to get at than if the money were in a bank.”

A whole-life policy involves trading higher out-of-pocket costs for some guarantees. You pay a fixed annual premium that depends on your age, health and the size of the policy, and in return you know what your minimum cash value and death benefit are worth every year. If the insurance company invests well (usually in bonds and mortgage securities) and controls other expenses, you’ll receive policy dividends, which can further build up your cash value and death benefits. There’s no guarantee that you’ll receive a dividend every year, but you’re not in the position of a stockholder who knows the company may cut cash payments if it so desires. Policyholders virtually always get something. If yours is a mutual insurance company, you’re legally considered an owner of the company and share in its gains.

There are two ways to extract cash from a permanent life policy: a withdrawal or a policy loan. Both moves reduce your death benefit, but you don’t have to forfeit your coverage.

Arenberg borrowed from his policy’s cash value a few times in the early years, for what he calls “growing-up

stuff,” such as buying his first home. He quickly repaid the loans so he could restore the full death benefit. He had the option to increase the size of the death benefit every three years by paying more premiums, and did.

But now that the Arenbergs’ three daughters are 19, 21 and 24, and Tom has retired after 34 years at Accenture, the couple’s needs for the policy are gradually shifting from family protection to helping Tom and his wife, Diane, with retirement. “It’s become a safe, low-maintenance investment,” Arenberg says. “I didn’t care if it had the best return—I wanted to be the least unhappy guy in the room if

Buy Term While It’s Still Cheap

AFTER STEADILY DECREASING since the early 1990s, it looks as if term-insurance premiums have hit bottom. Several insurers have recently raised their prices—by 5% to 20%—for the first time in nearly a decade. Most others are expected to boost rates at least 10% over the next year. Blame the market meltdown. Not only have insurers lost money on their investments, but regulators are requiring them to set aside more money in reserve against possible future economic damage.

But you can still get a good deal if you shop soon. The increases are small compared with the price cuts that preceded them, and some insurers are lagging in boosting premiums. Your best bet is to get quotes from dozens of insurers (go to AccuQuote.com). To find detailed medical criteria for qualifying for a policy, check out Insure.com or an independent insurance broker who advertises low-cost insurance and represents many companies.

there were a downturn,” he says. Like everyone else’s investments, his have taken a hit. But, he says, “We’re hurting a lot less than others.”

He uses some cash from the life-insurance policy to pay for long-term-care-insurance premiums, and he may use more of it, eventually, to pay for his daughters’ graduate-school expenses and to donate to charity. He likens the policy to a chess piece in a commanding position—there’s no rush to make any moves except to ensure that the policy stays in force so his heirs can collect a death benefit tax-free.

How you access your cash value while you’re alive matters in terms of your coverage and your tax bill. If you simply cash in the policy, which is known as *surrender*, you take back the cash value all at once, minus any outstanding loans. But that means you give up the death benefit and owe income tax on the policy’s gains over and above the premiums you’ve paid. If you bought the policy at, say, age 25 and you’re now 60, that’s an enormous tax hit. It would be smarter to withdraw up to the amount you’ve paid in premiums, your *basis*, which you may do without paying tax.

If you need occasional cash, the best way to claim it is a policy loan. You reduce your death benefit by the amount of the loan plus interest (which is generally low, perhaps 6%), but you never have to pay it back. If the policy is still in force when you die, your heirs get

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How to Convert Your Policy

WHEN YOU BUY A TERM POLICY, BE SURE YOU understand the details of your conversion rights, if any. You want to know what kind of permanent insurance you may convert to, how much it will cost and the timetable for making the conversion.

Most useful is the right to convert anytime up to the end of the term. But with some policies, the conversion window closes at age 50. That makes it a tough decision if the original term policy (and its lower premium) extends long past that time, says Glenn Daily, an insurance adviser in New York City.

Some term policies will let you convert to any of the insurer’s permanent offerings. Whole-life policies are all about fixed premiums and guarantees. Universal life, on the other hand, lets you specify how large a premium you want to pay (above a minimum to cover the cost of providing the actual insurance). You may be able to suspend premiums for a while, provided you’ve built up enough cash value to cover the cost of maintaining the policy. It’s like feeding a meter in advance.

If you convert to a permanent policy in your fifties or sixties to extend the years you are covered rather than to build up cash value, universal life will cost you less out of pocket. Variable universal life combines the premium flexibility of universal life with a shot at growth because the cash value is invested in mutual fund–like accounts. But there are no guarantees. If your priority is a low-risk way to stay insured so that your family members get tax-free cash at your death, it’s a poor option.

the remaining reduced death benefit tax-free. The downside of a policy loan is that you need to be very careful not to let your policy lapse, or else you’ll owe taxes on the loan, even though you’ve spent the money and may think you borrowed the cash from your own savings. Although you can have the interest deducted from the remaining cash value, that’s dangerous. It’s wise to at least pay the an-

nual interest as it accumulates.

Another option is to make a tax-free conversion into an income annuity (see “Guaranteed Income for Life,” July). You’ll give up the death benefit and owe taxes on a portion of each annuity payout. But in exchange for paying taxes, you stop paying premiums and can be assured of a steady stream of income for life or for a specified number of years. ■

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