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Retirement: Life insurance for empty nesters and retirees

Even after your kids are on their own, you may want to hold on to some life insurance if you're working to help your spouse pay the bills and save for retirement; your spouse would need that extra money if you died. Financial planner Tim Maurer recommends calculating how much money you need to add to your nest egg to reach your savings goals, then keeping enough term coverage to fill in that gap.

Donna Skeels Cygan, a financial planner in Albuquerque, is in the five- to 10-year window before retirement. She and her husband, Randy, each bought a 25-year term policy when they were in their early thirties and had their first child. When they were in their forties, they each added a 30-year term policy to make sure they had more coverage while supporting their kids, as well as to provide some insurance into their seventies.

The laddered approach is working well for them. "I'm going to let the 25-year policies expire," says Cygan. The 30-year policies will carry her to age 70 and Randy to 72. "We're going to keep those because we don't want to worry about anything financially related if either of us were to die." They figure they won't need life insurance after that because they won't be dependent on each other's income.

If you're in retirement, you probably do not need to keep your coverage. "You ought to have built up enough assets so you have enough to live on in retirement," says Glenn Daily, a fee-only insurance adviser in New York City. If you have a term insurance policy, you can just keep the policy until the term ends, as long as you have enough cash to pay the premiums, or let it drop and use the money for a more pressing need, such as paying for long-term care coverage.

But there are exceptions. You may need a policy that lasts for your lifetime if you and your spouse rely on a pension that does not have a death benefit for the survivor, or if your heirs will need cash to buy a stake in a business, or if you're supporting a special-needs child. Some retirees maintain coverage to provide a legacy for children or charities. One option is a term policy with a conversion feature. Or if you bought a permanent policy that has built up cash value, such as a whole life policy, you can withdraw some of the money for income in retirement.

(Kimberly Lankford is a contributing editor to Kiplinger's Personal Finance magazine. Send your questions and comments to moneypower@kiplinger.com. And for more on this and similar money topics, visit Kiplinger.com.)

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