TOP 10 STRATEGIES

TO GET THE BEST FINAL EXPENSE INSURANCE DURING YOUR RETIREMENT

INTRO: WHY WOULD A RETIREE OWN LIFE INSURANCE?

Traditionally, life insurance is purchased during your working years to replace your income for your family in case you died. But if you are retired, do you still need life insurance?

Because many couples are dependent upon two social security checks or two pension checks, when one spouse passes away, the other spouse finds that their income falls, but many of the expenses and lifestyle requirements remain. The inexpensive way to protect against this is to own term life insurance.

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TIP 1: RETIREES MAY NEED MORE LIFE INSURANCE THAN THEY THINK

If you died today, your spouse would still be faced with daily living expenses—for 10, 20, or even 30 years. Without life insurance, would he or she be able to pay off your obligations, maintain the lifestyle you have both worked so hard to achieve, and pass on something to your children and grandchildren?

So, how much life insurance do you need as a retiree? That depends on how much your family will need to meet general obligations upon your death (such as medical costs, funeral expenses, and estate settlement bills) as well as how much future income your family will need to sustain them. The latter is tricky to calculate, because it involves calculating the present day value of future needed cash flow streams.

TIP 2: USE THOSE OLD LIFE INSURANCE POLICIES TO INCREASE YOUR RETURN

The IRS will allow you to make tax-free transfers of life insurance policies into an annuity. You may think that there could not be much of a benefit if there's not much cash value in the policies. But for tax purposes, the amount transferred is actually your cost basis less dividends and cash value.

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TIP 3: OTHER WAYS TO USE YOUR LIFE INSURANCE FOR INVESTMENT PURPOSES

Through a series of withdrawals or loans, cash value life insurance policies can often provide tax-free money. This could be as a lump sum or systematic payments to accommodate your needs. Then when you die, your beneficiaries will receive the greater of the remaining cash value or the death benefit, income tax-free.

Also, you might want to exchange your policy for one with a lower death benefit. This could be a tax-free transaction, and you could end up with a higher income—since the cost of the insurance within the new policy may possibly be less.

TIP 4: LIFE INSURANCE TRUSTS - REDUCE FEDERAL ESTATE TAXES AND PROVIDE FOR YOUR FAMILY'S FUTURE WHEN YOU ARE GONE

A trust is essentially a legal arrangement where property control is transferred to another party (known as a trustee) for the benefit of another person or entity, who is commonly known as the beneficiary. A life insurance trust is a special type of trust that holds title to a life insurance policy. In many cases, the primary purpose of this trust is to help certain taxpayers reduce their federal estate tax burdens.

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TIP 5: RETIREMENT REASONS FOR UPDATING YOUR LIFE INSURANCE AT 55+

There are five reasons to update your life insurance now to ensure your spouse the relaxing retirement that you are in the processes of creating. You may consider more life insurance...

1. To cover an adult child that is now evidently having a hard time in life. This may be due to a mental or physical disability or a short coming that has appeared in his adult life.

2. To cover the Social Security blackout period for your spouse. Social Security pays nothing from when the youngest child leaves high school until the surviving spouse applies for benefits based on the deceased spouse's record (minimum age for eligibility is 60). You anticipated qualifying for a certain amount of social security benefits as part of your retirement income, but there will be no help during this "blackout period."

3. To offset the reduced benefits that you anticipated from Social Security and saving plans. As the main breadwinner with some high income years still left, you plan to contribute heavily to your qualified retirement plans. These years may also boost your social security benefits. Your early death will preclude that extra retirement income that you thought these savings and social security benefits would produce.

4. To meet your commitments that relied on two incomes. Perhaps both spouses work in your family. You may have committed to mortgages, loans, or other obligations that depended on both your incomes. You need to ensure that at least the deceased spouse's income is replaced to allow the surviving spouse to maintain those commitments.

5. To create an emergency fund to handle both the first spouse's death expenses and other unforeseen expenses that may come up in subsequent years.

TIP 6: DO YOU HAVE A REASON TO SELL YOUR LIFE INSURANCE POLICY?

A life insurance policy is personal property just like a house, car, stocks, and bonds. You can sell your life insurance policy like you sell other personal property items. The sale of a life insurance policy is called a life insurance settlement, life settlement, or senior settlement.

TIP 7: BEFORE YOU LET YOUR LIFE INSURANCE LAPSE, CONSIDER SELLING IT

Most people think that their life insurance policy has no value until they die. But a market is emerging for buying and selling existing life insurance policies. If you currently own term or universal life coverage that you no longer want or need, you may be able to sell your policy and realize some cash value from it. A life settlement transaction involves selling a current life insurance policy to a life settlement company, who then pays the premiums and is named as the beneficiary on the policy. When the policyholder dies, the company receives the payout from the insurance company.

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TIP 8: SHOULD YOU CONSIDER A LIFE SETTLEMENT?

If you no longer need the coverage provided by your current life insurance policy, or you just do not want to pay the premiums anymore, a life settlement could help you realize more monetary value from your policy as opposed to surrendering the policy for the cash surrender value or, in the case of many term policies, from letting your policy lapse and getting nothing out of it. Universal life policies can potentially be valued at three times or more the underlying cash value of the policy

TIP 9: LIFE INSURANCE - YOU DO NOT NEED TO DIE TO GET PAID

Many life policies offer accelerated benefits (often called living benefits) that pay off during the life of the policy owner. Those benefits are accelerated if they are paid directly to a chronically or terminally ill policy owner before he or she dies. Provisions for accelerated or "living benefits" may be included in a policy when purchased or attached as a rider.

In general, accelerated benefits can range from 25 to 95 percent of the death benefit. In most cases, accelerated benefits are not subject to federal income taxes.

TIP 10: USE NO CASH VALUE LIFE INSURANCE TO MAINTAIN A LEGACY AGAINST ASSET FORFEITURE TO MEDICAID AND LONG-TERM CARE EXPENSE

All too often retirees find themselves doing last minute estate planning. One instance is when they realize that eventual long-term care costs may wipe out their assets and rob their ability to leave something for their kids or spouse. Though eligibility 5 for Medicaid is state dependent, it is designed for seniors who have a very limited income and few assets.

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CONCLUSION: LIFE INSURANCE CAN COMPLEMENT YOUR PENSION PAYOUT OPTION

Deciding how to choose a company pension payout can be tricky. You need to keep open a variety of options to see what suits you best. If you have a life insurance policy on you, here is another way to use it in retirement.

At retirement, your pension plan may present several options. You may be able to take it as a lump sum or as an annuity for life.

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