FAMILY FINANCES »

Life Insurance for Your Stage of Life

Your needs change as you age. BY KIMBERLY LANKFORD

LIFE INSURANCE IS AN ESSENTIAL part of every family's financial plan, but people often underestimate the amount of coverage they need and pay too much for what they get. What's more, your needs change as you age: The policy you bought when your kids were born may not have the right amount of coverage when they are about to go to college. And when you retire, you may be able to drop coverage altogether, unless you have a cash-value policy you plan to tap for income or include in your estate plan.

Life insurance rates have dropped significantly over the past 10 years, and it can be a lot less complicated than you think to figure out what you need. The key is to reassess your coverage when your family reaches certain milestones.

THE FIRST POLICY

You need life insurance when someone depends on you financially. If you're married without children, you may need coverage if your spouse relies on your income to help pay the mortgage and other bills. But when you have kids, you really need life insurance. "Most people do not have enough, and the people we see who need it the most—younger people with very small children—have it the least," says Mari Adam, a certified financial planner in Boca Raton, Fla.

When you're young, your life insurance needs are greatest because you're supporting a young family. Your life insurance must help your family cover their expenses, including the mortgage and other bills, and enable them to save for college and retirement without your income.

You can use a life insurance calculator (such as the one at www.lifehappens.org) to come up with a precise figure. But worrying about precision tends to intimidate people into procrastinating. "Keep it simple, and just go *and get it*," says Adam. She generally recommends buying a policy worth at least seven to 10 times your gross income (or more, if you plan to have more kids and your income and expenses are on the rise). "Don't ever aim low on this," she says. "Round up, and be generous."

What kind of insurance should you buy? At this stage of your life, buy term (for shopping strategies, see the box on the facing page). Term is simple and has no investment or savings component. "Term insurance is good not just because it's cheap but also because it's relatively easy to understand and shop for, and it's easy to compare prices," says Glenn Daily, a fee-only life insurance adviser in New York City. Also, says Daily, it's easy to figure out after you buy the policy whether it's still a good deal.

"You can go online and compare what you can get with a new policy."

A healthy 30-year-old man can buy a $500,000, 20-year term policy for just $250 per year, or $1 million for $430. Women pay less: $215 per year for a $500,000 policy or $360 for a $1 million policy.

ILLUSTRATIONS BY OLIVER WEISS

A parent who doesn't earn an income needs life insurance, too. If she dies, her spouse will have to cover child care expenses. "The high-income earner may want to cut back to part-time or spend a lot more time with the kids, and that's a justification for having a healthy-size policy on both spouses," says Donna Skeels Cygan, a certified financial planner in Albuquerque. She recommends a death benefit large enough that you can cover the annual income you need by withdrawing 4% of the money each year. For example, if you expect to need $20,000 a year for more than 20 years, buy a policy with a $500,000 death benefit.

After deciding how much coverage you need, figure out how long you need it. If you plan to have more kids or to keep working for several decades, you might need a 30-year policy, even though it costs a lot more than 20-year coverage. A $1 million, 30-year term policy would cost a 30-year-old man about $710 per year ($580 per year for a woman). "If you can afford it, go for the longer term and the higher amount," says Adam.

If you can't afford a 30-year policy, it's better to "ladder" coverage than to skimp on the insurance amount. You could get a 30-year policy for half or two-thirds of the amount you need, and a 20-year policy for the other part, says Tim Maurer, a certified financial planner in Charleston, S.C., and director of personal finance for the BAM Alliance, a network of independent financial advisers. You can add more coverage as your kids get older and your income increases.

UPDATING YOUR COVERAGE

If your income and expenses increase as your children get older, you may need more coverage than when you were starting out. Maurer recommends reviewing your life insurance needs every five years and whenever you experience a major change, such as having another child, starting a new job, taking out a bigger mortgage or getting divorced. The annual premiums will be higher because you're

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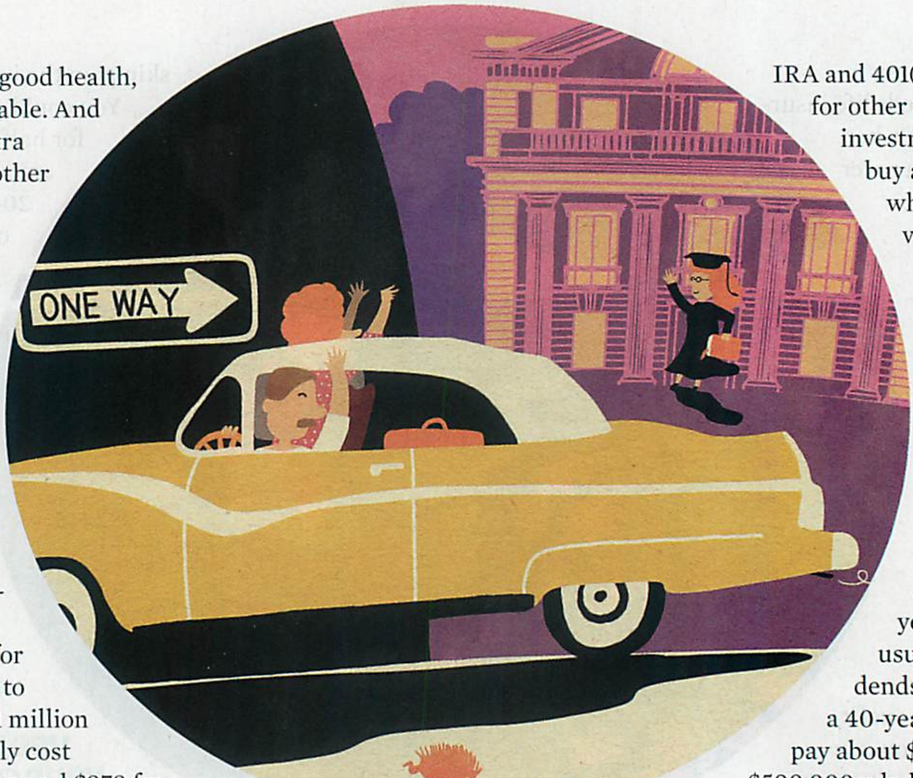
How to Shop for a Term Policy

YOU CAN COMPARE PRICES FROM MANY INSURERS AT WEB sites such as AccuQuote.com (800-442-9899) and LifeQuotes.com (800-324-6370). The lowest premiums are for people who are in good health. You might have to pay more if you have any health issues, or even if your family had health problems. If both your parents died of cardiovascular disease before age 60, for example, your rate could almost double, says Byron Udell, CEO of AccuQuote.com.

Insurers generally ask about your height, weight, cholesterol and blood-pressure readings, and medical problems, as well as whether your parents had certain kinds of cancer or heart disease. Having a poor driving record, declaring bankruptcy, or participating in risky hobbies such as scuba diving or flying could also affect the cost of your premiums.

You may want to call the number listed on the Web site, rather than use the online tool, if you have a medical condition. Even if you're working with an insurance specialist, compare rates online to make sure premiums are in the ballpark. Give your insurance agent all of the details up front because some insurers charge much more than others for similar conditions. "Insurers have their niches," says Udell. For instance, some care if your parents had cancer or if you're taking blood pressure or cholesterol medication, while others do not.

You may be able to buy extra coverage through your employer without a medical exam. That could be a good deal if you have health issues, but it's a bad deal if you're healthy and can buy a policy elsewhere for less.



older, but if you're in good health, they'll still be reasonable. And you may need the extra coverage only for another 10 or 15 years if your kids are teenagers (especially if you already have other coverage that will last longer).

A healthy 40-year-old man can get a $500,000, 20-year term policy for as little as $350 per year ($310 for a woman) or a 30-year term policy for $630 per year ($525 for a woman), according to AccuQuote.com. A $1 million policy would generally cost about $1,200 for a man and $970 for a woman. A healthy 50-year-old man can get a $500,000, 20-year term policy for $925 per year ($675 for a woman).

This is also a good time to think about what to do if your policy is set to expire before your need for coverage is up. Options include buying extra insurance for a longer term, converting your current coverage to a permanent policy (see the box below) or buying some permanent insurance.

If you've already maxed out your IRA and 401(k) and are looking for other tax-advantaged investments, you could buy a whole life policy, which builds cash value based on the performance of the insurer's investments. Premiums are expensive, but the insurer promises to increase your cash value by at least a minimum amount every year, and the policy usually pays dividends. For example, a 40-year-old man could pay about $8,000 a year for a $500,000 whole life policy, but he may accumulate more than $325,000 in cash value by age 65 (based on current dividends), with nearly $200,000 guaranteed and a death benefit that could grow to about $750,000.

Later, you can withdraw the cash value tax-free up to the amount you

Convertible Term

Should You Make It Permanent?

MOST PEOPLE CAN BUY A TERM POLICY FOR THE LENGTH OF time they need life insurance and add (or reduce) coverage as their needs change. But you may not have that option if you develop a medical condition. Whenever you buy term insurance, make sure the policy has the option to convert to a permanent policy.

Most term policies offer you that option for a certain number of years after you buy. The permanent policy's premiums will be based on your health when you originally bought the insurance and the age when you convert.

You can use term insurance for long-term needs "as long as it gives you the option to convert to something that's worth having," says Glenn Daily, a fee-only life insurance adviser in New York City. "Without that option, term insurance would be a riskier choice."

It's important to know the type of permanent policy to which you can convert. For the least-expensive way to provide coverage for more than 30 years, consider a no-lapse universal life insurance policy. "It's essentially like term insurance that lasts forever," says Byron Udell, CEO of AccuQuote.com. Annual premiums for this type of policy are about half as much as they are for the same level of coverage with whole life, but they build up very little cash value.

A healthy 40-year-old man would pay about $630 per year for a 30-year, $500,000 term policy or $2,850 per year for a no-lapse UL policy, says Udell. A 50-year-old could pay $1,590 per year for a 30-year term policy or $4,200 per year for a no-lapse UL policy (women pay less). If you have a term policy that lasts until you're in your seventies, conversion would be worthwhile only if you developed a medical condition and couldn't qualify for a new policy but needed coverage. If you are relatively healthy, compare the cost and coverage for a new policy and for the conversion policy.

Find out how long you have to convert the policy; some insurers allow conversion only in the first 10 or 15 years, even if the term is longer, or only to a certain age, such as 65, says Bob Bland, of LifeQuotes.com.

paid in premiums over the years. Withdrawals above that level are taxed in your top tax bracket. Or you can borrow the cash value; the loan will not be taxed as a withdrawal as long as you keep the policy for the rest of your life. (Withdrawals and loans reduce your death benefit.) For an added premium that boosts the cost by about 10% a year, you can attach a rider to some permanent policies that lets you tap the death benefit for long-term-care expenses.

INSURANCE FOR EMPTY NESTERS

Your need for life insurance "begins high and stays there until your kids go to college, then it drops drastically," says Maurer. Nevertheless, he says, "getting rid of your life insurance entirely after your kids leave is a big mistake."

Even after your kids are on their own, Maurer suggests keeping some insurance as long as you're working to help your spouse pay the bills and save for retirement if you die. At this point, most people can finally afford to boost their retirement savings contributions. "In that window—the five- or 10-year bridge to retirement—you still need some coverage," he says. Maurer recommends calculating how much money you need to add to your nest egg to reach your savings goals, then keeping enough term insurance coverage to fill in that gap in case you or your spouse dies early.

Cygan, the Albuquerque financial planner, is at that bridge to retirement. She and her husband, Randy, each bought a 25-year, $500,000 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 until their seventies.

The laddered approach is working well for them. They're now in their mid fifties, and the 25-year term is about to end. "I'm going to let those policies expire because we don't need as much coverage as we used to. We got our kids through school," 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.

DECISIONS FOR RETIREES

The need for life insurance ends at retirement if you've done your financial planning, says Daily. "You ought to have built up enough assets so you have enough to live on in retirement." 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. Randolph Melville, 56, of Dallas bought a Northwestern Mutual whole life policy about 25 years ago, when his first child was born. Now that his three sons are in their twenties, he has borrowed some of the cash value to pay for a home-improvement project, and he may eventually tap it for retirement income (tax-free up to the amount he paid in premiums). He can also transfer money tax-free to pay long-term-care premiums, or keep some coverage and leave a legacy to his sons or to a charity. "It protects your family and gives you flexibility," he says. ■