# Insurance Protection for Life's Key Stages

Whether you are just starting your career, in your peak earning years, or enjoying retirement, your insurance protection needs may change over time. **Life cycle planning** helps identify insurance needs that are common to particular stages of life. This can help individuals and families examine their insurance requirements in order to make future plans.

### Starting Out

Between the ages of 25 and 35, many people are just starting out in life—getting married, establishing families, and building careers. During these years, the death of the primary breadwinner, or one partner in a dual-income couple, could seriously jeopardize a surviving spouse's or family's financial future. Young couples probably have not had time to accumulate significant assets. For those in this age group, **life insurance** can be used to help create an "instant estate." In the event of an unexpected death, a life insurance policy death benefit can provide funds to help cover a mortgage, pay for a child's college education, or maintain the family's standard of living.

### The Peak Earning Years

Between the ages of 35 and 55, a family's assets may increase, therefore changing their life insurance needs. At this point, individuals owning **term policies** may want to convert to **permanent insurance**, which offers the potential for tax-deferred cash accumulation. The cash value can be accessed through a policy loan, free of taxes or penalties up to the amount paid into the policy. The loan interest rate generally is comparable to traditional lending rates. However, it is important to note that policy loans and/or withdrawals will reduce the cash surrender value and may reduce the policy's death benefit. Taking a policy loan could have adverse tax consequences if the policy terminates before the insured's death.

Another concern during this period is protecting your ability to earn income. According to the Life and Health Insurance Foundation for Education (LIFE, 2011), before the age of 65, roughly one in three women and one in four men will sustain a disability that lasts three months or longer. Further, nearly one in seven Americans will be disabled for five or more years before retirement. Since even one year of disability could easily wipe out many years of savings, you may want to consider **individual disability income insurance**. This type of insurance provides a benefit to replace a percentage of the insured's income, in the event of a qualifying disability.

To address disability concerns, some life insurance policies offer a rider called a **waiver of premium**, usually available at an additional cost. With this additional coverage, if the insured becomes disabled, the insurer picks up the cost of the premiums with no repayment required, and the insured's life insurance coverage is not affected.

**Nearing Retirement**

As retirement approaches, you may want to prepare strategies to minimize potential estate taxes. Life insurance offers a practical and affordable means of creating liquidity at death to help pay estate taxes. One approach is to establish an **irrevocable life insurance trust (ILIT)**. When properly executed, the trust is used to purchase a life insurance policy in an amount at least equal to the projected estate taxes. The policy premiums are paid with gifts from the insured to the trust. At the insured's death, the trust provides tax-free funds to help cover the estate tax liability. To be involved in the estate planning process, you would need to work with an estate planning team, including tax and legal professionals.

**The Retirement Years**

Upon retirement, new concerns may arise. Personal assets that have taken years to accumulate could be quickly depleted should an individual require long-term care in a skilled nursing home facility. Most people are unaware of the actual costs associated with long-term care. According to the American Association of Retired Persons (AARP), the national average for private nursing home care is $74,000 per year. Other long term health care statistics: $206 per day for a private room in a nursing home; $185 per day for a semi-private room; $3,185 per month for a one bedroom unit in an assisted living facility; and $60 per day for care in an adult day health care center.

Although Medicare generally begins at age 65, it does not cover extended long-term care services. Medicaid is the government program designed to help those in financial need. However, individuals must "spend down" their personal assets and meet the Federal poverty guidelines before qualifying for nursing home care under Medicaid.

**Long term care insurance (LTCI),** if *previously* purchased, may help cover extended care expenses, including at-home, assisted living facility or nursing home care. Long-term care insurance may also help preserve assets, while easing the financial and caregiving burden on family members.

**Back to the Future**

An appropriate insurance protection plan can help you and your family throughout life's key stages. By understanding the concerns that are common at each life stage, you may be in a better position to anticipate future needs.

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