Do You Need Life Insurance in Retirement?

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Life insurance helps protect your spouse and children from poverty in the case of your untimely death. However, once your children become self-sufficient and you and your spouse accumulate significant assets, there's less of a need to keep paying the premiums for life insurance. Here's how to tell if you still need life insurance in retirement:

Are you still working? Many Americans continue to work during the traditional retirement years. Life insurance can protect your family from the loss of your income when you die. "Whether life insurance makes sense or not for retirees depends on how much earned income would be lost due to the death of the retiree," says Hanming Fang, an economics professor at the University of Pennsylvania. "If the retiree does not have any earned income, then there is no real need for life insurance. If the retiree's death may lead to significant loss of income, then there may still be a need for life insurance even in retirement."

Are your children and spouse self-sufficient? When you have a young family, life insurance can provide an incredible amount of security. But the needs of your family will change over time. "One thing you want to think about is what would happen if you were no longer here," says Joel Lange, investment director of Bell Wealth Management in Austin, Texas. "If you are not responsible for anyone else and you have sufficient assets to cover your bills, then there is very little need to continue to hold life insurance in retirement."

There are some family situations when it's a good idea to hold onto your policy. If you had a child late in life or have a relative with special needs who will be permanently dependent on you for income, it often makes sense to keep paying the premiums on your life insurance policy in retirement. Also, if your spouse would lose part or all of the benefits of your pension or Social Security income when you pass away, life insurance can help to bridge that gap. "Forget about all the emotional trappings that go with life insurance," says Tony Steuer, director of financial preparedness at the insurance consumer group United Policyholders. "Just look at the heart of the matter and decide if someone is financially dependent on you for income."

Will you need to pay estate taxes? Life insurance can sometimes be an estate planning tool. "If you have a farm that you want to keep in the family or if you are a business owner and you don't have enough

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liquid assets to take care of estate taxes, you can have a life insurance policy that is tied to your estate plan," Lange says. It's a good idea to talk to an estate planning expert before taking on a life insurance policy for tax purposes. "Instead of going to an agent who has a stake in your keeping the insurance, go to a fee-only planner or tax attorney who doesn't have a stake in it," says Robert Hunter, director of insurance for the Consumer Federation of America.

It can be emotionally difficult to let your policy lapse, but it could also allow you to eliminate an unnecessary retirement expense. "Life insurance was there to give you peace of mind and to protect your baby and your spouse," Hunter says. "For most people, if you have sufficient resources to take care of your retirement needs and your children are on their own, you don't need it anymore. Just let it go and save the money."

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