New Breadwinner in the Household: How Does This Affect Life Insurance?

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In the current economy, many households are changing primary breadwinners. For example, after a stint as a stay-at-home parent, your husband decides to reenter the workforce. When he lands a job, your finances, day-to-day arrangements, and lifestyle may become very different.
After such a change in circumstances, you might wonder — should there also be a change in your life insurance policies? What factors influence these decisions? And what courses of action make the most sense for your household?
Factors That Influence Life Insurance
You may have heard that coverage should be a certain multiple of your annual salary because life insurance is purchased as a form of income replacement after death. But there are many factors that can influence the amount of insurance needed, if any, when there is a new breadwinner in the household. These include the following.
Children
As a family grows, financial obligations increase. No matter how thrifty you are, there are extra expenses associated with food, medical and dental care, clothing, and education for each child. And if a parent dies when children are young, the survivor may need to spend more than expected on childcare, grocery convenience foods, etc., especially if he returns to full-time work.
When children grow and become independent, however, a parent's financial support diminishes and disappears. Exceptions include special-needs children, who may not be able to provide for themselves in adulthood.
Debt
We typically think of mortgage debt as a large expense that could be eliminated with a life insurance policy in the event of a breadwinner's death. But all debt obligations, such as student loans, credit card debt, and auto loans, should be figured when calculating obligations.
And, though you shouldn't insure for debt possibilities that have not yet materialized, a new job might

mean a bigger mortgage if you move to a larger home, a more desirable school district, or a location closer to your workplace. Similarly, you may take out an auto loan if a more reliable form of transportation is required. Don't forget imminent debt when you evaluate needs.

Assets

Your assets can influence needs for coverage. For example, if you have a mortgage-free home, fully loaded 529 plans, and large retirement accounts, then you'll have income from investments and relatively low expenses in the future. You may not need an insurance payout to remain in your home or send the kids to college. On the other hand, if the breadwinner dies during an economic downturn, then cash from a death benefit could help you to avoid selling assets at depressed values.

Economic Value of Non-Working Spouse

The value of a non-working spouse and/or stay-at-home parent is immeasurable. The direct economic worth can be measured in terms of services and products that you may have to buy if your partner was no longer around. These will vary from household to household but would generally include costs associated with childcare, food preparation, and cleaning. Less quantifiable measures are family support, companionship, and guidance about family issues, school concerns, and career decisions that may come from a life partner.

Current Insurance Coverage

Consider existing coverage amounts as well as policy terms and premiums. Also think about whether a policy is sponsored by your employer.

Solutions for Changes in Circumstances

When undergoing a major financial change like having a new breadwinner in the household, you should focus on getting adequate coverage based on well-defined needs.

Matching specific needs with policy amounts and terms is the strategy advocated by Tony Steuer, CLU, LA, CPFFE and Director of Financial Preparedness for United Policyholders. Getting more insurance coverage as financial obligations grow is the approach suggested by Jeff Rose, CFP; he cautions against becoming insurance poor but sees that many people are not covered adequately. Here are some specific tactics recommended by these experts for ensuring that you have proper coverage.

Get Coverage for Both Spouses, Period

Tony and Jeff recommend coverage for both spouses, largely independent of breadwinning status. In fact, Jeff tells me that he recently worked with a couple to obtain identical coverage in two separate policies for a husband and wife despite a large income disparity.

Look at all aspects of your needs, including the value of a supporting role, when you have a new breadwinner in the household.

Obtain Insurance Not Linked to Your Employer
Jeff says that an overwhelming number of people have employer-based policies only. They may be unaware that company coverage is typically not portable, unlike a 401k) or Health Savings Account. Relying on an employer policy for coverage is risky, given the frequency that you may change jobs over a 30- or 40-year career.
A change in status may prompt you to purchase coverage from a third party, separate from that provided by employers.
Buy Multiple Policies
Tony recommends a laddering strategy in which specific needs and time frames are matched with policy amounts and terms. For example, if you have a 5-year-old and 15-year-old, you may want to purchase a 20-year level term policy to cover educational expenses for the younger child and a 10-year level term policy for the older one.
Jeff also sees value in obtaining multiple policies for flexibility's sake. As circumstances change, you can make adjustments and purchase more coverage. If life insurance costs begin overwhelming your budget, you can drop one of the policies but still maintain coverage with the others.
Consult an Expert
Determine whether changes in breadwinning status will affect your insurance requirements and take appropriate action, consulting with an expert as needed. Document specific areas of concern as you consider your unique situation. You might note educational expenses for children with learning disabilities or a demanding business travel schedule that places greater value on a stay-at-home or work-at-home parent. This evaluation will help you to articulate why you are requesting coverage and make adjustments throughout your career and lifetime when circumstances change yet again.