For client reading purposes, where Dixie Butler has been quoted, the text has been boxed and colored red.

Insurance Demands a Long-Term Perspective

Stan Hinden Special to the Washington Post
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Ten years ago, at age 66, I decided to buy a $100,000 term life insurance policy. At the time, I was an employee of The Washington Post and had about $100,000 of company life insurance coverage. But I knew that when I retired I would lose my Post insurance. And I wanted to prepare for that day.

My new $100,000 term life policy cost $1,756 a year, and I became used to seeing the annual premium notice arrive each June.

This year, the notice came as usual. But when I opened the familiar envelope and looked at the bill, I nearly fell out of my chair. The premium for the coming year wasn't $1,756. It was $9,000! After I looked at the bill for the third time, I decided that it must be a mistake, a computer glitch, something I could straighten out with a phone call.

But as I started to dial, I decided instead to try to find a copy of my policy and see what it said about the premiums. I hadn't seen it in years, and I had no recollection of what it said.

When I read it, I was shocked. The term policy called for level premium payments of $1,756 a year for a period of 10 years. But in the 11th year, the annual premiums would begin to rise dramatically. In subsequent years, the annual premiums would be $9,000, $10,000, $11,000, $12,000 and higher.

In fact, if I had been able to pay those huge amounts, I would have paid a total of $100,000 -- the same amount as the death benefit -- within seven more years.

There was no way I could afford to keep the policy, even though I had paid out $17,560 already, with nothing to show for it.

I called several other insurance companies to ask about new coverage. Given my age and health history, I was told, a $100,000 term policy would cost about $10,000 a year. So, I am not likely to find new life insurance at an affordable price.

Needless to say, my wife, Sara, wasn't happy about my losing the insurance and she asked me how this could have happened.

The truth is that I had totally forgotten the terms of the policy. And I'm not surprised I did. The events of the past 10 years have gone by like leaves in a windstorm: my retirement from the Business section of The Post, my heart bypass surgery, the start of the Retirement Journal

column, the writing of my book, "How to Retire Happy," plus a zillion personal and family events, happy and unhappy.

But even if I had been aware that the clock was ticking on my insurance policy, what could I have done about it? Not much, I think. I had considered buying a "permanent" cash-value policy. But that would have cost $4,000 a year -- a lot more than I could spend.

A longtime friend, financial planner **Dixie Butler**, head of U.S. Advisors Inc. in McLean, told me not to feel guilty. "You used the dollars you had to work with and did the best you could," she said. Many of her clients, Butler said, use term insurance to "insure a need" until they can accumulate additional wealth and become less dependent on insurance.

Moreover, Butler said, "you should feel great. You're still alive, and nobody had to collect on your policy."

In that sense, I guess, the 10-year term policy did fill a need. It covered us during a crucial transition in our lives, from working full time to retirement, downsizing from a house to an apartment, and trying to figure out how much money we would have to see us through the retirement years.

Fortunately, I had also bought an $85,000 cash-value policy many years earlier and still have it. If, at age 66, I made any mistake, it was that I did not think far enough ahead to what our financial situation might be 10 years or even 20 years into the future. Sure, it's hard enough to anticipate what's going to happen tomorrow, let alone 10 or 20 years from now. But, on the other
hand, isn't that what retirement planning is all about?

Of course it is. So, I asked financial planner Christopher N. Brown, president of Commonwealth Advisory Group of Gaithersburg, "What is the proper role of life insurance in family financial planning and, especially, in retirement planning?"

"The primary purpose," Brown replied, "is to create a pool of income-producing assets for a spouse and/or children in the event of the premature death of the other spouse. This applies for retirees as well as couples in their thirties and forties. All other issues, such as using life insurance as an 'investment' or establishing an inheritance for children, are secondary."

The need for life insurance, Brown continued, will vary with each individual. "Retirees who are married," he said, "need to review their financial situation and determine how much income a surviving spouse would lose."

Such income losses, he noted, frequently result from reductions in Social Security payments. For example, a husband may receive $1,500 a month in benefits while his wife gets $1,000 a month, for a total of $2,500 a month. If the husband dies, his widow would get his $1,500 payment but she would lose her $1,000 payment. That represents a 40 percent drop in family income.

A substantial loss of income also can result from reductions in pension or annuity payments. That happens when a spouse has chosen to take his or her payments under a "single life" option. If the husband, for instance, has chosen a "single life" option, he will get the maximum monthly payment for as long he lives. But after his death, his spouse will get nothing.

Under a "50 percent survivorship" option, the retiree receives a smaller monthly payment. But after his death, his widow will get 50 percent of that payment each month.
In order to avoid any loss of pension or annuity income at all, the retiree must take a "100 percent survivorship" option. That would give the retiree the smallest monthly payment of all. But after his death, his widow would continue to receive that same amount of money.

All of these factors play a role in the eventual need for life insurance to enhance the income of the surviving spouse, Brown said. "If the loss of income is too great," he said, "then life insurance may be needed in retirement. But if retirees have substantial assets, they may not need life insurance."

There are two basic types of life insurance:

Term insurance provides a simple death benefit. As in my case, the premiums may stay the same for 10 years or more. But when the stated term is up, the cost rises rapidly. Indeed, I was forced to give up the $100,000 policy because it became too expensive to carry.

Cash-value insurance, as the name indicates, builds up a cash fund during the life of the policy. Cash-value insurance comes in several varieties, including whole life, universal life and variable universal life. These differ by options, investments and flexibility.

Generally speaking, term insurance is less expensive than cash-value insurance.

Brown suggests that a mix of term and cash-value insurance may provide the best long-range protection for many people. Young couples, especially those with children, should consider taking out a sizable amount of relatively cheap term insurance, so they can provide for their family's needs in the event of an untimely death of one spouse.

When the couple is older and able to afford higher insurance payments, Brown said, they should then consider cash-value insurance, which can carry them through their retirement years.

That plan makes sense to me. And it reinforces the main lesson I learned from my $9,000 premium shocker. As difficult as it may be, think long-term when it comes to your future financial and insurance needs, and especially when it comes to deciding how you will take your pension and annuity payments. If you don't think long-term, you may shortchange yourself and, especially, your spouse.