

Getting the Best Deal on Life Insurance

By Tammy Flanagan

May 19, 2016

Last week, we looked at the [options available](#) under the Federal Employees Group Life Insurance program. Now let's see how the plan stacks up against other alternatives.

Federal employees are required to pay two-thirds of the premium rate for basic FEGLI coverage, while employers in the private sector generally cover the full cost of their employees' basic coverage. Everyone covered by FEGLI pays the same premium regardless of their health status, unlike individual coverage where premiums generally depend on the health of the person being insured. As a result, if relatively healthier federal employees compare FEGLI to private individual coverage, FEGLI could appear more costly.

Basic FEGLI and Option B (which covers your life for one to five multiples of your annual basic pay) will automatically increase in value as your pay goes up, regardless of your age or pre-existing health conditions. Option B and Option C (covering the lives of your spouse and eligible children) can be increased when there is a life event such as marriage, divorce, birth, adoption of a child or death of a family member, without proof of insurability. Option C can be used to cover someone who may not be able to acquire life insurance on the private market due to age or poor health. One drawback of option Option C is that it does not provide more than \$25,000 worth of life insurance on your spouse.

Because of the increasing premiums of Optional FEGLI, it's a good idea to reevaluate your life insurance needs every five years when the premium adjusts. Insurance that may have been important when you got married or started your family may not be as necessary when you're nearing retirement, your children have grown up and your mortgage is paid off. In connection with reevaluating your insurance needs, remember to update your [beneficiary designation](#).

Remember, FEGLI covers you regardless of occupation or hobbies and will pay beneficiaries regardless of the cause or place of death. And FEGLI also provides coverage for retirees, unlike many private sector plans.

FEGLI vs. Survivor Annuity

FEGLI provides a tax-free lump sum benefit to your beneficiary upon your death, but it is not a substitute for the survivor annuity election under the Civil Service Retirement System or the Federal Employees Retirement System. Consider the example of Wanda in last week's column. Let's say she'll receive a FERS basic retirement benefit payable at \$20,000 per year. If she elects the maximum FERS spousal survivor benefit, her retirement will be reduced by 10 percent, or \$2,000 per year, leaving her with a benefit of \$18,000 -- well as a reduced taxable retirement income. Choosing the maximum survivor benefit would provide her surviving spouse with a lifetime annuity of 50 percent of her unreduced retirement benefit ($50\% \times \$20,000 = \$10,000$ a year) including future adjustments for inflation.

Wanda could choose to maintain FEGLI Option B coverage into retirement if she has held the coverage for five years prior to her retirement. Her surviving spouse could use the proceeds of the insurance to replace the income from Wanda's FERS retirement benefit if she dies before him. Assume Wanda has five multiples of Option B coverage worth \$320,000 ($\$64,000 \times 5$). Before Wanda turned 60, this coverage cost \$138.67 a month. However, at age 60, the premium will more than double, to \$304.96 a month. When Wanda turns 65, the cost would increase to \$374.40 per month and continue to rise every five years until she's 80.

Also, remember that these premiums are paid with after-tax dollars and a surviving spouse must be entitled to at least a minimum survivor annuity in order to continue coverage under the Federal Employees Health Benefits Program. Although a surviving spouse may need more income than the spousal CSRS or FERS survivor annuity provides to replace your retirement benefit if you die first, FEGLI can become cost-prohibitive in the later years and is not an adequate substitute.

FEGLI Facts

Finally, here are some things to remember about FEGLI:

- It is group term life insurance. It does not build up cash value.
- You can't take a loan out against your FEGLI insurance.
- It includes a "living benefit," payable from your basic life insurance before your death if you're diagnosed with a terminal illness.
- While your beneficiary will be paid regardless of the cause or location of your death, there's an exception if your beneficiary intentionally causes your death.
- If you cancel FEGLI, there is no refund of premiums.
- FEGLI provides accidental death and dismemberment insurance for employees as part of its basic coverage at no additional cost.

Photo: Flickr user [jennie-o](#).

By Tammy Flanagan

May 19, 2016

<http://www.govexec.com/pay-benefits/retirement-planning/2016/05/getting-best-deal-life-insurance/128457/>