As federal employees plan for retirement, it’s important that they reevaluate their insurance needs. This includes health, long-term care, and life insurance. The unexpected need for expensive medical care, personal care due to a physical or mental impairment or an untimely death can throw a monkey wrench into the best-laid retirement plans.

In recent columns, we’ve looked at the cost of prescription drugs and assessing whether you need Medicare if you have federal health benefits coverage. In this week’s column and next week’s we’ll zero in on evaluating the Federal Employee’s Group Life Insurance program to determine if it is the best option for your life insurance needs. FEGLI may be the best choice for you, or you might find a better fit if you shop around. Just to be clear, I don’t sell life insurance products. I’m just here to help guide you through your options.

This week, we’ll look at FEGLI, and next week we’ll cover some of the other options.

When it comes to life insurance, FEGLI is an easy option for federal employees. It’s offered by the federal government, and the premium is deducted automatically from your paycheck every two weeks, with increases in coverage every time you receive a pay increase. If you joined the government in your 20s or 30s, additional optional coverage was relatively inexpensive and provided an immediate solution to a long-term problem.

FEGLI is competitively priced for what it is, but its value depends on a number of factors including your age and insurability.

The main purpose of life insurance is to cover income replacement, education expenses, mortgage payments and other debt, along with your final burial expenses. As you approach retirement, you may have already paid off your mortgage, eliminated most of your debt, raised your children and paid for their education. That leaves income replacement and final expenses as the primary reasons to carry insurance.

Let’s start with final expenses, since there is a relatively simple solution for this — basic FEGLI coverage. The premium for basic life insurance is mostly covered by the government. The employee (or eligible retiree who is under age 65) pays one third of the premium. The rate is $0.15 per $1,000 of coverage biweekly while you are employed. The death benefit is determined by your basic salary rate rounded to the next highest $1,000, plus an additional $2,000.

For example, if Kim has a salary of $77,500, then her FEGLI basic life insurance would cost $12 biweekly and would pay her beneficiary a payment of $80,000 upon her death.

At retirement, your basic FEGLI is based on your final pay rate and continues at that level and for the same price ($0.325 per $1,000 of coverage per month) until age 65. The default election at retirement is the 75...
percent reduction option, meaning that at age 65 (or at retirement, if later than age 65), the insurance is free and the death benefit reduces by 2 percent per month until the coverage goes down by 75 percent. That leaves 25 percent of the death benefit remaining to help cover your final expenses, even if you live to 105.

Using the previous example, if Kim took the 75 percent reduction option upon retiring at 60, then she would pay $26 per month to continue $80,000 worth of basic FEGLI until she turned 65. After that, she’d no longer have to pay a premium. But over the next three years, the benefit would reduce by 2 percent per month until it got to $20,000 (25 percent of the original value). Her beneficiary would receive at least $20,000 regardless of how long she lived past age 65.

You can choose to take only a 50 percent reduction, or no reduction at all at the time you retire if you’re willing to pay an additional premium during retirement.

If you’re single and you aren’t providing for anyone else financially, then you probably won’t need to carry life insurance to cover income replacement. If you’re married, however, your death can cause a loss of income for your spouse. He or she could lose half or more of your Civil Service Retirement System or Federal Employees Retirement System annuity, depending on the choices you have made. In addition, there can be a loss of income from Social Security retirement due to several factors, including the effect of the Government Pension Offset if you are retired under CSRS, the receipt of your own earned Social Security retirement, your age, and whether you are still working.

FEGLI offers optional life insurance in addition to basic coverage. The Office of Personnel Management has a contract with the MetLife to provide this insurance. There are three additional options:

**Option A (Standard):** $10,000 death benefit. Your premium is based on your age. Retirees pay for Option A until age 65 and retired, then it is free and coverage reduces by 2 percent per month until the benefit is down to $2,500.

**Option B (Additional):** Multiples of your salary, up to five times your basic pay (rounded to the highest $1,000). Coverage continues into retirement with the election of no reduction (under which premiums continue and increase every five years to age 80) or full reduction (under which premiums are charged only until you’re 65 and retired, then coverage reduces by 2 percent per month until reaching zero after 50 months).

**Option C (Family):** Coverage for your spouse and dependent children. The benefit for your spouse is $5,000 and each dependent child is insured for $2,500. Eligible employees may elect up to five multiples of Option C and continue this coverage into retirement at no reduction or full reduction in the same manner as Option B.

The FEGLI Handbook describes eligibility for FEGLI and continuation of FEGLI into retirement in greater detail.

*Photo: Flickr user Ken Teegardin*

**Correction:** The original version of this column indicated that under basic FEGLI, the employee (or eligible retiree who is under age 65) pays 25 percent of the premium. The correct figure is one third of the premium. The article has been updated to correct the error.

By Tammy Flanagan
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