

How Much Life Insurance Do You Really Need?

By Tammy Flanagan

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When is the last time you evaluated your life insurance needs? Now is a good time to reconsider your options since there will be a rare [open enrollment](#) next month for the Federal Employees Group Life Insurance program. During September, feds will be able to enroll in any FEGLI coverage, including Option C, family coverage. You won't have to answer any health questions and there's no need for a life event to elect coverage. If you're already enrolled and want to add more coverage, you can do so.

Here's the catch: Your coverage will not take effect until the first full pay period on or after Oct. 1, 2017, which is also when you will begin paying premiums for the new coverage. In addition, if you would like to carry this additional coverage into retirement, you will need to wait five years or until after October 2022 to retire. Retirees will not be able to increase their life insurance during this open enrollment event.

Beyond this rare open season, you will still be able to make changes to FEGLI coverage if you have a qualifying life event (marriage, divorce, death of your spouse, or acquisition of an eligible child). You have 60 days from the date of the event to elect any coverage offered by FEGLI. You can make your this election using [SF 2817 Life Insurance Election](#) or by using your agency's online human resources portal (if your agency offers one that allows FEGLI life event elections). In addition, you can apply for coverage without waiting for coverage to take effect next year by providing evidence of medical insurability on [SF 2822, Request for Insurance](#). At least one year must have passed since you last waived FEGLI coverage. If approved, you can elect Basic, Option A and Option B using this procedure. You can't elect or increase Option C (family insurance).

It's important to keep in mind that as you get older, the cost of maintaining FEGLI, especially Option B, becomes more expensive. For example, if your basic pay rate is \$64,870 and you carry five times your basic pay (the maximum Option B coverage), you would be insured for \$325,000 (your basic pay rate is rounded to the next highest \$1,000). From age 45 to 49, coverage at that level (\$325,000) would cost \$22.75 biweekly. At age 50, the cost would increase to \$35.75, and at age 55 it would jump to \$65 biweekly.

Unless you reduce the coverage, the price would more than double at age 60, to \$143 biweekly. And the price increases continue to age 80. The good news is that if you continue to pay the ever increasing premiums, you may keep the insurance, even if you retire (as long as you have had the coverage for five years and you are retiring on an immediate annuity). The bad news is that it's very expensive and your need for the insurance is probably not what it was when you first elected the optional benefit. All of the [FEGLI rates](#), along with an [FEGLI calculator](#), are available at the Office of Personnel Management's website.

Wartime Origins

Did you ever consider that you probably don't want to get your money's worth out of your life insurance? The history of government life insurance dates to World War II. In 1943, a company called Worldwide Assurance for Employees of Public Agencies (WAEPA) was formed to provide access to life insurance for government employees who were serving overseas. [WAEPA](#) is still in existence today and continues to provide life insurance for government employees as an alternative to FEGLI. The government established FEGLI in August 1954. It is the largest group life insurance program in the world, covering over 4 million federal employees and retirees, as well as many of their family members.

Life insurance that doesn't have cash value, like FEGLI, is generally purchased for a specific period of time, such as while you are raising a family or during the time you are paying your mortgage. Life insurance can provide the income needed to protect your family from financial ruin in the event of your early demise. Although FEGLI doesn't have cash value, it also doesn't have a specific term.

This may partly explain why the premiums may be higher than other 10, 20, or 30 year "level term" policies available in the private sector. In addition, federal employees can purchase FEGLI regardless of their health when they are first hired, during a life event and during the occasional open enrollment events such as the one being held next month. This allows employees who may be otherwise uninsurable to purchase adequate protection.

Another feature of FEGLI is that the Basic coverage and Option B will increase in value every time you receive a pay raise, since both are based on your basic pay rate. Whether it is a January pay adjustment, a step increase or a promotion, your basic FEGLI and Option B coverage will become more valuable as your pay increase takes effect. One final reason for FEGLI's higher pricing may be that FEGLI will pay your beneficiary regardless of the cause of your death (unless your beneficiary *intentionally* caused your demise). Later in life, after the house is paid off and the kids have become independent, you may not need the same protection.

Next week's column will discuss some additional things to consider when weighing your FEGLI options.

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<http://www.govexec.com/pay-benefits/retirement-planning/2016/08/how-much-life-insurance-do-you-really-need/130868/>