

7 Questions to Answer Before Buying Life Insurance

By Tammy Flanagan August 25, 2016

As I noted in my column last week, September offers a rare open enrollment for the Federal Employees Group Life Insurance program. Feds will be able to enroll in any FEGLI coverage, including Option C, family coverage. There are no health questions to answer and there's no need for a life event to elect coverage. If you're already enrolled and would like to add coverage, next month is the time. But there is a 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. And if you want to carry the additional coverage into retirement, you'll need to wait five years or until after October 2022 to retire.

If you are single, you probably don't need life insurance unless you are supporting someone else. But if you are married or providing for someone else financially, here are some questions that might help you think about what level of coverage you really need:

- 1. What is the value of your CSRS or FERS survivor benefit? If you are still employed, there are survivor benefits payable to your spouse, eligible children (and possibly a former spouse with a court order) upon your death under <u>CSRS</u> and <u>FERS</u>. For retirees, this election was made at the time of your retirement and you can check the current value at <u>OPM Retirement Services Online</u>.
- 2. Will your spouse (if you have one) receive a survivor's benefit from Social Security or will he or she receive only their own earned benefit? (See Social Security Survivor's Planner.)
- 3. Have you discussed what to do with your retirement savings when one of you dies? (See TSP Beneficiary Participant Account.)
- 4. Do you have other assets that should be considered? A second home? An inheritance?
- 5. Are there other life insurance policies or annuities that are payable? How much additional income will they provide?
- 6. Does your spouse or significant other have their own retirement income?
- 7. How much will your expenses change if one of you predeceases the other? Will you be able to restore your CSRS or FERS retirement to the unreduced value if you elected to provide a survivor annuity? Will you be able to change from Self Plus One to Self Only health coverage? What other expenses will be reduced?

It can be emotionally difficult to cancel life insurance coverage that you've been paying for your entire career, but consider the cost of that coverage and where those dollars could be spent.

As I discussed last week, the costs of FEGLI Option B increase considerably with age. But that's not your only option. Basic FEGLI, which is valued at your current salary (rounded up to the next \$1,000 plus \$2,000), is coverage you may want to maintain throughout your federal career and the price is a constant bi-weekly payment of \$.15 per \$1,000 of coverage. For example, if your current salary is \$53,500, your basic coverage would be \$56,000 (\$54,000 + \$2,000). Younger employees are covered by an additional basic insurance provision called the Extra Benefit, which doubles the amount of basic insurance payable at no extra cost for enrollees age 35 or younger. Beginning on an enrollee's 36th birthday, the extra benefit decreases 10 percent each year until age 45, after which, there is no extra benefit.

Retirees who elect the 75 percent reduction for Basic FEGLI and who continue Option A into retirement will keep some of this coverage free of charge once they are retired and age 65. Although the basic coverage and the \$10,000 Option A benefit will reduce by 75 percent, you will maintain 25 percent at no charge. The remainder of this basic coverage is generally enough to offset the cost of funeral or burial expenses for many federal retirees. Retirees may also elect no reduction or a 50 percent reduction by paying an additional premium. In addition, the Basic FEGLI coverage includes a "living benefit" that allows a terminally ill enrollee to become their own beneficiary under certain conditions.

Reducing Your Coverage

If you're a current employee and decide to reduce your life insurance, you must complete a new SF 2817, Life Insurance Election Form and submit it to your human resources office. Sign only for the coverage that you wish to maintain. This can be done at any time and there is no need for a life event or an open enrollment period. For retirees, you can cancel or reduce your FEGLI life insurance at any time. There is no form; you must mail a signed letter to OPM's Retirement Office at: Office of Personnel Management, Retirement Operations Center, P.O. Box 45, Boyers, PA 16017-0045.

The cancellation or reduction must be in writing and have an original signature by the insured retiree. Be sure to include your retirement claim number (CSA) or Social Security Number (SSN) and specify what action you want taken. Please note that you cannot increase your coverage after retirement or reinstate coverage that you cancel.

I recently received an email from a retiree who made such a request to reduce his FEGLI coverage. As with many things that must be done by mail, patience is a

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On February 28, 2016, I mailed a letter to OPM requesting a reduction in my optional FEGLI coverage (Option B) from three (3) times my salary to two (2) times my salary, due to increased premiums upon reaching age 60. I did so in accordance with instructions for changing FEGLI coverage on the OPM retirement website.

It has been five months and no reduction has been made; I am still having the old premiums deducted from my monthly annuity payment. On June 1, 2016, I called the OPM retirement number at (888) 767-6738 to inquire about the status of my FEGLI reduction request. After a 40 minute wait on hold I was told that the mail room was backed up, and they were only up to letters received during the second week of February, 2016. She advised me that the change may be made in time for the September annuity payment and would be retroactive to March, 2016. She also said that the change may take 60 to 90 business days, and that I should call back if nothing happened by then.

The good news: The change will be retroactive to March.

The bad news: It is taking seven months (and counting) to process the request.

It is no wonder why retirees and even many employees are not anxious to make changes to their benefits. Although delays and errors continue to occur, it is still a good idea to periodically evaluate your benefits to be sure they remain a good fit for you and your family. There are good reasons for doing so:

- You may save money
- You and your family will have better protection
- You will be informed so that you can make more educated decisions

One last tip: Be sure to keep your <u>FEGLI Designation of Beneficiary Form</u> up to date to be sure that the person who needs the benefit is the one who receives it. If it has been awhile or if you can't remember who your beneficiaries are, it's time to file a new one. These forms are filed in your eOPF if you are still employed, and are maintained by OPM for retirees. Of course, you should have a copy of this form as well.

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