Better than F.E.G.L.I.

Life Insurance Strategies that Save Money and Build Wealth for Federal Employees

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Stephen is a Federal Employee Financial Advisor. He stands at the intersection between your Federal Benefits and your personal finances and advises you on how to integrate your Federal benefits with the rest of your financial life. Instead of just receiving information about your benefits, Stephen guides you in what you could or should be doing to make the most of your money. Read more at www.StephenZelcer.com

Disclaimer #1

This book facilitates only part of life insurance planning, and is not comprehensive financial planning. Many aspects of financial planning are not dealt with in this book, including debt, home equity, capital gains, long term care, cash, estate planning, Required Minimum Distributions – to name just a few.

Furthermore, the ability to plan insurance is not objective. It is subjective. Insurance, by definition, is a risk-tolerance consideration. No advisor can tell you how much risk you should be comfortable with, nor how much insurance you must have. Furthermore, any life insurance planning and/or financial planning requires projecting into the future and relying on certain assumptions. This book does not fully address projecting and certainly does not investigate your underlying assumptions. Each planner must review the projections and assumptions of their plan and bear responsibility for choosing to rely on those assumptions.

Disclaimer #2

Anyone who is looking for more insurance coverage ***should*** apply to increase their FEGLI coverage this open season, ***NO MATTER WHAT!*** Why? Because this will protect you should you fail to obtain the other types of insurances. Other types of insurance may require medical underwriting. Depending on your health you may not be eligible for insurance elsewhere. If you are successful getting other insurance, you will be able to cancel your FEGLI open season changes.

There are 3 core life insurance questions you need to have clearly answered:

1. Do you need life insurance at all?
2. How much life insurance coverage should you have?
3. What is the appropriate life insurance vehicle:
    a. Term life insurance
    b. Whole life insurance
    c. FEGLI
    d. Survivor Pension
    e. Self-insurance

If you don't have these questions clearly answered, chances are you are losing money with your life insurances. Whether you're a new employee or a pre-retiree, losing money on inappropriate life insurance is not recommended.

That's why you're reading this ebook.
This ebook comes from my years of strategizing the financial lives of thousands of federal employees. I have given over two hundred seminars on federal benefits and financial planning, and I've helped hundreds of individuals and couples plan their life insurance strategies.

Think of this as your very own life insurance planning workbook. This book along with its worksheets should help you through the life insurance thinking process.

How to get the most out of this book:
This book has two parts:
The first part of this book deals with the actual calculation of how much insurance you need to have. At the end of the first section is a worksheet to help you calculate your numbers. If you struggle with any of the worksheet exercises, reach out to me. These are important steps that really cannot be skipped.

The second part of this book is an examination of the different life insurance vehicles. This section tries to answer "which life insurance is best for you?" You may be surprised to discover:

- You have more options than you think
- The strengths or weaknesses of your different options
- The amount of risk you are assuming with your current coverage

Insurance is a method of shouldering risk. This is where your personal comfort zone really speaks up. Listen carefully to how you feel inside as I describe the various strategies and their benefits and pitfalls. Here, too, if you struggle putting a finger on your comfort zone, reach out to me.

Good Luck! Let's begin.

PART I – How much insurance do you need?

Do you need life insurance?
I have met many people who felt they needed to have life insurance when they really didn't. Life insurance is needed when someone's death would leave behind an *uncomfortable* financial situation for the survivors (I'll let YOU define "uncomfortable"). This is not for everyone. Perhaps you don't have people who are financially dependent on your income, or your dependents are now adults and independent. Or you may have enough assets to self-insure (we'll discuss self-insurance in a later section). In all the above situations, there may not be any financial discomfort caused by your passing. (I'm not saying you're not needed. ☺ There may be emotional discomfort should you pass, but now I'm just looking at you as a financial being, not a human being.)
If you have dependents that will be financially uncomfortable should you pass– whether children, spouse, or even siblings or parents, – then you'll need to follow these next steps.

Step #1 - Define the annual financial discomfort:
How much money PER YEAR will your survivors need to get them out of their uncomfortable situation? Truthfully this needs to be defined by your dependents, not by you! **They're** going to have to live with the uncomfortable situation. **You** – well, you'll be gone. So your dependents will need to define what income they will needed to get by.

Be Realistic:
Careful here. Obviously, if you leave your dependents $1 Billion, they will have plenty of money to get by – probably much more than they need. You don't have to leave them too much, nor do you want to, nor will you be able to:

- You don't want to because the more insurance you carry, the more it's going to cost you.
- You won't be able to because the insurance company won't allow it.

In general, a life insurance company will only insure you to what they evaluate your worth to be. (Again, as a financial being, not a human being). If they would insure you for more than you're worth that will:

- Make you more valuable dead than alive
- Give you or your family an incentive to knock you off (seriously!)

So just know what to expect. The insurance company will only insure you up to a limited amount, usually determined by multiples of your salary.

- Employees with 30 years of a career ahead of them can usually get up to 30 times their salary.
- Employees with 20 years of a career ahead of them can usually get up to 20 times their salary.
- Employees with 10 years of a career ahead of them can usually get up to 10 times their salary.

Do you need to replace your entire salary? Maybe. But more likely not, because you don't really "take home" your full salary:

- You contribute to your retirement system (FERS or CSRS)
- You contribute to Social Security & Medicare
- You contribute to the TSP
- You pay taxes

So what percent of your salary does your family really live on? This is can be calculated by following these steps:

- **Take a look at your pay stub.** Jot down the "Gross pay," or the amount that you earn before any deductions and allotments are taken out.
- **Subtract out the deductions** that your survivors will likely not continue after you die, such as retirement contributions, savings, taxes (Federal, state, Social Security, Medicare) FEGLI, and possibly FSA. (Some expenses that your family will likely continue are Health Insurance, Auto- or Student-loan allotments, possibly FSA- i.e. if your spouse will continue FSA thru their employer, possibly long-term-care insurance.)

After you do this subtraction, you will have the dollar amount per month that your family "takes home." Assuming you get paid every other week, you will want to multiply this amount by 26 (there are 26 pay periods in a year) to arrive at the annual income shortfall your family may need to replace. (These steps are spelled out clearly on the worksheet on page 9.)

Error on the side of caution:
A healthy dose of caution is welcome here. If you're not comfortable boiling down your family's financial discomfort you may want to over-estimate, as opposed to under-estimate. In general, survivors would prefer to receive more insurance than less.

Step #2 - Define the duration of the financial discomfort:
If you were to die today without life insurance, will your survivors' financial discomfort last as long as they live? Maybe, but maybe not. For children, they may be dependent until age 20 or 25 (I'll let YOU define this one too!). A special needs child may be dependent for many years beyond that. Spouses may be dependent until they get remarried, if they ever get remarried. Defining the duration of the financial discomfort will also help you define the type of insurance you need:

- If you have a defined term of dependency (eg. 10 years, or 17 years, or 23 years), then you need term life insurance coverage.
- If you have an undefined term of dependency, then you may need either whole life insurance or perhaps a "buy-term, invest-the-difference" strategy. (See the "advanced life insurance calculation below, as well as the discussion of self-insurance on page 13 below.)

Step # 3 - Two methods to calculate the amount of Life Insurance you need:

Method #1 - Simple life insurance calculation - Define the total financial discomfort:
Take the dollar amount you defined in step 2 and multiply it by the length of time (in years) that you defined in step 3. For example, if you defined $40,000 in step 2 and 20 years in step 3, then multiply $40,000 x 20 = $800,000. But what if you had an indefinite term of dependency? Now we gotta get fancy (and technical).

Method #2 - Advanced life insurance calculation – Create an income stream to meet annual needs:
You'll notice in my example above that the $800,000 will provide $40,000 a year for 20 years even if the $800,000 never grows or appreciates in value. What would happen in the $800,000 is invested and does grow? Well, it should last beyond 20 years, right?
If you do the math, you'll notice that $40,000 represents 5% of $800,000. This means, that if you can grow your investments at a rate of 5% per year, you should be able to generate $40,000 a year in interest, without even touching the principle. Thus the $800,000 principle theoretically can last forever, which is well beyond 20 years. Now that's important to know because if you have a survivor who will be

financially dependent for 30 years, they may not need to multiply $40,000 by 30 (which equals $1.2 million). Instead, all they need is a large enough lump sum death benefit that can yield $40,000 of annual income.

What lump sum of money can generate $40,000 a year of income? It depends on the growth rate of that lump sum.

- If you invest a lump sum and yield a return of 10%, then all you'll need is $400,000 because 10% of $400,000 equals $40,000.
- If you invest a lump sum and yield a return of 5%, then all you'll need is $800,000 because 5% of $400,000 equals $40,000. (And by the way, if you feel you cannot generate 5%, then your solution would be to speak to an insurance company because they often can guarantee 5% lifetime income in the form of an annuity.)

So really, you can restructure the formula to go something like this:

Amount of money you defined in step 1 ÷ by rate of return you're confident you can get
= amount of life insurance you need.

Here's another illustration using different numbers than what we used above. Let's say I defined $30,000 as the income need in step 1, and I defined 6% as the rate of return I'm confident in, then my life insurance amount will be $500,000 ($30,000 ÷ 0.06 = $500,000).

As you can see, this alternate way of calculating the insurance death benefit can result in a lower death benefit, which will save you on your insurance premiums. (See the worksheets for what to do if this method results in a higher death benefit need.) Furthermore, this alternate method highlights the true value of a lump sum of money. Money can generate more money which can provide income forever, not just for your spouse, but to children and grandchildren for generations to come.

Types of Life insurance you might not know you already have:

By now you've calculated the amount of insurance coverage you need in the following two forms:

- The amount of annual income your survivors would need
- The lump sum amount of money that can provide your survivors with the above annual income

Whatever the above calculations showed, you can reduce that amount by the following benefits which you may not even have realized were due to you (or your survivors):

- Social Security Survivor Benefits
- Federal in-service death benefits

Social Security Survivor Benefits:
If you've been paying into Social Security, your survivors are probably eligible for a Social Security Survivor benefit. This includes surviving spouse and surviving children (assuming they are of the age to qualify).
How much are they entitled to? The survivor benefit amounts are calculated for you and available on page 2 of your Social Security statement. (Insert Picture of sample social security statement).

If you don't have a Social Security Statement, you can get yours online HERE. For more details on the Social Security Survivor benefits, see HERE.

The Social Security Survivor Benefit comes in the form of a monthly income, so this allows you to reduce the income need you calculated above.

Federal in-service death benefits:
As a federal employee, should you die in-service (meaning, before you separate/retire), your survivors will be entitled to a lump sum death benefit, known as the **Basic Employee Death Benefit (BEDB)**. And, as an added bonus, if you've been a Fed for at least 10 years, your survivors will also get a lifetime monthly income, known as the **Spousal Survivor Annuity**. Here are the values of these two benefits:

Basic Employee Death Benefit - A lump sum payment of $32,326.58 ***plus*** the higher of:

- 50% of the employee's final salary, or
- 50% of the average of the highest three years' salary upon death.

Spousal Survivor Annuity - 50% of the retirement pension that the decedent would receive had they retired the day they passed away. To calculate this you need to know the decedent's total length of creditable service, highest average salary, and age at time of death. The worksheets will show you the calculations.

The **Basic Employee Death Benefit** comes as a lump sum, so this allows you to reduce the total life insurance death benefit need you calculated above.

The **Spousal Survivor Annuity** benefit comes in the form of a monthly income, so this allows you to reduce the income need you calculated above.

Worksheet steps:

1. Define your survivor's annual financial discomfort (ie. their income need):
    a. Input your gross income (before deductions)
    b. Subtract out some of your deductions
2. Define the duration of your survivor's discomfort. Determine if you have a defined term life insurance need or an indefinite life insurance need.
3. Apply the calculation method that matches your insurance need (either term or indefinite).
    a. If you have a defined term need, start with the simple life insurance calculation, and then do a second calculation using the advanced life insurance calculation.
    b. If you have an indefinite term need, start with advanced life insurance calculation.
        i. In the advanced life insurance calculation, define the investment rate of return you are comfortable assuming.
        ii. Do the math: Take the income need as defined in step 1, and DIVIDE by the investment rate of return you'd like to assume.
    c. If you did both calculations, and the advanced life insurance calculation yields you a HIGHER life insurance amount than the simple life insurance calculation, then you need to decide whether you want the lower amount which will provide income only for the defined term and not beyond, or if you'd rather get the higher amount which can provide income indefinitely for generations to come.
4. Subtract out any lump sum benefits due to your survivors (see next section for more details on this).

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Life Insurance for Federal Employees

ENTER:	Gross Amount From Pay Stub	
SUBTRACT:	Federal Tax	
	State Tax	
	Social Security Tax	
	Medicare Tax	
	TSP Contributions	
	FERS or CSRS Contributions	
	FEGLI	
	Other	
	Pay Period Total	
MULTIPLY PAY PERIOD TOTAL BY 26:	Annual Total (this is the amount that your family "lives on" per year)	
SUBTRACT:	ANNUAL Social Security Survivor Income	
	ANNUAL Federal In-Service Survivor Income	
	Total (this is the annual income you need to replace)	

Convert the above annual income need into a lump sum life insurance benefit using these two methods:

METHOD 1 – Defined Term of Dependency

Step 1. How many years do you expect your survivors will be dependent?	
Step 2. Multiply the annual income need by the expected years of dependency	

METHOD 2 – Undefined Term of Dependency

Step 1. What rate of return do you feel comfortable assuming you can yield on your investments?	
Step 2. Convert the above rate of return from a percent into a decimal by dividing it by 100	
Step 3. Divide the annual income need by the above decimal	

Using the LOWER lump sum life insurance need from the previous section:

Subtract any lump sum in-service death benefits due to your survivors

THIS IS THE TOTAL AMOUNT OF LIFE INSURANCE THAT YOU NEED	

Which life insurance vehicle is the best? An examination of the Different Life Insurance Vehicles:

Intro - The governing principle:
Before we dive into the details of each form of insurance, let's lay down an obvious 1st principle:

Insurance is designed to be profitable to the insurance company – **not to you!!!**

Whoever is providing you with insurance is fundamentally interested in being profitable. I know they come across as being altruistic and really concerned for the well-being of your family, but let's get this absolutely clear - If insuring you were going to lose them money, they wouldn't do it, no matter how much your family needs it.

Every time the insurance company pays a claim, *they are losing money*. So how do they make it worth their while? This question drives to the heart of how their insurance products works. Let's bear this governing principle in mind as we investigate the different types of life insurance.

TERM Life Insurance:
Term insurance is insurance that covers you only for a limited term (ex. 10-years, 20-years, 30-years, sometimes longer), but after the term, the insurance coverage lapses (or renews for exorbitant premiums).

How does the Insurance Company make a profit on my term policy?
We know the governing principle – they're out to make a profit. But how do they profit on your term insurance policy?
Very simple – they almost never pay the death benefit. They collect your insurance premiums every year but they rarely pay a claim! How rare is rare? Statistics collected by the leading insurance companies and the CDC (2010 study) point to a jaw-dropping 0.07% death rate. And that death rate is for all classes of insurable risk combined. If you narrow the numbers down to the healthier sub-populations, you're looking at even half of that, meaning 0.035%. *That means the insurance companies are collecting premiums from 99.965% of their client base and not paying a claim!!!!!*

So, it turns out, that in the vast majority of term cases, the insurance company is making ALL the money, and you are making none!
That's not a bad thing. That's just insurance. It helps us on the rare cases that we'll need it, but in most cases, we won't use it, thus ensuring that the insurance company makes a profit.

Is term for you?
Earlier, when we discussed **the duration of the financial discomfort**, we considered whether you have a *defined term of dependency*. The classic example of defined term of dependency is with children. Usually children are dependent for a few years (ex. through college) but then they'll be independent and on their own. For someone with a defined term of dependency, term insurance is often the best option. It provides a large death benefit for relatively little cost.

WHOLE Life Insurance:
Whole life insurance is insurance that covers you for your whole life, so there's no point where the coverage lapses (unless you stop paying your premiums).

How does the Insurance Company make a profit on my Whole life policy?
With Term Life, insurance companies profit with the greatest of ease, simply because 99.965% of the time people outlive the term, so the insurance companies collect premiums and don't end up paying a claim.
Do those same statistics apply to whole life insurance? Do 99.965% people outlive their whole life policies? Is it possible to outlive a whole life policy?
Whole life covers you for your whole life. So, assuming you are paying your premiums and not lapsing your policies, whole life policies will have to pay out 100% of the time (almost the exact opposite of term)!
So if they're paying out a claim on all their active policies, how do they make a profit?

Understanding the design of whole life may transform your insurance paradigm forever.

Here's how it works:
Imagine a time line starting from your current age and stretching all the way to age 100.

The insurance company needs to ask "when/where on this time line will the insured die?" Or, in other words, "when will we need to pay out a claim?"

Will they need to pay a claim in the very first year of the policy? Almost NEVER. Insurance companies only insure people who they feel are healthy. The chances of a healthy person dying "early" is almost zero.

What about paying a claim in the 2nd year? Also, almost never. Same with the 3rd year, same with the 4th year, etc.

You see, with whole life insurance, the insurance company knows they'll have to pay a claim at some point, but that point is going to be in the distant future. This piece of information "buys them TIME." The insurance company can collect premiums for many years, and they don't have to worry about a payout until the distant future. So they really have two things working for them: TIME & MONEY.
Whose time? YOUR time!
Whose money? YOUR money!

What do they do with your time and money? They take your money and grow it modestly (industry standard is 4%.) over time, so that by your expected date of death they will have grown *the amount they'll need to pay out your death benefit to your survivors!* When that time comes, and you pass away, whose money do they use to pay out to your survivors? YOUR MONEY!!!

They used YOUR MONEY and YOUR TIME to accumulate YOUR INSURANCE PAYOUT! (and *they took all the credit!!!*)

The idea of taking money and growing it over time is not novel. We do it all the time with our own savings and investments. And if you're following what I'm saying, it turns out that a whole life policy is a form of savings/investment vehicle, only cleverly disguised as an insurance policy.

Is it bad that they grew your money for you?
It depends. What were you planning on doing with that money you spent on insurance premiums? Were you going to spend it or just have it sit in a low-yielding savings account? In either of those situations you will likely under-perform the whole life policy. However, if you would have used that money to invest and grow, then you will likely out-perform the whole life policy.

Is whole life for you?
In contrast with term, which we said was most appropriate when you have a *defined term of dependency*, whole life *seemingly* is most appropriate when you have someone who will be dependent upon you *indefinitely*, meaning for your whole life.

However, to accurately answer whether whole life is for you, I need to remind you that whole life is just another form of savings/investments, packaged in an insurance product. So when asking if whole life is for you, I would also ask is savings/investments for you? You may not need to buy a whole life savings/investment vehicle if you plan on establishing and growing your own savings/investment vehicle. This is what I call **SELF-Insurance,** which I will discuss next**.**

Self-Insurance:
Self-insurance is the point where you have accumulated enough assets to dissolve your life insurance needs. A person is considered self-insured if their passing doesn't cause a financial discomfort for their survivors. For example: Mr. X has $10 million in his bank, and he only spends $50,000 a year on lifestyle expenses. If Mr. X's wife were to pass away, Mr. X will not have any financial hardship. Therefore Mr. X doesn't need to buy life insurance, because he is sufficiently self-insured.

How does the Insurance Company make a profit on my Self-insurance policy?
They don't! (That was a trick question.) Essentially, self-insurance has you playing the role of the insurance company. Instead of you paying them for the service of insuring you, you manage your own money and put it to work for yourself.

Is Self-insurance for you?
Self-insurance is simply a financial metric, or a status. If you have enough assets to dissolve your life insurance needs, you are capable of self-insurance. Some of my readers may be pleasantly surprised to discover that they have already achieved that status; they *are* self-insured today. Others may have self-insurance as a goal; meaning, they may not have the status of self-insured today, but they are motivated to accumulate and grow their assets to the point of becoming self-insured.

How do you become self-insured?
Above you calculated the amount of insurance you need. That is the amount of money you need to accumulate to become self-insured.
So the question then becomes "how do I accumulate the money I need to self-insure?"
The answer is SAVE & INVEST.
When you pass away, you will leave your assets to your survivors. That includes your:

- Thrift Savings Plan (TSP)
- IRAs
- 401(k)s
- Cash in the bank
- Stocks
- Bonds
- Investment accounts
- Equity in your home

All of these are resources that your survivors can use to generate income and dissolve their financial discomfort.
For specific guidance on how to grow your TSP to reach your goals see **TSPplanning.com**.

Q: I want to become self-insured, but as of today I don't have enough assets. I understand that term is likely never going to pay out, but let's say I die before I grow enough money to self-insure - don't I have to worry about that?
If you want to protect yourself against the possibility that you'll pass away before you accumulate enough self-insurance, then you may want to purchase a term policy. But the intent behind your term purchase should be *part of a savings strategy to become self-insured after the term is over*. In such a case, buying your term policy is a form of buying time – the time needed to grow your own assets.

Let me explain: Suppose a person needs $400,000 of insurance. But they haven't yet accumulated $400,000 of savings. Term insurance can buy them $400,000 of coverage for the short term, and provide them the time needed to save $400,000 on their own! After the term expires (ex. after a 20-year term), the person can now *self-insure!*

Q: I understand how to calculate my current insurance need. How do I size up a *future* insurance need; for example how much insurance will I need when I retire?
You will need to project the future income need of your survivors. This is all part of financial/retirement planning. I would verge on malpractice if I gave you a shortchanged version of financial planning here. I encourage you to give your future the comprehensive planning it deserves. With that being said, here are some of the steps needed to answer the above question:

- Compare you future retirement lifestyle to today's lifestyle. What's going to be the same? What's going to be different?
- Convert the future lifestyle into dollars and cents, in today's dollars.
- Identify which lifestyle expenses will change should you pass away, and quantify them in dollars and cents.
- Use an inflation assumption to project the future value of those expenses.
- Quantify all sources of future fixed income (Pensions, Social Security) available to your survivors.
- Subtract future value of expenses from future fixed income.
- The remainder is the income future income shortfall that your survivors will encounter should you pass away in retirement.
- To self-insure in the future, you will need to have accumulated enough assets to generate the income shortfall for the rest of your survivor's life.

Federal Employee Group Life Insurance (FEGLI):
FEGLI is technically classified as Group Term Life Insurance. Group Term Life Insurance is an interesting blend of term & whole life. FEGLI is a type of term insurance that is structured to last your whole life (meaning, if you choose to, you can keep it in force for your whole life even through retirement), experience rising premiums, and never build cash value. Also, because it does not require any underwriting, FEGLI is exposed to more risk than individual (non-group) insurance. This results in higher premiums than individual insurance.

How does FEGLI make a profit on my policy?
If you thought profitability was easy with individual term life, you'll be shocked to learn that it's even easier with FEGLI. In general, group insurance is more cost-efficient than individual insurance because:

- No commissions
- Little marketing expense – your audience is a defined, captive market of federal employees
- No individual underwriting expense
- Little contract expense - Uses a single contract with the plan sponsor (OPM) instead of having to issue individual policies
- Efficient premium collection - payments through payroll deductions, very predictable cash flow with almost no chasing (reword to "chance"?) of late premiums
- Relatively simple data requirements - some examples are no cash values per employee, nor insurance loans

Even the exposure to a riskier health pool is minimized with employment requirements and limitations on amount of insurance any individual can possibly get. Couple all the above with HIGHER premiums, and FEGLI gets a cool profit.

Is FEGLI for you?
Remember, we must ask ourselves if we have a defined term of dependency, or an indefinite term of dependency. When you have a *defined term of dependency* term life is most appropriate. When you have an *indefinite term of dependency* whole life or self-insurance is the most appropriate. FEGLI is a blend of term and whole life, but unfortunately has *the worst of both worlds!*

FEGLI vs. Term life:
If you have a term need, you will almost always be paying more for FEGLI than you would with term insurance. I have found that FEGLI is often two times or three times or four times more expensive than term.
FEGLI vs. Whole life:
If you have a whole life need, you will also fall short with FEGLI. FEGLI is not like whole life for three very important reasons:

- FEGLI rates keep rising even through retirement, unlike typical whole life which has fixed premiums.
- FEGLI does not build cash value, unlike typical whole life policies which do build cash value. Cash value is a monetary benefit of your whole life policy that you can access even while you're alive for whatever purposes you'd like. Should you ever decide to cancel your whole life policy (for example, the person who you were protecting pre-deceases you) you can get all your cash value. Should you ever cancel FEGLI, there will be no cash value.

- You can easily spend more in FEGLI premiums than you will eventually get as a death benefit from your FEGLI policy!!! (See chart below) This cannot happen with a pure whole life policy. With whole life, the death benefit must always exceed the premiums paid.

Cost of $300,000 FEGLI option B				
	Monthly Rate Per $1,000	Total Per Month	Total Per year	Total Per 5 years
Age 30 - 34	$0.043	$12.90	$154.80	$774.00
Age 35 - 39	$0.065	$19.50	$234.00	$1,170.00
Age 40 - 44	$0.087	$26.10	$313.20	$1,566.00
Age 45 - 49	$0.152	$45.60	$547.20	$2,736.00
Age 50 - 54	$0.238	$71.40	$856.80	$4,284.00
Age 55 - 59	$0.433	$129.90	$1,558.80	$7,794.00
Age 60 - 64	$0.953	$285.90	$3,430.80	$17,154.00
Age 65 - 69	$1.170	$351.00	$4,212.00	$21,060.00
Age 70 - 74	$2.080	$624.00	$7,488.00	$37,440.00
Age 75 - 79	$3.900	$1,170.00	$14,040.00	$70,200.00
Age 80 and Over	$5.720	$1,716.00	$20,592.00	$102,960.00
If you live to age 85 you wil have paid				**$267,138.000**
If you live another 5 years, to age 90, you wil have paid				**$370,098.000**

So who should get FEGLI?[1]

There are a couple of situations when I feel FEGLI is worthwhile to keep:

- FEGLI is appropriate when a person has poor health and is not going to be able to get private insurance without paying a hefty premium.
- Also, FEGLI has an option called "Basic" which will become free (at the later of retirement or age 65). For someone who is *near* retirement, it is often wise to just hold onto your FEGLI Basic and let it become free. (FEGLI options "B" and "C" don't become free.)

[1] Don't forget Disclaimer #2 from the beginning of this book. Anyone who is looking for more insurance coverage ***should*** apply to increase their FEGLI coverage during open season, ***NO MATTER WHAT!*** Why? Because this will protect you should you fail to obtain the other types of insurances. Other types of insurance may require medical underwriting. Depending on your health you may not be eligible for insurance elsewhere. If you are successful getting other insurance, you will be able to cancel your FEGLI open season changes.

Retirement Survivor Pensions (for both CSRS & FERS employees):
When you retire, you will have the option to elect a survivor pension for your spouse (or an insurable interest). This survivor benefit pays out only when you pass, and the maximum it will pay is 50% of your FERS pension (55% of CSRS pension). This benefit will cost you 10% of your retirement pension, every year.

Why am I discussing Survivor Pensions in a book about Life insurance? Well, simply because ***a survivor pension is a form of Life Insurance***! Life Insurance is a monetary benefit that becomes available to a survivor when the insured passes away. Survivor pension is a monetary benefit that becomes available to a survivor when the insured (i.e. the Federal annuitant) passes away. Life insurance has its price tag; survivor pensions also have their price tag - they cost about 10% of your pension.
Ask yourself: Are you planning on taking a survivor pension for your spouse? If you've answered "yes," then you're planning on buying a form of life insurance for your spouse.

What we need to investigate is which form of life insurance is "better?"

How does the insurance company make a profit on my survivor pension?
Who is the "insurance company" backing your survivor pension? Well, it's none other than OPM. Although OPM is not-for-profit, they are not in the business of handing out free money. That's why they charge you for this benefit; it needs to be financially worth their while.

The financial payout of the survivor benefit is fundamentally different that the other types of life insurance. All other types of life insurance pay your survivors a lump sum benefit, not a stream of income. The survivor pension is just the opposite; it is paid only as a stream of income, not a lump sum.

OPM is only obligated to pay a lifetime income stream.
What is the financial value of a lifetime stream of income? Since the stream stops at death of the survivor (?), the answer is going to depend on how long the survivor's life is. For example:

- A $30,000 lifetime stream for someone with 30 years of life ahead of them is worth $900,000 ($30,000 x 30 years = $900,000).
- A $30,000 lifetime stream for someone with 5 years of life ahead of them is worth $150,000 ($30,000 x 5 years = $150,000).

As you can see, OPM's obligation is going to be greater if the survivor outlives the federal retiree by many years. However, if the survivor outlives the federal retiree by only a few years, or better yet, if the federal retiree is the survivor (meaning, their spouse pre-deceases them), OPM will have little-to-no obligation.

Whose money does OPM use to pay out these survivor benefits?
Let's do some quick math to illustrate how OPM justifies this benefit.
The maximum survivor benefit a FERS person can leave is 50% of his/her FERS pension. This will cost the FERS retiree 10% of his/her pension. On a $60,000 FERS pension, the retiree will need to pay 10%, or $6,000 per year, to leave their survivor a $30,000 survivor pension.

If the FERS employee retires at 60 and lives to age 90, they will have paid $180,000 ($6,000 x 30 years = $180,000).

If their spouse outlives them by 5 years, they will receive $150,000 ($30,000 x 5 years = $150,000).

In the above example we can easily see how it's financially worth it for OPM to offer this benefit. They essentially use your money to pay your survivors. (Does anyone hear "self- insurance" here?)

It's even easier for OPM if your spouse pre-deceases you. In that case you have ZERO to show for all the money you paid in. What does OPM do with all that money? They use it to pay for the next scenario.

The scenario that provides you with the biggest bang for your buck is if you die early in retirement, and your spouse outlives you by many years. In such a case, you will have paid into the system for only a few years, and OPM will be on the hook to pay your survivors for the rest of their lives. In such a case, OPM may end up paying your survivors much more than you paid into the system.

Bottom line: the longer the federal employee lives, the more they pay into the system, and the less OPM must pay their survivor because the survivor will outlive by fewer years. The shorter the federal employee lives, the less they pay into the system, and the more OPM must pay their survivor because the survivor will outlive by more years.

Is the survivor benefit option for you?
Here are some pros of the Survivor Pension over the other forms of life insurance:

1. FEHB. Survivor pensions enable non-Federal spouse to continue FEHB. If the non-Federal spouse does not have a survivor pension, they cannot continue in FEHB after your death. (However, to enable your survivor to continue FEHB, you do **not** need to leave the **maximum** survivor benefit.)
2. COLAs. Survivor Pensions have a built in COLA (cost of living adjustment.) This increases the amount of your pension to keep up with inflation. The other life insurance proceeds are lump sum, so you will need to generate the COLAs.
3. Price in early years. The price of the survivor benefits will start off as less expensive than **whole** life insurance in the early years of retirement. (The price goes up each year with the COLA, so in later years it will become more expensive.)
4. Benefit of early death. If you die early in retirement and your spouse outlives you by many years, the survivor pension will likely provide a larger benefit to surviving spouse than other forms of lump sum life insurance.
5. Not part of estate. Survivor benefits are not included in your taxable estate. The other types of life insurance will need an irrevocable trust (ILIT) in order to be removed from your estate.

However, here are some pros of Lump Sum Life Insurance over the Survivor Pension:

1. Bang for your buck. The other forms of life insurance will provide a larger benefit to the surviving spouse than Survivor Pension should the Federal Annuitant pass away in mid-to-late in retirement. With the survivor benefit, OPM will only pay a small survivor benefit for the few remaining years of the survivor.
2. Leftover money. With the survivor benefit, when the spouses passes, there will be no benefit left over for anyone else. With the other forms of life insurance, you will have a lump sum which can be utilized for generations to come.

3. Something to show should spouse pre-decease. With the survivor pension, should spouse pre-decease the Federal retiree, OPM will not pay ANY survivor benefit, and there will be nothing to show for all the money put into it. With the other forms of life insurance, you can retain the benefit for someone else even if your spouse pre-deceases.
4. Non-income taxable. Life insurance proceeds are not income taxable. Survivor pensions are.
5. Fixed premiums. Life Insurance premiums are fixed, so the price you pay when you buy the policy is the price you pay each year. Survivor pension premiums go up every time you get a COLA.
6. Living benefit of Cash Value. A **Whole** Life policy typically provides cash value which you can access while alive for any purpose.
7. Trust protection. Life Insurance proceeds can be sheltered from creditors and removed from student aid/Medicaid considerations if put into an irrevocable trust. Survivor pension income cannot.

Takeaways: *When* you die will make all the difference. Early death favors survivor benefit; later death favors the other insurances. FEHB makes the case for some form of survivor benefit, although not necessarily the max. Because of the amount of money invested in a survivor pension, and because of the pros and cons listed above, it is obvious that you should weigh your options and see which one serves you best.

In closing:
Life insurance is unfortunately not planned enough. Without planning, it will be an expense. With planning, it can become one of your greatest assets. If you allow time to work in your favor, you may reach a point where you can dismiss all forms of life insurance simply because you've grown your own policy and have become self-insured.

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