Life Insurance to Gen Xers' Rescue

How to Protect Clients Better

by Doug Martin, as seen in ThinkAdvisor

Overall, most parents in or near retirement want their children to have it better than they did, but times have changed. We have transitioned from a society of savers to one of debtors.

This means that many members of my age group, Generation X (ages 39 to 53), are faced with trying to keep their heads above water.

The stats tell the Generation X story:

- Lost nearly 60% of its net worth between 2005 and 2010.
- 40% say they are not confident about having enough money for retirement.
- Will need about 16 times their final salary to retire comfortably.
- 35% don't expect to receive any Social Security income.
- Cost of raising a child to age 18, $245,000. Four years of college adds $92,000 (public) or $312,000 (private).
- 47% have a parent 65+ and are raising a minor child or supporting a grown child.

Simply put, the pressure is palpable. The dream of having children who are more financially successful than their parents or who will even have the means to take care of their X-Gen parents during their older years may be little more than a dream.

So, how can life insurance come to the rescue? It can't do everything but it can help, one family at a time and we might call it, "Parents: Donate all or a piece of your insurable interest."

Many in the older generation are under insured. They have either let their life insurance coverage lapse, purchased just enough for final expenses, or leave a small next egg for a surviving spouse.

However, many carriers will insure a retired person for up to one times their net worth or up to two times for a retired couple.

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While the parents retain ownership of the policy, their children can leverage its untapped value, pay the premiums, and create a lasting legacy that helps with their financial security in retirement.

There are a number of ways to finance the plan:

- Use current income or dip into personal savings.
- Depending on the applicant's age, a low-cost term life plan may be a good option. A number of highly rated carriers will allow conversions up to age 70 or beyond, while others provide term coverage up to age 89.
- Reduce your 401k contribution, if you are contributing beyond the company match.
- Share the cost with other family members and allow them all to benefit.
- Use a home equity line of credit.

With the death benefit proceeds 100% tax free, the total out of pocket expenses are only a fraction of what a client would need to save to net the same result. In addition, this won't count against them as a reportable asset when their own children prepare to go to college.

While donating a piece or all of one's insurable interest may not appeal to every parent, some will see it as a way to do more for their kids than they dreamed possible.

Doug Martin is an Internal Sales Support Specialist at First American Insurance Underwriters. First American is a Needham, MA-based national life brokerage firm specializing in coaching growth-oriented producers and providing them valuable solutions to their complex cases. He can be contacted at dmartin@faiu.com