

Social Security . . . A Single Life Only Benefit *or, How Couples Lose*



You look into the future. You picture yourselves as a couple who has worked together, accumulated your assets together, and combined your incomes to create your lifestyle for your “golden years.” It’s been a productive life and you live within your means. It appears you are beyond the “years of struggling.” Then one of you is gone from the picture.

Losing Your Lifestyle

You don’t have much life insurance coverage because you believed the media pundits and the advice of friends who told you that “. . . at your age you don’t need life insurance. Your kids are grown and self-sufficient.” This may be one of life’s numerous fables that we believe along the way that can create unfortunate consequences.

Most of us leave behind funeral expenses, some medical expenses and perhaps even some debt that should be cleared. Maybe this isn’t enough to warrant a life insurance policy? However, is your lifestyle worth preserving? Whatever amount the two of you are living on as a couple, would either of you want to give up an amount that could be as much as \$33,000, or more, per year?

Where do you begin to alter your lifestyle to reduce your living expenses by \$33,000? Day-to-day expenses usually don’t go down as much as we would like to think. The survivor must get creative in finding ways to reduce expenses. Perhaps giving fewer gifts, spending less time socially with friends, or eliminating travel. Even that may not be enough. Is this the time to sell the home and downsize? Your life choices may be curtailed beyond what you want.

This is what can happen when a spouse dies and the advantage of collecting both Social Security benefits ends. The survivor now must select the larger benefit and relinquish the smaller monthly benefit. Let’s say the smaller is \$12,000. Do you want to let it go? That is \$1,000 a month. Depending on your personal income stream, that can be a good percentage.

How to Protect Yourself

While nothing can prevent the Social Security Administration from eliminating one income benefit, you can protect that stream of income. Having a life insurance policy that provides a death benefit that will cover the lost income stream is a plan. Here is how it works:

1. One policy on each spouse is necessary.
2. Each face amount is based on the current amount necessary to fund payments in the future.
3. Each spouse owns and is beneficiary of the other spouse’s policy.
4. A permanent policy (Whole Life, Universal Life) is necessary because we do not want the coverage to end.
5. Name contingent owners and beneficiaries on each policy . . . children or other favored beneficiary.

Take a look at this example on page 2.

The Two-Life and Beyond Solution

Jim and Jane are a married couple. He is 62. She is 63. He is self-employed and has never taken a large salary so his Social Security monthly benefit at 67 will be \$1,500. (He could increase this number by taking a larger salary over the next few years.) Jane is employed by a local firm and expects her monthly benefit to be \$2,300 at age 67.

Let's assume they have life expectancies of 20 years beyond retirement . . . age 87. They must each fund for 20 years of benefits at an assumed rate. We will use 5 percent.

To replace Jim's benefits of \$18,000 per year, he will need approximately \$225,000.

To replace Jane's benefits of \$27,600 per year, she will need approximately \$340,000.

In fact, they may decide to fund for 10 years or some number in between . . . or beyond . . . since the estimated life expectancies may differ from the 20-year projection. Or maybe they only want to fund for one-half of the benefit for the survivor or another percentage.

There are several decisions that must be made based on personal preferences. However, simply giving up the benefit stream without replacing it may not be the alternative you would choose given an opportunity to consider other options.

Security Mutual agents understand this concept and have access to the information and tools necessary to help you through the thought process that will bring you to a conclusion that is right for you. Did I mention that when the surviving spouse dies, his/her policy can be used to provide a legacy for the family? It is something to consider.

Contact your Security Mutual agent for additional information and an example of this concept tailored to your needs.

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