

# Insurance Matters After Divorce

## Part 2: Preparing for Changes to Automobile, Homeowner's, Life, and Disability Coverage

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This article will help you begin taking control of your new insurance needs. In Part 1, we discussed aspects of automobile and homeowner's insurance after divorce. In Part 2, we'll introduce you to life and disability insurance. When you've decided what coverage is right for you and your family, be a smart consumer and compare costs. Insurance companies vary significantly in the premiums they charge. You can save a lot of money by spending a little time shopping around for the best insurance product for the price you can afford.

### **LIFE Insurance**

During the marriage, couples often have life insurance policies that name the "surviving spouse" as the primary beneficiary, especially when they have children. A life insurance policy will pay out a specific amount to the beneficiary in the event of the insured's death. Now that your divorce is final, a change in your beneficiary designation may be appropriate for all of your policies. Most insurers require the use of their official change of beneficiary designation form -- you should call your insurer and get that form mailed to you.

As part of the settlement of your divorce, the party obligated to pay child support or spousal maintenance may also be required to maintain a life insurance policy to ensure that those payments continue even after a tragedy. If you are the one receiving the support, you may have concerns that the policy will lapse or that the beneficiary will be changed without your knowledge. If you have those concerns, then you might consider arranging to pay the premiums yourself.

*Term life insurance* policies provide coverage for a specific length of time, usually for a one year period. There is no equity or cash value, so a term life policy is not an investment tool. As you get older, or as your health diminishes, the premium generally increases or the amount paid on death decreases. When it comes to cost savings, these policies may be a good option and easier on your insurance budget.

The *variable life insurance* policy is a combination of insurance and investment, and investments always involve risk. Once the money is taken out to pay the premium, the remainder is invested. For this policy to work as an investment vehicle, more money is paid by the policyholder than is needed to cover the premiums. There is a guaranteed minimum payment on death under the insurance. There is a potential that the invested portion will also provide money on death, but as with any investment, there is no guaranteed rate of return. These policies tend to be much more costly than other life insurance products.

The *whole life insurance* policy is a long term approach to insuring a life. The policy will provide coverage over the course of the insured's lifetime at a set premium. Typically, the premium is

paid over the duration of the policy, up until the death of the insured. If you are willing to stay with one insurance company for life, this may be an option for you.

### **DISABILITY Insurance**

Individual disability insurance will cover your monthly income for a specific period if you are unable to work because you have an illness or have been injured. If you are paying spousal maintenance or child support, a disability insurance policy can cover expenses in the event you become disabled and cannot earn an income. It is not uncommon for people to fall into arrears on their support obligations because of illness or injury, so even a few months of disability coverage can make a big difference.

### **COBRA**

If one spouse is covered by the other spouse's employer insurance program, then the divorce is a "qualifying event" that gives the non-employee spouse COBRA coverage for up to three years (36 months). Although this may represent a cost-savings compared to independent coverage, the premiums must still be paid or coverage will lapse.

Your insurance decisions require a determination of your *risk comfort level*. Speak with your insurance agent about the risks and benefits associated with any changes to your existing policies. Make sure your agent has answered all of your questions. Your risk and budget concerns should be carefully addressed in your insurance policies, both new and existing.