

Updating Your Life Insurance After Divorce

When you divorce, you may need to update your life insurance policy's beneficiary designation, or buy a new policy that insures income protection in the case of child support or alimony agreements.



Life Insurance After Divorce

Sorting out life insurance after a divorce can be a little confusing, and it's important to understand all the implications a divorce can have on this area of your finances. Life insurance is usually connected to your spouse in some way, and you'll want to evaluate your future needs as well as your beneficiaries to ensure you've covered all your bases. Here are a few points you might need to consider before you finalize the proceedings.

Changing Beneficiaries

If you have a life insurance policy on yourself, chances are you listed your spouse as beneficiary - or the person to whom a payout would be made if you died. Depending on your situation and the presence of children, you might consider changing your beneficiary designation. Likewise, if you have a will, you may need to make changes in it to reflect your current wishes should you pass on.

Insuring Future Alimony and Child Support Payments

Will you receive alimony and/or child support after your divorce? Then you should explore options to protect this income. After you are divorced, and your ex-spouse dies, this money will stop. Financial advisors may suggest, among other things, that you set up a life insurance policy on your ex-spouse. You can either buy a brand-new policy or use an existing policy if the life insurance policy was purchased during your marriage. The policy should be large enough that it could replace the money you are expecting to receive in alimony and child support payments.

Depending on your situation, it might make more sense to pay the premiums yourself. This protects you from depending on the person you are no longer married to in order to keep the payments current. Missing payments can cause the policy to lapse, and the life insurance company could cancel the policy.

Protecting Your Ownership Rights

Whether you are purchasing a new life insurance policy or using an existing policy on an ex-spouse, you should make sure you're the owner of the policy. Keep in mind, the policy owner is able to change the beneficiary. If you're not the policy owner, the beneficiary could be switched after the divorce, leaving your income unprotected.

It may be possible to use an existing policy which your soon-to-be ex-spouse owns. If this is the case, consult with your attorney or financial advisor, they can help you have the policy ownership signed over to you during the divorce proceedings. There is additional paperwork that you both would need to complete with the insurance company to make the switch happen.

Splitting Cash Value

Some types of life insurance build cash value. This is money in the policy that you can access while you're alive. Permanent life insurance policies like whole life insurance or variable life insurance build cash value. Term life insurance policies, however, don't build cash value.

Life insurance cash value is an asset, and you should think of it in the same way you think of your other marital assets such as a bank account or stock portfolio. Be sure to include any life insurance cash value on your list of assets during the divorce proceedings so you can get your fair share of this money when you are dividing property.

It is important to understand your life insurance coverage and options before getting divorced to ensure you have the right protection in place after your divorce. Understanding policy ownership, options for beneficiaries and how to provide for children are critical considerations but may not be the only things you need to review in your personal situation. It's always wise to speak with your financial advisor or lawyer so that you don't have to navigate these proceedings alone. Your preparation, and some sound financial advice, can go a long way toward making this transition a little smoother for you and your family.