

## What Happens to Life Insurance Policies in a Divorce



When you're divorcing, life insurance policies may not be at the top of your mind, especially if you and your soon-to-be former spouse are negotiating child support, alimony, and ownership of the family home and vehicles. However, depending on the type(s) of life insurance that you own, the policies that you have might be considered marital assets and you will need to work out how to handle them as a part of your divorce agreement.

Talk to your attorney about your existing life insurance policies and how they should be handled in your divorce. Ask about your obligations when it comes to maintaining and/or paying for these policies and what to do with the ones that may no longer be needed. Note that the court may mandate that either you or your former spouse maintain or purchase a life insurance policy to serve as protection for each of you and/or any minor children or other dependents who need financial support.

Active duty and retired military members have access to [legal personnel on base](#) who can offer family law advice. The American Bar Association also maintains [a directory of legal programs](#) that are available to military families in each state.

You may also want to consider enlisting the services of a certified financial planner after your divorce is finalized to help you establish a spending plan and to make sure your estate planning needs are met. Navy Mutual's [Education Team](#) can help. At the same time, consider revising your will and any existing powers of attorney that name your former-spouse as a beneficiary or decision-maker.

### If You Will Be Receiving Alimony or Child Support

Life insurance is important to protect both parents and children during and after a divorce. Even if you don't have children, if your former spouse was the primary household earner and

will be paying alimony, you want to be able to replace those funds if they were to pass away while still making payments to you. Consider the following:

- If you will have primary custody of your children and will be receiving child support payments from your former spouse, it is wise to maintain a term life insurance policy with your former spouse as the insured. To determine the amount of coverage needed, multiply the amount of child support that you will be receiving each month by the number of months until child support ends. Normally, the term length should last until your children reach adulthood.
- If you will not have primary custody, you may still want to consider a term life insurance policy with your former spouse as the insured in case they pass away unexpectedly and you end up with primary custody of your children. Consider their financial contribution to your children's care and the length of time remaining until your children reach adulthood when deciding how much coverage to purchase.
- If you do not have any children but will receive alimony as part of the divorce agreement, you can consider a term policy with your former spouse as the insured to provide a replacement for the alimony payments that would be lost with their death. The term length could correspond to the length of time you will receive alimony, and the amount of coverage to the total amount of alimony you expect to receive over that period of time.
- If you become a single parent (for example, if you cannot rely on your former spouse to provide child care or financial support), you should consider taking out a life insurance policy on yourself. As the sole caretaker of your children, they will rely entirely on you and your income for care. If something were to happen to you, a life insurance policy listing your children as beneficiaries (via a trust) can ensure they have the essential financial support needed to reach adulthood.

Note that in all of these cases, you will likely want to be the policy's owner – even if your former spouse is the insured. This is especially important if you are not confident that you can financially rely on your former spouse to pay policy premiums, as nonpayment of a life insurance policy can cause coverage to lapse. Being the policy owner will help you maintain the most control, ensure that premium payments are made in a timely manner, and allow you to designate the policy's beneficiaries.

### **If You Owned a Permanent Policy During Your Marriage**

Permanent life insurance policies may be considered a joint asset in a divorce because they have a cash value component that is included in your net worth. The simplest way to deal with a permanent life insurance policy in a divorce is usually to terminate the policy and split the cash value that remains between both parties. However, terminating a policy may invoke fees, and those depend on the life insurance company and how long the policy has been in force. Talk to an insurance representative to determine the effect terminating the policy will have on its value.

### **If You Owned a Term Policy During Your Marriage**

Term life insurance policies have no cash value and no financial value while the insured is alive, and therefore these policies are not generally considered marital assets. Depending on the



insured, you may be able to maintain the policy and change the beneficiaries or terminate the policy after your divorce.

Typically, when you no longer have an insurable interest in the life of the insured, there is no need for the policy to remain active. In such a situation, termination may be the best option – as an example, this may be the case if your former spouse was the insured on a policy that you own, but there will be no alimony or child support payments made after the divorce.

If you own a term policy in which you or one of your children are the insured (or someone else for whom you still have an insurable interest), check your beneficiary designations and update them to reflect your changed circumstances. Unless you owe child support or alimony, you may not want your former spouse to receive the death benefit from your policy. However, if the split is amicable or you are required to make payments, you could maintain your former spouse as a beneficiary. Otherwise, people often choose a parent, sibling, the person who would become guardian of any children or pets, the children themselves (through a trust), or a charity to be the new beneficiary. As the owner of the policy, you have full discretion to select the policy's beneficiaries unless the court orders you to maintain your existing designations.

**Note:** If the court orders you to keep your former spouse or children as beneficiaries of a life insurance policy (or orders your former spouse to maintain you or your children as beneficiaries), be sure to notify the insurer of the divorce and resulting court order to prevent future misunderstandings.

Don't forget to update any beneficiaries for life insurance policies that may be provided by your employer. Talk to your HR department to confirm the procedure for updating those designations.

Divorce is complicated, but the end goal is usually to ensure that you, your former spouse, and your children can continue to live as comfortably as possible. Life insurance plays a role in that it can provide financial protection for the entire family after a divorce is finalized. If you need to purchase a new policy or revisit an existing one, our representatives are available at [888-300-9331](tel:888-300-9331). For help planning your "new normal" when it comes to finances, our educators can be reached at [888-298-4442](tel:888-298-4442).