

Insurance Needs in Retirement

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Your goals and priorities will probably change as you plan to retire. Along with them, your insurance needs may change as well. Retirement is typically a good time to review the different parts of your insurance program and make any changes that might be needed.

Stay well with good health insurance

After you retire, you'll probably focus more on your health than ever before. Staying healthy is your goal, and that may require more visits to the doctor for preventive tests and routine checkups. There's also a chance that your health will decline as you grow older, increasing your need for costly prescription drugs and medical treatments. All of this can add up to substantial medical bills after you've left the workforce (and probably lost your employer's health benefits). You need health insurance that meets both your needs and your budget.

Fortunately, you'll get some help from Uncle Sam. You typically become eligible for Medicare coverage at the same time you become eligible for Social Security retirement benefits. Premium-free Medicare Part A covers inpatient hospital care, while Medicare Part B (for which you'll pay a premium) covers physician care, laboratory tests, physical therapy, and other medical expenses. But don't expect Medicare to cover everything after you retire. For instance, you'll have to pay a large deductible and make co-payments for certain types of care. Medicare prescription drug coverage is only available through a managed care plan (a Medicare Advantage plan), or through a Medicare prescription drug plan offered by a private company or insurer (premiums apply).

To supplement Medicare, you may want to purchase a Medigap policy. These policies are specifically designed to fill the holes in Medicare's coverage. Though Medigap policies are sold by private insurance companies, they're regulated by the federal government. There are 12 standard Medigap plans, but not all of them are offered in every state. All of these plans provide certain core benefits, and all but one offer combinations of additional benefits. Be sure to look at both cost and benefits when choosing a plan.

What if you're retiring early and won't be eligible for Medicare for a number of years? If you're lucky, your employer may give you a retirement package that includes health benefits at least until Medicare kicks in. If not, you may be able to continue your employer's coverage at your own expense through COBRA. But this is only a short-term solution, because COBRA coverage typically lasts only 18 months. Another option is to buy an individual policy, though you may not be insurable if you're in poor health. Even if you are insurable, the coverage may be very expensive.

Don't overlook long-term care insurance

If you're able to stay healthy and active throughout your life, you may never need to enter a nursing home or receive at-home care. But the fact is, many people aged 65 and older will require some type of long-term care during their lives. And that number is likely to go up in future years because people are increasingly living longer. On top of that, long-term care is expensive. You should be prepared in case you do need long-term care at some point.

Unfortunately, Medicare provides very limited coverage for long-term care. You may be covered for a short-term nursing home stay immediately following hospitalization, but that's about it. Other government and military-sponsored programs may help foot the bill, but generally only if you meet strict eligibility requirements. For example, Medicaid requires that you exhaust most of your assets before you can qualify for long-term care benefits. Even a good private health insurance policy will not offer much coverage for long-term care. But most long-term care insurance (LTCI) policies will.

LTCI is sold by private insurance companies and typically covers skilled, intermediate, and custodial care in a nursing home. Most policies also cover home care services and care in a community-based setting (e.g., an assisted-living facility). This type of insurance can be a cost-effective way to protect yourself against long-term care costs--the key is to buy a policy when you're still relatively young (most companies won't sell you a policy if you're under age 40). If you wait until you're older or ill, LTCI may be unavailable or much more expensive.

Weigh your need for life insurance

If you're married, you want to make sure that your spouse will have enough money when you die. You may also have children and

other heirs you want to take care of. Life insurance can be one way to accomplish these goals, but several questions arise as you near retirement. Should you keep that existing policy in place? If so, should you change the coverage amount? What if you don't have any life insurance because you lost your group coverage at work (though some employers let you keep the coverage at your own expense)? Should you go out and buy some? The answers depend largely on your particular circumstances.

Your life insurance needs may not be as great during retirement because your financial picture may have improved. When you're working and raising a family, the loss of your job income could be devastating. You often need life insurance to replace that income, meet your outstanding debts (e.g., your mortgage, car loans, credit cards), and fund your kids' college education in case something happens to you. But after you retire, there's usually no significant job income to protect. Plus, your kids may be grown and most of your debts paid off. You may even be financially secure enough to provide for your loved ones without insurance.

It may make sense to go without life insurance in these cases, especially if you have term life insurance and your premium has increased dramatically. But what if you still have financial obligations and few assets of your own? Or what if you're looking for a way to pay your estate tax bill? Then you may want to keep your coverage in force (or buy coverage, if you have none). If you need life insurance but not as much as you have now, you can always lower your coverage amount. It's best to talk to a professional before making any decisions. He or she can help you weigh your needs against the cost of coverage.

Take a look at your auto and homeowners policies

If you stay in your home after you retire, your homeowners insurance needs may not change much. But you should still review your liability coverage to make sure it's sufficient to protect your assets. If you're liable for an accident on or off your premises, claims against you for medical bills and other expenses can be substantial. For additional protection, you might consider buying an umbrella liability policy. It's also a good idea to review the coverage you have on your home itself and the property inside it. Finally, if you plan to buy a second home, find out if your insurer will cover both homes and give you a discount on your premium.

Auto insurance raises some similar issues. Review your policy to make sure your coverage limits are high enough in each area. Again, having the right amount of liability coverage is especially important--you don't want your assets to be put at risk if you cause an auto accident that injures other people or damages property. Weigh your need for any coverages that are optional in your state. Finally, look into ways to save on your premium now that you're retired (e.g., discounts for low annual mileage or senior driving courses).

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